



Public Expenditure and Financial Accountability (PEFA) Assessment

Ukraine (Starosynyavska ATC Sub-national Government)

Final Report

January 2020

This assessment was carried out under the EU funded project “EU for Stronger Public Finance Systems of Local Governments” in Ukraine. The project is implemented by consortium led by Hulla & CO Human Dynamics KG



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Acronyms and Abbreviations

ACU	Accounting Chamber of Ukraine
AH	Amalgamated Hromadas
ATC	Amalgamated Territorial Community
BCC	Budget Call Circular
BCU	Budget Code of Ukraine
CEB	Central Executive Body
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
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
SFS	State Fiscal Service
SNG	Subnational Government
SOE	State Owned Enterprise
TSA	Treasury Single Account
WB	World Bank

Fiscal year: 1st January to 31st December

Currency unit = Ukrainian hryvnia (UAH)

EUR1 = UAH27.93 (as of September 2019)



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(Starosynnyavska ATC Sub-national Government)

Final Report
3rd January 2020

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

PEFA Secretariat
January 10, 2020

Executive Summary

The Government of Ukraine has over the past few years been implementing series of measures in the decentralization sphere with a view to undertake deep structural reforms in order to make the economy more efficient and to ensure sustainable growth. It is against the backdrop of such ambitions that Ukraine has recently adopted a very bold and elaborative Decentralization Agenda which became a top reform priority of the Central Government. The reform included the shift of fiscal responsibilities to local governments which was adequately being followed by decentralization of the delivery of key public services such as education, health and social welfare. The Concept for Reform of the Local Government and Territorial Organization was adopted by the Council of Ministers in April 2014. Consequently, the program was also reflected in a range of systemic legislative pieces among which are the Budget Code and Tax Code of Ukraine.

The overall objective of the SNG PEFA assessments is to review the current performance of the public financial management systems, processes and institutions of the Starosynnyavska ATC Amalgamated Hromada using the 2016 PEFA Framework plus the 2016 Supplementary Guidelines on Sub-national Government Assessments. The SNG PEFA assessment is aimed at evaluating the quality of SNG PFM systems and allowing for detection of PFM strengths and weaknesses in order to formulate policy actions and programmes to address potential PFM challenges.

The assessment was conducted in line with the PEFA 2016 Framework as developed by the PEFA Secretariat, and the December 2016 Supplementary guidance for subnational 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.

Annexes 3A and 3B outline a detailed list of information used for this assessment and a list of stakeholders interviewed respectively; no other surveys and/or analytical work was used in this assessment. The SNG PEFA assessment covered local government budgeted units (specifically Finance Office, Education and Sports, Water, and Public Works), extra budgetary units, public corporations, the Accounting Chamber of Ukraine¹, the State Audit Service, local branch office of State Fiscal Service and the Village Council. The FYs for the assessment are 2016, 2017, and 2018. The last budget submitted to the village council is the FY2019. Some indicators/dimensions were assessed as at the time of the field work (July 2019 as cut-off period).

The assessment management framework, oversight and quality assurance are summarised in Box 1.1 below. The assessment was funded and managed by the European Union under the LOGICA Project through Hulla & Co Human Dynamics KG, whose Team Leader is Boris Petkov and supported by Milos Markovic who is the key expert on the project. The assessment team launched a PEFA training workshop on July 1-2, 2019 aimed at the key government officials of Starosynnyavska ATC administration but also with representation from MoF and donors. The workshop was carried out with substantial assistance from the PEFA secretariat resident in Kiev (Julia Dhimitri) who provided overall guidance through the PEFA framework; she was supported by the international and local PEFA/PFM consultants recruited for this assessment.

¹ Supreme Audit Institution

The impact of PFM performance on aggregate fiscal discipline, the strategic allocation of resources and the efficiency of service delivery

Fiscal discipline

Fiscal discipline is strengthened by the enactment of strong public financial management laws (promulgated by central government for the decentralised government level); nonetheless, the human and technical capacity of local government staff, though reasonable but may require additional capacity-building to fully implement recent amendments to PFM rules and regulations pose significant threat to fiscal discipline even though the current output of existing staff provides realistic assurance for safeguarding public assets. Whereas it is positive to state that the sub-national government is receiving substantial revenue (about 50%) from central government, fiscal discipline is negatively impacted by the unreliability of these allocations because the excess revenue inflows (not budgeted for by the local government) from central government creates an opportunity to spend on activities not originally planned for. There is also an element of the huge functional and economic budget reallocations as well as the frequency and significance of budget virements (from the approved original budget), weakening fiscal discipline.

The good news, however, is that there are no revenues and expenditures outside government budgets and financial reports, indicating a good measure of fiscal discipline; furthermore, the absence of expenditure arrears indicates reasonable budget estimates capable of delivering on yearly local government mandates. One key element that usually distorts government budget and consequently impacting negatively on fiscal discipline is payroll; presently, payroll management and controls are reasonable with very little or no negative impact on fiscal discipline.

Other weaknesses identified include fiscal risk monitoring and reporting, and public investment management; these have negative impact on fiscal discipline in the sense that the local government may be exposed to financial risk and the poor public investment management leads to misallocation of public funds.

Strategic allocation of resources

The fact that budget classification (detailed enough to ease traceability and transparency of local government resources) meets international good practice and information contained in the budget documentation is reasonable for citizens to digest useful fiscal data, strengthens strategic resource allocation. This is however negated by the fact that budget execution reports are not consistent with originally approved budgets. Furthermore, the absence of a citizens' budget (an abridged version of the main budget documentation) limits ordinary citizens' ability to fully appreciate the extent of resource allocation in order to demand more accountability. Strategic resource allocation is also strengthened by the fact that the finance department prepares some macroeconomic forecasts but without GDP, with the disclosure of the underlying assumptions, which are subsequently reviewed by the executive committee. The practice however appears to be a mere formality as there is no correlation between fiscal forecasting and outturns on central government's subsidy and own revenues.

There is no fiscal strategy – a policy document that outlines government's medium-term revenue and expenditure framework in terms of how it wants to generate revenue and for what expenditure; this raises questions regarding government's ability to make resources available to fund its policies and programmes. The budget preparation and approval processes are also weak (some of these weaknesses include: (i) budget ceilings not approved by the executive committee, (ii) delays in budget submission to the village council for approval, and (iii) delays in legislative budget approval), contributing to inefficient resource allocation. The impact of the above weaknesses is limited due to the fact that the local government receives significant resources from central government after local budget approval which facilitates the implementation of programmes. Again, domestic revenues (tax and non-tax generated by

the local government) is well administered and accounted for, thereby making resources available for efficient service delivery.

Efficient service delivery

Primary service delivery is good, based on a number of factors: (i) the local government receives significant amount of resources from central government; (ii) local/domestic revenues are well managed and allocated; (iii) planned performance outcomes/outputs and actual performance, and resources received in kind and cash are well communicated to the public for proper accountability. That notwithstanding, efficient service delivery is negatively impacted by the huge and frequent in-year budget virements as well as the functional and economic budget reallocations. Another element that negatively affects service delivery is the non-competitiveness of public procurement; most procurement activities are non-competitive – this could imply high cost of service and less efficiency. At present, there is no functional internal audit unit in addition to a well- documented internal control framework to effectively detect and prevent fraud and financial irregularities; that said, the current crop of public servants is well motivated and exhibit a high-level of professionalism to protect public assets in spite of low technical capacity. It is also positive to note that regular and timely reconciliation of resources (cash and advances) assures the availability of resources in a timely manner for efficient service delivery

Performance changes since last assessment

This is the first assessment which forms the baseline; therefore, there is no tracking of performance changes.

Overview of on-going and planned PFM reforms and main weaknesses identified

There is no standalone PFM reform strategy for Starosynyavska ATC local government; all reforms are driven by the central government. The main ongoing reforms include but not limited to the following:

- ***Reform of government decentralization and amalgamation of territorial communities (2015-2020)***: It is expected that 2019 will be a key year in setting the basic level of local self-government: by the end of the year, most existing small local councils may amalgamate, and thus local governments will become more capable, use resources appropriately, and be accountable for their responsibilities. This will provide a sound basis for the next steps in local government reform, as well as accelerate reforms in health, education, social services, energy efficiency and other sectors
- ***Increasing financial transparency and accountability of local self-government bodies (2019)***: The strategy of reforming the public finance management system for 2017-2020 foresees the development of general recommendations for local self-government bodies on the preparation and approval of Budgetary Regulations. The key objective for the preparation of the recommendations is to provide local authorities with guidelines for drafting and adoption of the Budget Regulation – document that establishes the order for implementation of budget process at each stage, determines their timing and parties responsible for the timely implementation of appropriate measures
- ***Medium-term budget planning at the local level (starting in 2020)***: In accordance with the Budget Code of Ukraine (BCU) (Article 751), medium-term budget planning at the local level would have to be implemented from 2020. According to the 2017-2020 Government Strategy for PFM reforms, the medium-term budget planning methodology at the local level must be consistent with that of the state/national level.

- ***Changes in financing of individual social expenditures (starting in 2020):*** In order to improve management of budget expenditures, the Government prepared draft amendments to the Budget Code of Ukraine (Draft Law Reg. No. 2144), which was submitted to the Verkhovna Rada (Parliament) of Ukraine together with the draft State Budget of Ukraine for 2020. In particular, the draft State Budget of Ukraine for 2020 contains the transfer to the Ministry of Social Policy of Ukraine of expenditures that are currently being carried out through appropriate subventions from the State Budget to local budgets (in particular, for granting benefits and housing subsidies to households for the purchase of solid and liquid household fuel and liquefied gas and public social assistance expenditures).
- ***Accounting in the public sector (2018-2025):*** Central government is in the process of modernizing accounting and financial reporting to be in line with IPSAS. An electronic version of the original IPSAS text has been obtained by the Ministry of Finance for the purpose of implementation of the above. The IPSAS text is currently being translated. The new chart of accounts in the public sector are to be applied by the Treasury bodies from 2019.

Table 0.1: Overall summary of PFM Performance Scores 2019

PFM Performance Indicator (PI)		Scoring Method	Dimension Ratings				Overall Rating
			i.	ii.	iii.	iv.	
HLG-1: Transfer from a higher-level government							
HLG-1	Transfer from a higher-level government	M1	D	D	A		D+
Pillar I: Budget reliability							
PI-1	Aggregate expenditure outturn	M1	D				D
PI-2	Expenditure composition outturn	M1	D	D	A		D+
PI-3	Revenue outturn	M2	D	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	A	NA		A
PI-7	Transfers to sub-national governments	M2	NA	NA			NA
PI-8	Performance information for service delivery	M2	A	A	A	C	B+
PI-9	Public access to key fiscal information	M1	B				B
Pillar III. Management of assets and liabilities							
PI-10	Fiscal risk reporting	M2	C	NA	D		D+
PI-11	Public investment management	M2	D	D	D	D	D
PI-12	Public asset management	M2	C	C	A		B
PI-13	Debt management	M2	NA	NA	NA		NA
Pillar IV. Policy-based fiscal strategy and budgeting							
PI-14	Macroeconomic and fiscal forecasting	M2	NA	B	NA		B
PI-15	Fiscal Strategy	M2	D	D	NA		D
PI-16	Medium-term perspective in expenditure budgeting	M2	D	D	D	D	D
PI-17	Budget preparation process	M2	B	C	D		C
PI-18	Legislative scrutiny of budgets	M1	B	C	C	B	C+
Pillar V. Predictability and control in budget execution							
PI-19	Revenue administration	M2	NA	NA	NA	NA	NA
PI-20	Accounting for revenues	M1	A	A	A		A
PI-21	Predictability of in-year resource allocation	M2	A	A	A	C	B+
PI-22	Expenditure arrears	M1	A	A			A
PI-23	Payroll controls	M1	B	A	B	D	D+
PI-24	Procurement	M2	A	D	A	B	B
PI-25	Internal controls on non-salary expenditure	M2	C	A	C		B
PI-26	Internal audit	M1	D	NA	NA	NA	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	A	D	C		D+
Pillar VII. External Scrutiny and Audit							
PI-30	External audit	M1	D	D	D	D	D
PI-31	Legislative scrutiny of audit reports	M2	D	D	D	D	D

1 Introduction

1.1 Rational and purpose

Ukraine's macroeconomic policy track record over the last decade has been mixed and largely affected by conflicts initiated in 2014. Following the crisis breakout after Euromaidan and significant output shocks in 2014 and 2015, Ukraine has recently entered a period of relative fiscal and overall economic stability with growth rates of 2.4 and 2.5 percent in 2016 and 2017 respectively. At the same time, inflation is approaching single digit while current account balance is only slightly negative, helping stabilise the foreign exchange market along with strong financial support coming from the IMF.

To further foster economic growth prospects, the Government has adopted a very comprehensive decentralization program. The awareness of the necessity to undertake deep structural reforms in order to make the economy more efficient to ensure sustainable growth became a political mainstream in the past few years. It is against the backdrop of such ambition that Ukraine has recently adopted a very bold and elaborative Decentralization Agenda which became a top reform priority of the Central Government. The reform included the shift of fiscal responsibilities to local governments which was adequately being followed by decentralization of the delivery of key public services such as education, health and social welfare. The program is embedded in the current government coalition agreement but was officially formulated in the Concept for Reform of the Local Government and Territorial Organization adopted by the Council of Ministers in April 2014. Consequently, the program was also reflected in a range of systemic legislative pieces among which are the Budget Code and Tax Code of Ukraine. Addressing governance ineffectiveness of small local communities was listed as the primary objective of the process. Amalgamation of over 10,000 small settlements (i.e. hromadas) into larger town-like communities (i.e. OTH) was thus prescribed by the 2015 Law on Voluntary Amalgamation of Territorial Communities. As of the end of 2018, 806 new AHs were established covering nearly 40 percent of Ukraine's rural population (i.e. over 8 million people).

As decentralization gains momentum, subnational government levels are taking up increasing share of overall public expenditure. It is important to note that, since its independence in 1991, Ukraine ranked among the countries with highest level of decentralization in Europe – measured by the revenues of local governments as a share of general government revenues. However, the portion of revenues at disposal of local government increased even more in the past several years. The share reached 43 percent in 2017, which is a rise of 7 percent compared to pre-reform levels seen in the period from 2012 to 2014. This was achieved with the share of government transfers in total revenues of local governments being relatively stable at around 55 percent on average going from 2014 to 2017.

The subnational PEFA assessment in Ukraine is proposed against the background of the comprehensive decentralization reforms and their importance for Ukraine's economic development, as well as increasing demands for good governance. The PEFA assessment at the subnational level is also aimed at evaluating the quality of SNG PFM systems and allowing for detection of PFM strengths and weaknesses in order to formulate policy actions and programmes to address potential PFM challenges.

The proposed subnational PEFA assessment in Ukraine represents a pioneering effort as no previous subnational assessments were previously done. Therefore, this very first SNG PEFA is implemented by LOGICA² technical assistance project financed by the EU and is part of a joint effort of international donor community whereas several subnational PEFA assessments will be done across regions of Ukraine in the coming period.

² Full name of the project is "EU for Stronger Public Finance Systems of Local Governments"

Although this is the first subnational PEFA assessment for Starosynnyavska ATC (and the whole of Ukraine), previous assessments were conducted in Ukraine at the central government level in 2012, 2016 and one in 2019 – which is currently at the draft stage. The results of both the 2019 Starosynnyavska ATC and the 2019 central government PEFA assessments will provide a strengthened approach to developing and/or updating the existing central government PFM reform strategy with a focus on fiscal decentralisation as well as providing an impetus for a meaningful stakeholder (central government, SNG, civil society and development partners) engagement aimed at improving public financial management for efficient service delivery.

Overall Objectives

The overall objective of the SNG PEFA assessments is to review the current performance of the public financial management systems, processes and institutions of the Starosynnyavska ATC Amalgamated Hromada using the 2016 PEFA Framework plus the 2016 Supplementary Guidelines on Sub-national Government Assessments

Specific Objectives

The specific objectives for the assessment are:

- (i) Obtain an up-to-date picture of the quality of subnational PFM system in Ukraine.
- (ii) Enable the Client 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 the decentralization agenda.

The primary beneficiaries of this PEFA assessment are Ministry of Finance of Ukraine and the local authorities of Starosynnyavska AH. The key officials from MoF and Starosynnyavska AH (primarily representatives of financial departments) involved in the assessment were presented with PEFA methodology as part of internal capacity initiatives in order to facilitate the assessment and communication of results.

1.2 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 and managed by the European Union under the LOGICA Project through Hulla & Co Human Dynamics KG, whose Team Leader is Boris Petkov and supported by Milos Markovic who is the key expert on the project.

Members of the oversight team are (i) Vasyl Shkurakov, Deputy Minister, MoF; (ii) Yevgeniy Kuzkin, Head of Local Budgets Department, MoF; (iii) Alexandra Ianovskaya, PFM Advisor, EU Delegation; (iv) Oleksiy Petrichuk, Deputy Head of Financial Department, Khmelnytsky Oblast; (v) Olena Shekkhar, Head of Revenue Division, Financial Department of Executive Committee of Starosynnyavska Village Council; (vi) Iryna Shcherbyna, Senior Public Sector Specialist, World Bank; (vii) Sergey Sharshov, Director of Directorate for local governments development and territorial organization, Minregion; (viii) Olena Boyko, Director of Directorate for regional development, Minregion; (ix) Oleksandr Slobozhan, Executive Director, Association of Ukrainian Cities; (x) Valentina Poltavets, Executive Director, Association of Hromadas; (xi) Yuliia Sybirianska, PFM Advisor, U-LEAD; and (xii) Milos Markovic, Key Expert, LOGICA – EU funded PFM project. Key donors on the oversight team include the EU, World Bank, IMF and SECO. The Starosynnyavska ATC focal person was Olena Shekkhar; she coordinated and scheduled all the meetings at the local government level.

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 8th November, 2019.

Box 1.1: Assessment management and quality assurance arrangements

PEFA Assessment Management Organization

- Oversight Team (OT) — See Table below.
- Assessment Manager: Milos Markovic (Key Expert, LOGICA)
- Assessment Team Leader: Goran Steen (International PFM/PEFA Expert)
- Assessment Team Member: Charles Komla Hegbor (International PFM/PEFA Expert), Inna Samschynska (national PFM Expert) and Yulia Ostrishchenko (national PFM Expert)
- Ministry of Finance and Starosynnyavska ATC
- PEFA Secretariat
- Peer Reviewers: PEFA Secretariat, EU, WB, IMF, Ministry of Finance and Starosynnyavska ATC

Composition of the OT	Members of the OT
Chairperson	<ul style="list-style-type: none"> • Vasil Shukrakov (State Secretary, MoF)
Ministry of Finance	<ul style="list-style-type: none"> • Yevgeniy Kuzkin, Head of Local Budgets Department
Starosynnyavska ATC	<ul style="list-style-type: none"> • Olena Shekhar, Chief of Revenue Division
Development Partners	<ul style="list-style-type: none"> • EU (Alexandra Ianovskaya, PFM Advisor) • WB (Iryna Shcherbyna, Senior Public Sector Specialist) • IMF

Review of concept note and/or terms of reference

- **Date of reviewed draft concept note by the PEFA Secretariat: 7th June 2019**
- **Other invited reviewers (names) who submitted written comments:**
Iryna Shcherbyna (World Bank); Renteria Rodriguez Carolina (IMF); Stone Michelle (IMF); JANOVSKAIA Alexandra (EU); BERTRAND Philippe (EU)
- National and Sub-national Governments of Ukraine: Sergey Sharshov; Yevgeniy Kuzkin; Olena Shekhar; Oleksiy Petrichuk

Review of the assessment report

- Peer reviewers (names and institutions): Iryna Shcherbyna (World Bank), Stone Michelle (IMF), Olena Shekhar (Starosynnyavska ATC), and Olena Machulna (MoF – Director of Local Government Budgets)
- Ministry of Finance and Starosynnyavska ATC
- PEFA Secretariat's review - (dates of reviews): 1st draft – 8th December 2019; final report – 2nd January 2020

1.3 Assessment Methodology

The definition of the scope for this assessment was thus closely coordinated with other international partners – primarily the World Bank and Swiss Cooperation Office in Ukraine. The general consensus was that, as a start, all-tiers of subnational government should be covered in one selected oblast (region). This was necessary as it would enable direct comparability of findings within different levels of subnational government and provide for comprehensiveness of final recommendations and policy actions. In order to fully capture the effects of decentralization on local public finances and enable accurate reflection of the current state of affairs in PFM at local level given the forthcoming decentralization agenda, the design

of the sampling approach is such that the four levels of subnational governments should be captured by the initial sub-national PEFA effort as follows:

- **an amalgamated hromada**, to reflect on the process of hromada amalgamation that started in 2015 (current assessment funded by EU under LOGICA project)
- **a rayon**, to explore the trends in PFM development in the level of subnational government which is experiencing reduced portfolio of responsibilities due to the amalgamation process
- **a city of oblast significance**, to investigate how the effect of decentralization process on PFM performance of the largest subnational government units in the country
- **an oblast**, in order to provide for better contextualization of the findings of above assessments

Starosynnyavska hromada was chosen among the 22 hromadas of Khmelnytsky region established in 2015 as the one where PEFA will be performed. This decision was made after consulting the Ministry of Finance and regional authorities. However, the selection was first narrowed down by applying the criteria of AH size, estimated commitment, staff capacities and data availability. It must be noted that applicability of the findings of PEFA assessment to the overall PFM system at the level of amalgamated hromadas will be somewhat limited. One PEFA assessment covers only one budget which was selected based on the described criteria which mainly focused on the size and accessibility of the AHs. Therefore, there is a risk of positive skewness (i.e. better than average) of results for Starosynnyavska hromada.

The assessment was conducted in line with the PEFA 2016 Framework as developed by the PEFA Secretariat, and the December 2016 Supplementary guidance for subnational 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.

The assessment covered 32 performance indicators (31 regular PIs plus 1 additional PI (HLG-1) specifically for SNG PEFA assessments) and 97 associated dimensions (94 regular dimensions plus 3 dimensions on HLG-1³). Of importance to note is that some performance indicators and/or dimensions are not applicable to the SNG PEFA assessment; these include but not limited to: PI-7 (i.e. transfers to subnational governments), dimension 10.2 (i.e. monitoring of subnational government), PI-13 (i.e. debt management) and PI-15.3 (i.e. reporting on fiscal outcomes). PI-7 (transfer to subnational governments) is not applicable because there is no first-tier level of government below Starosynnyavska ATC for which transfer of funds is required. Furthermore, PI-13 (debt management) is not applicable because the Starosynnyavska SNG has no borrowing powers according to the laws of Ukraine. Also, 10.2 (monitoring of subnational government) is not applicable because there is no first-tier level of government below Starosynnyavska ATC for which monitoring is required. PI-15.3 (reporting on fiscal outcomes) is also not applicable because Starosynnyavska ATC does not prepare a fiscal strategy against which outcomes could be compared. Lastly, dimensions (ii), (iii) and (iv) of PI-26 (internal audit) are all not applicable because there are no internal audit functions to be assessed.

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 Starosynnyavska ATC that were used for this assessment. The SNG PEFA assessment covered local government budgeted units (specifically Finance Office, Education and Sports, Water, and Public Works),

³ HLG-1 is transfer from a higher-level government

public corporations, the Accounting Chamber of Ukraine⁴, the State Audit Service, local branch office of State Fiscal Service and the Village Council. There are no extra-budget units within the context of Starosynnyavska ATC. There are three public corporations but there are no social security funds at the level of Starosynnyavska ATC. The FYs for the assessment are 2016, 2017, and 2018. The last budget submitted to the village council is the FY2019. Some indicators/dimensions were assessed as at the time of the field work (July 2019 as cut-off period)

Field work

The team launched a PEFA training workshop on July 1-2, 2019 aimed at the key government officials of Starosynnyavska ATC administration but also with representation from MoF and donors. The workshop was carried out with substantial assistance from the PEFA secretariat resident in Kiev (Julia Dhimitri) who provided overall guidance through the PEFA framework; she was supported by the international and local PEFA/PFM consultants recruited for this assessment. The workshop provided a practical focus using exercises, participative discussion and case studies to build and/or strengthen knowledge on the planning, implementation, and use of PEFA 2016 framework and its application at SNG level.

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 July 2019. Olena Shekhar (Head of Revenue Department of Starosynnyavska ATC) was responsible for organising and coordinating all meetings; she 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 field work; Olena Shekhar ensured that all responsible SNG officials gathered the requested data prior to the arrival of the assessment team. Where data gaps were identified, Olena organised and gathered the additional data for submission to the assessment team.

⁴ Supreme Audit Institution

2 Sub-national government background Information

2.1 Sub-national government economic situation

2.1.1 Country economic situation

Ukraine's economy is an emerging market economy. As of January 1, 2019, the population was 42.2 million, of which more than 30% are rural. The Ukrainian economy is based on manufacturing, agriculture and services. From the third quarter of 2012 to the end of 2015, GDP declined. GDP fell 6.6% in 2014 and 9.8% in 2015. In 2016, gradual economic growth began, and in 2018, Ukraine experienced a resumption of macro-financial stability, which was last seen before the annexation of Crimea and the military conflict in the Donbas (2014). In 2018, Ukrainian economy has shown maximum growth over the past seven years. Compared to 2017, the economy of Ukraine grew by 3.3% in 2018, nominal GDP amounted to UAH 3.55 trillion, or UAH 84,190 (about USD3,000) per capita (ranked 45th according to IMF) (in 2017, GDP grew by 2.5%, in 2016 - by 2.4%). Table 2.1 below presents some national economic indicators.

Table 2.1: Selected indicators of socio-economic development

	2016	2017	2018	Average
GDP, UAH million	2,385,367.0	2,983,882.0	3,558,706.0	2,975,985.0
GDP per capita (UAH)	55,899.4	70,233.0	84,190.3	70,107.6
Real GDP growth (%)	2.4	2.5	3.3	2.7
CPI (annual average change) (%)	12.4	13.7	9.8	12.0

Source: MoF

Due to the National Bank of Ukraine's (NBU) monetary policy, year-end inflation, although exceeding the target, recovered and decreased for the first time in five years to a one-digit number (9.8%). The hryvnia exchange rate strengthened, and the NBU managed to accumulate the largest amount of international reserves over the five years (USD 20.8 billion), which increased four years in a row. During the year, the interest rate increased four times - in total of 3.5 percentage points to 18.0% per annum, which affected the increase in the yield of domestic government bonds (ВПИ) for all maturities. At the same time, the impact on the yield of hryvnia instruments with short maturities was most pronounced, due primarily to significant borrowings in certain periods for financing fiscal needs. The hryvnia exchange rate rose by 1.4% in 2018.

Real incomes (including inflation) of Ukrainian citizens in 2018 increased by 9.9% (real incomes in Ukraine in 2014 decreased by 11.5%, in 2015 by 20.4%. In 2016, real incomes increased by 2.0%, in 2017 - by 10.9%). The World Bank notes a reduction in the poverty rate in Ukraine calculated according to the Bank's methodology. This is stated in the WB Report "Europe and Central Asia Economic Update, Spring 2019: Financial Inclusion". As noted in the report, the poverty rate dropped to 4.0% in 2018 from 4.9% in 2017 and 6.4% in 2016 (per capita consumption is less than USD5.5 per day in purchasing power parity as of 2011). WB estimates that poverty reduction was a result of the 22.2% increase in pensions in Ukraine in 2018 after four years of actual freezing.

2.1.2 Sub-national government economic situation

Starosynnyavska Amalgamated Territorial Community (ATC) was established in August 2015 as part of decentralization and covers all villages of the former Starosynnyavsky Rayon with a population of 20,080 people or 1.6 percent from total population of Khmelnytskyi oblast. The community includes the urban village of Starosynnyavska ATC and 44 villages covering the area of 662 km²; all these are served by 4 key spending units. The Executive Committee of the Starosynnyavska village Council and the executive bodies

of the council consist of sixteen units, with 94 employees in total. The village council is represented by 26 deputies (legislators).

Until recently, the Starosynnyavsky Rayon was considered poor and depressed. Since the amalgamated hromada was created, the community infrastructure first shifted towards development. Due to the developed Territorial Planning Scheme, a powerful investor was attracted to the community - Elevator-Bud Invest LLC, who started investing in the development of social sphere of the amalgamated community's villages. Investors are first and foremost interested in having a Territorial Planning Scheme. On the territory of the community, there are 338.68 km of communal roads, of which: 163.2 km - with hard pavement; 48.45 km - with asphalt surface. The electric grid is 476.3 km long, the gas pipeline network is 384.3 km. The Starosynnyavska ATC is rich in minerals including granite deposits. Production specialization of Starosynnyavska ATC is growing in terms of processing of agricultural products, fishery development and beekeeping. Agricultural businesses of all forms of ownership cultivate 48.3 thousand hectares of arable land. Of the available arable land, 60 percent are processed by large-scale agricultural enterprises. A new solar power plant is under construction in the community. The solar power plant's capacity of 5.1 MW will be sufficient to provide electricity to the entire AH population without taking into account large industrial sites. The investor is currently investing more than UAH120 million in the development of the infrastructure in Starosynnyavska ATC.

The state-owned enterprise "Research Farm Pasichna is located in Starosynnyavska ATC. This is the only hop-growing business in the Oblast with developed plant growing and stockbreeding lines. More than 30 years ago, a beekeeping enterprise was established in Stara Synyaa. The Starosynnyavska ATC Forestry Division is known throughout Ukraine for the cultivation of ornamental trees. The land is leased by the village council, since a moratorium on the sale of agricultural land is in effect in Ukraine. Starosynnyavska ATC is crossed by the river Ikva. On the river, cascades of ponds were built in which fish is bred. Along with the specialized company, individual entrepreneurs are also engaged in this profitable business.

The number of families with access to centralized water supply at the end of 2018 amounted to 1155 units, and increased over the year by 14.7%; until July 1, 2019 their number increased by 28.6%. Inflation in 2018 dropped slightly to 109.2 percent. The payroll fund has doubled over the assessment period, due to the doubling of the minimum wage in 2017. In spite of this, the average monthly wage did not increase significantly, as most workers in the community received minimum wage. Table 2.2 below presents some economic indicators for Khmelnytskyi oblast and Starosynnyavska ATC

Table 2.2: Indicators of socio-economic development

Indicator	2016	2017	2018	Average
GDP of Khmelnytskyi oblast level*, mln UAH	48,859.0	63,882.0	Information Not available	56,370.5
share in GDP of Ukraine, %	2.0	2.1	Information Not available	2.1
GDP per capita in Khmelnytskyi oblast* (UAH)	37,881.0	49,916.0	Information Not available	43,898.5
ratio to GDP per capita in Ukraine, %	67.8	71.1	Information Not available	69.4
Real GDP growth in Khmelnytskyi oblast* (%)	4.7	6.4	1.2	4.1
deviation from real GDP growth of Ukraine, percentage point	2.3	3.9	Information Not available	NA
CPI of Khmelnytskyi oblast* (annual average change) (%)	11.4	13.8	9.2	11.5
deviation from CPI of Ukraine, percentage point	-1.0	0.1	Information Not available	NA
Volume of agricultural products sold, UAH'000	266,197.0	285,352.0	290,172.0	280,573.7
Index of agricultural output in % compared to the previous year	109.3	106.8	101.3	105.8
Consumer price index, %: as of December compared to December of the previous year	111.4	113.8	109.2	111.5
Producer price index for industrial products, %: as of December compared to December of the previous year	104.7	100.8	101.6	102.4
Payroll fund, UAH'000	100,303.6	162,725.3	206,728.6	156,585.8
Average monthly wage, UAH	4,969.2	5,732.3	6,183.2	5,628.2

Source: Starosynnyavska ATC, MoF and Khmelnytskyi oblast

* Information is not available for the local level lower than oblast.

NA – information is not available.

2.2 Fiscal and budgetary trends

The total budget revenues increased from UAH 103.9 million to UAH 149.6 million for the period from 2016 to 2018 (please, refer to Table 2.3 below). The share of own revenues accounts for more than 50% of total revenues, the rest comes from transfers from the state and Oblast budgets.

Table 2.3: Aggregate fiscal data (in millions UAH)

Indicator	2016	2017	2018
Total revenue	103.9	134.7	149.6
Own revenue	38.0	60.3	66,4
Grants (transfers from central government)	65.9	74.4	83.2
Grants (transfer from other levels of government)	0.1	0.0	0.0
Total expenditure	95.8	131.2	158.6
Aggregate surplus (deficit)	8.2	3.5	-9.0

Source: Treasury reports for 2016-2018.

The Starosynavska ATC government spends most of its budget (almost half) on education. Considerable parts of the budget's expenditures are spent on healthcare and maintenance and roads construction. Expenditures on social protection account for only 2.9%, since all social payments to the population through transfers from the state budget are made from the Rayon budget, and do not get to the budget of the SNG. Table 2.3 shows the breakdown of budget expenditures by function for the three years under review.

Table 2.3: Budget allocation by function as a percentage of total expenditure

Functions	2016	2017	2018
General public services	6.9%	9.1%	10.7%
Fire protection and rescue	0.2%	0.4%	0.4%
Roads and Construction	19.6%	12.2%	13.0%
Environment protection	0.0%	0.03%	0.04%
Housing and Communal Services	1.7%	3.4%	3.7%
Health protection	18.8%	18.9%	17.5%
Culture and Sport	4.2%	3.7%	4.3%
Education	44.0%	48.6%	47.3%
Social protection and social security	2.2%	3.3%	2.9%
Intergovernmental transfers	2.4%	0.4%	0.2%
Total	100.0%	100.0%	100.0%

Source: Treasury reports for 2016-2018.

Expenditures on wages and salaries over the last three years accounted for more than half of all expenditures (53.3% in 2018). Capital expenditures (purchase of fixed assets, reconstruction, construction) decreased from 23.2% in 2016 to 15.5% in 2018. This can have a negative impact on long-term community development. Table 2.4 shows the breakdown of budget expenditures by economic classification.

Table 2.4: Budget allocation by economic classification as a percentage of total expenditure

Economic classification	2016	2017	2018
Current expenditures	76.8%	85.1%	84.5%
—Wages and salaries	55.7%	51.2%	53.3%
—Goods and services	17.7%	32.3%	28.2%
—Interest	0.0%	0.0%	0.0%
—Transfers	2.1%	0.2%	0.2%
—Others	1.3%	1.4%	2.9%
Capital expenditures	23.2%	14.9%	15.5%
Total	100.0%	100.0%	100.0%

Source: Treasury reports for 2016-2018.

2.3 Legal and regulatory arrangements for PFM

Legal regulations 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 № 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.

Starosynnyavska ATC is an administrative and territorial unit in Khmelnytskyi Oblast. The community was established on October 25, 2015 according to the Resolution of the Central Election Commission No. 232 of 7th September 2015 "On the first election of deputies of village, town, city councils of the amalgamated territorial communities and the respective village, town, city mayors on October 25, 2015". The administrative centre of the community is Stara Synyava village. Starosynnyavska Village Council (hereinafter referred to as the Village Council) is a body of local self-government representing the territorial community of the village and exercising on its behalf and in its interests the functions and powers of local self-government as defined by law.

The **village council is the legislative body** of the community. The powers of a village 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 community is exercised by the executive committee** of the village council. The chairman of the village council is at the same time the chairman of the executive body. In addition to the executive committee of the council, other executive bodies of the council are sectoral departments, divisions, sections that are supervised by and accountable to the village council. The council and its executive committee, within the limits of its powers, adopts regulations and other acts in the form of decisions, and the village mayor issues orders. In their activities, executive bodies of the village council are guided by the Decision of the Village Council of 29th December 2015 No. 52, which approves the structure, the total number of the apparatus of the Starosynnyavska Village Council, expenditures for their maintenance, as well as the regulations on the executive bodies of the village council. These provisions, in particular, define the functions and powers of the respective structural divisions of the executive bodies of the village council in the following areas:

- local budget policy and budget process;
- economic development, trade and investment;
- education, youth, sports and culture;
- housing and utility services and infrastructure.

The key executive body responsible for financial policy implementation and public finance management in the community is the Financial Department of the Executive Committee of the Starosynnyavska Village Council. In its activity, the Department is guided by the standard regulation approved by the Decision of the Village Council dated 29th December 2015 No. 52. 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 formation of indicators of local budgets, their planning, approval and implementation, inter-government relations between budgets of different levels, local borrowing, are regulated in Section III (Articles 63-108) of the 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 body.

The issues of collecting and administering taxes and levies, the procedure of their transfer to the budgets of different levels including village 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 26th 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 in particular involves opening accounts for budgetary institutions at the Treasury. The Procedure for Treasury Servicing approved by the Order of the Ministry of Finance dated 23rd August 2012 No. 938 regulates organizational relations between Treasury, local financial bodies, local councils and their executive bodies, taxpayers, budget spending units and recipients of budgetary funds.

Accounting and reporting on local budgets execution are among the functions of the treasury (Part One 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 Two of Article 56 and Part Nine 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.

Table 2.5 below outlines the central and sub-national governments’ structure. There is a central government, Autonomous Republic of Crimea, oblasts and Kyiv and Sevastopol cities (regional level), rayons, cities of oblast significance and ATC (sub-regional level) and municipalities – villages, cities of rayon significance (local level).

Table 2.5 Overview of sub-national governance structure

Government level	Corporate body (Y/N)	Own political leadership (Y/N)	Approves own budget (Y/N)	Number of jurisdictions	Average population	Percentage of public expenditure	Percentage of public revenue	Percentage funded by transfers
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Central	Y	Y	Y	1	42 million	55%	78%	0.8% ⁵
Regional (ARC, oblasts, Kyiv, Sevastopol)	Y	Y	Y	27		45%	22%	53% ⁶
Sub-regional (rayons, COS, ATC)	Y	Y	Y	1428				
Local (municipalities)	Y	Y	Y	7366				

Legal and regulatory arrangements for decentralisation

The main regulatory and strategic documents on decentralization including the decentralization 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 decentralization 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 decentralization 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 39 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 1st April 2014 No. 333-p).

The key legislative act that laid the foundation for fiscal decentralization 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 independently starting on September 15 of the year preceding the budget year on the basis of fixed stable long-term revenue sources and expenditures, as well as basic parameters set out in the draft state budget submitted by the Government to Parliament. The BCU only sets the deadline for approval of local budgets as 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

⁵ Calculated as the ratio of transfers from local budgets to the total state budget revenue

⁶ Calculated as the ratio of transfers from state budget to the total local budget revenue

indicators and amounts of the basic and reverse subsidies that can be determined by local authorities on the basis of indicators of the official treasury reports. 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 percent of the fee for administrative services, 100 percent of the state duty, 10 percent of the corporate income tax for private sector enterprises (the latter is credited to oblast budgets), and (ii) expansion of the real estate tax base.
- Introducing a new mechanism for budgetary adjustment and equalization. Changes to the BCU introduced a fundamentally new system of horizontal equalization: alignment of taxability of territories depending on the level of income per capita (Articles 98 and 99 of the BCU). At the same time, equalization is carried out only with two taxes: the corporate income tax of the private sector (10 percent) - for oblast budgets; and 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 equalization system is more progressive than the previous "balancing" system and aims to promote local authorities' interest in attracting additional revenues and expanding their existing tax base.
- Decentralization of expenditure powers by transferring more than 360 institutions and activities 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. Currently, there is 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 become the basis for motivating 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 impetus was that, under Article 67 of the BCU, amalgamated communities were given the same powers and resources as cities of oblast significance. Instead, territorial communities that do not participate in the amalgamation remain unaffected by this process and deprived of the right to exercise state-delegated powers of local self-governments in non-amalgamated villages, towns and cities of rayon significance.

Legal and regulatory arrangements for PFM

Budgetary systems

- Budget Code of Ukraine guide the budget process at both central and local levels.
- Regional and Local Governments prepare their own budgets. The budget is approved by the Regional/Local Council without Central Government interference.
- Local budgets are significantly dependent on actual transfers from the State 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.
- Regional/Local Governments and Local Councils approve their budgets and enacts 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, accounts. The hiring and appointments are in accordance with the Law on Local Self-Governance in Ukraine and the Law on Servicing in 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.

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, SFS 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 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 decentralized, 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 (Villages Local Governments have no borrowing powers);
- 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 Treasury;
- Payroll – payroll system is decentralized, with each budgetary unit managing its own payroll;
- Procurement - each unit prepares procurement plans and these are published. Data on procurement is available on the website <https://prozorro.gov.ua/>;
- Internal audit – internal audit is decentralized and there is a requirement for each budgetary unit to have either an internal audit unit or a person (an official) responsible for internal audit (Starosynnyavska ATC has no internal audit unit or function). They prepare annual and midterm

internal audit plans. Annual reports are prepared but conformity to international standards is low;

- Financial reporting - annual financial reports are prepared however 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 own revenues and expenditures).

2.4 Institutional arrangements for PFM

Structure of the public sector

Tables 2.6, 2.7 and 2.8 below outline the structure of the public sector and local government operations. The Local Government is represented by Starosynnyavska village council. There are 4 budgetary units, namely: (i) Starosynnyavska Village Council, (ii) Financial Department, (iii) Education Division, and (iv) Culture Division. There are 3 public corporations in Starosynnyavska ATC. There is no lower tier of government below Starosynnyavska ATC.

Table 2.6: Structure of the public sector (number of entities and financial turn-over)

2018	Public sector				
	Government subsector		Social security funds	Public corporation subsector	
	Budgetary Unit	Extra budgetary Units		Nonfinancial public corporations	Financial public corporation
Sub-regional government (Starosynnyavska ATC)	4	0	0	3	0
1st tier sub-national ⁷	0	0	0	0	0

Table 2.7: Financial structure of Starosynnyavska government—budget estimates (in UAH million)

2018	Sub-regional government			
	Budgetary unit	Extra budgetary Units	Social security funds	Total aggregated
Revenue	123.6	N/A	N/A	123.6
Expenditure	123.6	N/A	N/A	123.6

Source: 2018 Treasury reports

Table 2.8: Financial structure of Starosynnyavska government – actual expenditure (in UAH million)

2018	Sub-regional government			
	Budgetary unit	Extra budgetary Units	Social security funds	Total aggregated
Revenue (excluding transfers)	75.4	N/A	N/A	75.4
Expenditure	158.6	N/A	N/A	158.6
Transfers to (-) and from (+) other units of general government	83.2	N/A	N/A	83.2
Liabilities	0	N/A	N/A	0

⁷ There is no first tier lower-level government below Starosynnyavska ATC

Financial Assets (cash + cash equivalent)	6.2	N/A	N/A	6.2
Non-financial assets	0	N/A	N/A	0

Source: 2018 Treasury reports

Institutional responsibilities for PFM

Starosyniyavska Village Council as a legislative body of the community and the executive committee of the village council represents the system of local authorities (at the community level). As noted above, 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.

At the same time, if we consider the budget process at the local level comprehensively, specifically with regard to the village budget of Starosyniyavska ATC, the system of its participants can be presented as follows:

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 draft Law on the State Budget of Ukraine for the relevant budgetary period.

Territorial/Local unit of the Treasury (this will be the same as State Treasury Service of Ukraine at 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 and compliance of the budget commitments with the budget allocations and the passport of the budget program.

Territorial/Local unit of the SFS (this will be the same as State Fiscal Service of Ukraine at central government level) - administration of taxes and duties to local budgets, control over the collection of budget revenues.

Accounting Chamber of Ukraine - responsible for both central and local government external audit only in the part of 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 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 (including village councils) - review and approval of the decision on the local budget, control over the implementation of the decision on the local budget.

Local Financial Bodies (Executive Committees of Local Councils) - development of local budget forecasts and draft local budgets; approval of local budget forecasts and draft 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.

Thus, taking into consideration the accountability of the local governments of Starosynnyavska ATC to the higher-level authorities (in the budget area), one may notice the "dual" accountability: (i) on the one hand, to the Ministry of Finance of Ukraine, which, in accordance with the BCU, controls the compliance of the state budget and local budgets with budget legislation at each stage of the budget process; (ii) on the other hand, to Khmelnytsky Oblast State Administration and its Financial Department, which also exercises such control, in particular, by reviewing the decisions of Starosynnyavska Village Council approving the village budget and other documents used in the budget execution process.

2.5 Other important features of PFM and its operating environment

According to Article 133 of the Constitution of Ukraine, the system of administrative and territorial structure of Ukraine is composed of: Autonomous Republic of Crimea, oblasts, rayons, cities of oblast and rayon significance, districts in 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. At the same time, it should be emphasized that if several communities (villages, settlements, cities) are merged into one amalgamated territorial community, such community has one joint budget. In this case, if the centre of the amalgamated community is a city the joint budget is called a city budget, if the amalgamated community's centre is a settlement – it is called a settlement budget, if the amalgamated community's centre is a village – it is called a village budget.

Furthermore, it is forbidden to create extra-budgetary funds or units by state bodies, local self-government bodies and other budgetary institutions. Local budgets receive transfers from the state budget, which account for a significant proportion of local budget revenues (more than 50 percent of total revenues). The main types of transfers from the state budget are grants and earmarked subventions (the latter have a targeted nature); transfers can also be made between local budgets.

3 Assessment of PFM Performance

3.1 Transfers from a higher-level government

This indicator assesses the extent to which transfers to the subnational government from a higher-level government are consistent with original approved high-level budgets and are provided according to acceptable time frames. The indicator contains three dimensions.

Summary of scores

HLG-1	Dimension	Score 2019	Justification for 2019 score
	Transfers from a higher-level government (M1)	D+	
	HLG-1.1 Outturn of transfer from higher-level government	D	The analyses show that in all three years 2016 to 2018, deviations between approved central government transfers and actual transfers exceeded 15%. The highest deviation occurred in 2016, where actual transfers exceeded approved grant budget by as much as 59.6%. In 2017 and 2018, actual transfers exceeded the budget by 23.6% and 24.3% respectively
	HLG-1.2 Earmarked grants outturn	D	As shown in Table HLG.2 below, deviations in all three years were above 15%, following a similar pattern referencing the HLG-1.1. Actual earmarked transfers exceeded approved earmarked budget by 66.3% in 2016, 34.3% in 2017 and 24.1% in 2018.
	HLG-1.3 Timeliness of transfer from higher-level government	A	The central (national) government agrees with and provides a disbursement rules to the sub-national government, including Starosynnyavska ATC, in accordance with Cabinet Decree No. 1132. Before the start of each fiscal year Financial department provides for budget allocation plans (schedules) as part of the budget preparation process. Furthermore, actual transfers for all grants (more than 90%) in each of the last three years under review (2016, 2017, and 2018) were done in a timely manner in line with agreed schedules

HLG-1.1 Outturn of transfer from higher-level government

There are six types of grants from higher-level of government to the sub-national government; these are: (i) basic grant used for general purposes – constituting 7.2%, (ii) education grant – representing 49.8%, (iii) medical grant 25.1%, (iv) socio-economic development grant 10.9%, (v) infrastructure grant 3.3%, and (vi) grant for people with special needs 3.7%. The results of the analyses of transfers from central government to Starosynnyavska ATC sub-national government are shown in Table HLG.1 below. The analyses show that in all three years 2016 to 2018, deviations between approved central government transfers and actual transfers exceeded 15%. The highest deviation occurred in 2016, where actual transfers exceeded approved grant budget by as much as 59.6%. In 2017 and 2018, actual transfers exceeded the budget by 23.6% and 24.3% respectively. Whilst this phenomenon may indicate more

resources for the sub-national government, it could also lead to misallocation of funds for policies and programmes not originally planned for and approved by the village council in accordance with their medium-term vision. Officials have however indicated that the nature of the projects and activities undertaken from these additional resources are already predetermined and specified in the budget law from the central government.

Table HLG.1 Outturn of transfer from central government

	2016	2017	2018
Original budget (UAH'000)	41,287.4	60,203.4	66,964.21
Actual transfer (UAH'000)	65,903.85	74,415.61	83,238.85
% outturn	159.6%	123.6%	124.3%
% deviation	-59.6%	-23.6%	-24.3%

Source: Budget and Finance Departments of Starosynnyavska ATC

Dimension score = D

HLG-1.2 Earmarked grants outturn

As shown in Table HLG.2 below, deviations in all three years were above 15%, following a similar pattern referencing the block grants. Actual earmarked transfers exceeded approved earmarked budget by 66.3% in 2016, 34.3% in 2017 and 24.1% in 2018. These results clearly show weaknesses (at central government) in budget planning, formulation and preparation because these extremely huge deviations have been consistent over the last three completed fiscal years, even though at a diminishing rate in 2017 and 2018 when compared with 2016 figures. One fundamental reason contributing to these huge deviations is the delay from central government to notify sub-national governments of their approved annual grants. Again, the existing budget code does not allow sub-national governments to budget for unknown revenue and expenditure, hence the exclusion of central government grants from the original Starosynnyavska ATC budget.

Table HLG.2 Outturn of transfer from earmarked grants

	2016	2017	2018
Original budget (UAH'000)	36,466.40	40,944.60	60,396.41
Actual transfer (UAH'000)	60,630.94	54,989.70	74,929.19
% outturn	166.3%	134.3%	124.1%
% deviation	-66.3%	-34.3%	-24.1%

Source: Budget and Finance Departments of Starosynnyavska ATC

Dimension score = D

HLG-1.3 Timeliness of transfer from higher-level government

The central (national) government agrees with and provides a disbursement rules to the sub-national government, including Starosynnyavska ATC, in accordance with Cabinet Decree No. 1132. Before the start of each fiscal year Financial department provides for budget allocation plans (schedules) as part of the budget preparation process. There are at least six different types of grants received by the local government; these are: (i) basic grant used for general purposes, (ii) education grant, (iii) medical grant, (iv) socio-economic development grant, (v) infrastructure grant, (vi) grant for people with special needs. Furthermore, actual transfers for all grants (more than 90%) in each of the last three years under review (2016, 2017, and 2018) were done in a timely manner in line with agreed schedules. For instance, basic

grants were disbursed thrice a month and not later than the 10th, 20th, and 30th day of the month. Education grants were disbursed twice a month on the 10th and 25th days of the month. Medical grants were transferred twice a month, also on the 10th and 25th days of the month. Socio-economic development grant as well as infrastructure grants were disbursed once a month within two days after submission of transfer request.

Dimension score = A

3.2 Pillar I. Budget reliability

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	Dimension	Score 2019	Justification for 2019 score
	Aggregate expenditure outturn	D	
	PI-1 Aggregate expenditure outturn	D	In all three years, aggregate budget outturns were more than 115% of the originally approved budget. Actual outturns were 142.4%, 132% and 128.3% in 2016, 2017, and 2018 respectively

Table 1.1 below summaries budget performance at the aggregate level for the last three completed fiscal years 2016, 2017, and 2018. Annex 4 also provides the detailed calculation. It is clear from the analysis below that budget planning, formulation and preparation have serious weaknesses. A deviation above 15% in one out of the three years is usually considered as one abnormal case which may have arisen as a result of some economic shocks, but a consistent deviation more than 15% over three years portrays weak budgeting framework.

Officials say, these deviations are due to external factors which are not under the control of the local government. Some of these factors include: (i) transfers from central government and oblast government to Starosynnyavska ATC after budget approval by the village council and (ii) legal requirement as per the Budget Code of Ukraine which allows local governments to distribute budget surpluses (free reminders) only after approval of an annual budget execution report which is to be submitted to the local council within two months after the end of the previous budget period (that is by the 1st of March).

As shown in Table 1.1 below, actual aggregate outturns compared to originally approved budget were 142.4%, 132.0% and 128.3% in 2016, 2017, and 2018 respectively.

Table 1.1: Comparison between originally approved against actual outturn

	2016 UAH in thousands	2017 UAH in thousands	2018 UAH in thousands
Original Budget	67,257.1	99,388.0	123,628.4

Actual Outturn	95,771.0	131,209.0	158,623.8
Actual Outturn %	142.4%	132.0%	128.3%

Source: Budget and Finance Department of Starosynnyavska ATC Original Approved Budget and Annual Accounts

Dimension Score = D

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	Dimension	Score 2019	Justification for 2019 score
Expenditure composition outturn (M1)		D+	
2.1	Expenditure composition outturn by function	D	The analyses indicate significant budget reallocation between votes of more than 15% in each of the three years under review. The actual composition variances were 40.6%, 29.6% and 30.1% in 2016, 2017, and 2018 respectively
2.2	Expenditure composition outturn by economic type	D	As shown in Table 2.2 below actual variances were 47.6%, 64.0% and 35.3% in 2016, 2017, and 2018 respectively
2.3	Expenditure from contingency reserves	A	Actual expenditure charged to contingency budget averaged 0.0%; this means there has been no expenditure out of contingency vote within the last three completed fiscal years

PI-2.1 Expenditure composition outturn by function

Table 2.1 below (and in Annex 4 for details) outlines the result matrix of the composition variance of the functional budget allocation over the last three completed fiscal years. The analyses indicate significant budget reallocation between votes of more than 15% in each of the three years under review. The actual composition variances were 40.6%, 29.6% and 30.1% in 2016, 2017, and 2018 respectively.

According to officials, the huge variances were due to (i) Transfers received from the state budget which were distributed during the budget execution period (among them socio-economic development grant, infrastructure grant) are earmarked subventions (ii) Part of actual budget revenues which exceeded the approved budget – in accordance with the Budget Code of Ukraine these revenues could be distributed and used from the second quarter of the budget year. Accordingly, local governments (including Starosynnyavska ATC) are allowed to determine the use of these funds. Analyses showed these revenues were used mainly for construction.

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

	for PI-1	for PI-2 (i)	for PI-2 (iii)
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Year	Total expenditure deviation	Composition variance by function	Contingency share
2016	142.4%	40.6%	0.0%
2017	132.0%	29.6%	
2018	128.3%	30.1%	

Dimension Score = D

PI-2.2 Expenditure composition outturn by economic type

The variances in economic allocation appear to be much worse than those in the functional allocation, exceeding 35% in each of the three years under review. As shown in Table 2.2 below (and in Annex 4 for details), actual variances were 47.6%, 64.0% and 35.3% in 2016, 2017, and 2018 respectively.

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

Year	Total Expenditure Deviation	Composition Variance by Economic Classification
2016	142.4%	47.6%
2017	132.0%	64.0%
2018	128.3%	35.3%

Dimension Score = D

PI-2.3 Expenditure from contingency reserves

As shown in Table 2.1 above (and Annex 4 for detailed calculation), actual expenditure charged to contingency budget averaged 0.0%; this means there has been no expenditure out of contingency vote within the last three completed fiscal years. The sub-national government though makes provision for contingency as part of its budgeting process, of which the contingency budgets as a percentage of total budget were 0.03%, 0.02% and 0.08% in 2016, 2017, and 2018 respectively, all below 1% of total general fund's expenditure budget.

Dimension Score = A

PI-3 Revenue outturn

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

Summary of scores

PI-3 M2	Dimension	Score 2019	Justification for 2019 score
Revenue outturn		C	
	3.1 Aggregate revenue outturn	D	Actual outturns were 146.2%, 153.8%, and 117.2% in 2016, 2017, and 2018 respectively
	3.1 Revenue composition outturn	B	Actual composition variances were 5.0% in 2016, 25.6% in 2017, and 5.7% in 2018

PI-3.1 Aggregate revenue outturn

Revenue budgeting has similar weaknesses as those identified in expenditure budgeting. As evidenced in Table 3.1 below (and Annex 4 for details), aggregate revenue outturns exceeded 20% in all last three completed fiscal years. Actual outturns were 146.2%, 153.8%, and 117.2% in 2016, 2017, and 2018 respectively. Comparatively on year-on-year basis, the analyses show improvement in revenue budgeting, from a deviation of 46.2% in 2016 to 17.2% the lowest is 2018. That said, the variations remain extremely significant.

Dimension Score = D

Table 3.1: Comparison of approved budgeted revenue against actual outturn

	2016 UAH in thousands	2017 UAH in thousands	2018 UAH in thousands
Original Budget	25,969.7	39 184.6	56 664.2
Actual Outturn	37 962.2	60 280.6	66 386.7
Actual Outturn %	146.2%	153.8%	117.2%

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

PI-3.2 Revenue composition outturn

As shown in Table 3.2 below (and in Annex 4 for details), revenue composition variances were fairly good at below 15% within the review period. Actual variances were 5.0% in 2016, 25.6% in 2017, and 5.7% in 2018. This shows that revenue composition variances were not as high as expenditure composition variances, indicating some level of revenue budget reliability.

Table 3.2 Revenue composition variance

year	total revenue deviation	composition variance
2016	146.2%	5.0%
2017	153.8%	25.6%
2018	117.2%	5.7%

Dimension Score = B

3.3 Pillar II. Transparency of public finances

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	Dimension	Score 2019	Justification for 2019 score
4.1	Budget classification	D	Budget formulation and execution are based on every level of details of administrative, economic, and functional and sub-functional classification using GFS/COFOG standards. However, budget reporting is based only on sub-functional level. The classification follows GFS 2001

The budget classification was approved by the Ministry of Finance Order No. 11 on “Budget Classification” of 14th January 2011. Typically, MoF also approved local budgets program classification Order No. 793 on “Approval of the Components of Program Classification of Expenditures and Lending to Local Budgets” on September 20, 2017. The budget classification follows IMF Government Finance Statistics (GFS) Manual of 2001. In that respect the classification follows and is consistent with the development of the national budget. COFOG is applied. Budget requests are based on each level of administrative and functional classification using GFS/COFOG standards, and on the 3rd level of economic classification. Budget execution is based on every level of administrative, economic, and functional (and sub-functional) classification. However, budget reporting is based on functional (sub-functional) level, but not on administrative level. The State Treasury Service keeps accounting for the execution of state and local budgets under a cash-based method using accruals by separate transactions (accounting of government debt, liabilities of spending units). All spending units keep accounting for execution using accruals for all transactions.

Dimension Score = 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 and is measured using a list of ‘basic’ and ‘additional’ elements included in the last budget submitted to parliament.

Summary of scores

PI-5	Dimension	Score 2019	Justification for 2019 score
5.1	The comprehensiveness of the information provided in the annual budget documentation is measured against a list of 'basic' and 'additional items	D	The budget documentation meets two out of four basic elements. It also meets three of the additional elements as shown in Table 5.1 below

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. According to part three of Article 16 of the Budget Code of Ukraine, villages ⁸ are not allowed to borrow. When approving budgets, they can have surplus of total general budget for transfer this surplus to special budget. Furthermore, local budgets are allowed to have general budget deficit <i>when implementing budget</i> if there are free remains of local budgets. Starosynyavska Local Budget Annex 2 contained only surplus of the general fund and deficit of the special fund (balanced transferred funds for development budget of special fund). Thus, Starosynyavska total budget is well-balanced.
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 village budget for the current year, approved by the village 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	Budget document has no aggregate data on both revenue and expenditure; however, the budget has detailed breakdown of revenue and expenditure estimates
Additional elements			

⁸ As per Art. 5 of the Budget Code of Ukraine budgets of amalgamated communities are one of the groups of local budgets and SS belongs to this group based on item 2¹ (source: <https://mof.gov.ua/uk/zvit>) of part 1 of Art. 2 of BCU (definition of "budgets of amalgamated communities"). At the same time as per part 2 of Art. 3 of Law "On Voluntary Amalgamation of Territorial Communities" an amalgamated territorial community with an administrative centre in a village is the village territorial community what actually refers to SS hromada

No.	Budget documentation benchmarks	Availability	Evidence used/Comments
5.	Deficit financing, describing anticipated composition	Yes	Same as under criterion 1 above
6.	Macro-economic assumptions	NA	Explanatory note to the ATC draft budget contains some macroeconomic assumptions which includes three years forecast of the: Agricultural products sold in UAH; Agricultural products index in % of the previous year; Wage fund; and Average monthly salary ⁹ . The sub-national government has no capacity to forecast its GDP. Forecast of inflation and interest rates are done by central government
7.	Debt stock, including details at least for the beginning of the current year presented in accordance with GFS or other comparable standard	NA	According to part three of Article 16 of the Budget Code of Ukraine villages are not allowed to borrow.
8.	Financial Assets, including details at least for the beginning of the current year presented in accordance with GFS or other comparable standard	Yes	Starosynyavska ATC does not have financial assets, except some receivables, indicated by Financial Department in explanatory note to the annual budget statement, submitted to the village 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.	No	Information on fiscal risk is not provided.
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 contains some explanations of budget implications of changes in policy
11.	Documentation on the medium-term framework	Yes	Explanatory note to the ATC draft budget contains the medium-term framework.
12.	Quantification of tax expenditures	No	Land tax benefits for two public corporations are indicated in the explanatory note to the ATC draft budget, but these benefits are not costed.

Source: Budget documentation

Dimension Score = D

PI-6 Sub-national government operations outside financial reports

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

⁹ Macroeconomic indicators are determined taking into account the village level.

Summary of scores

PI-6 (M2)	Dimension	Score 2019	Justification for 2019 score
6	Sub-national government operations outside financial reports	A	
6.1	Expenditure outside financial reports	A	There is no expenditure outside local government financial reports; all expenditures emanating from own revenues of key spending units are reported as part of the consolidated financial statements
6.2	Revenue outside financial reports	A	There are no revenues outside local government financial reports; all revenues including own revenues from key spending units are budgeted for in the annual budget statements and reported in the consolidated annual financial statements
6.3	Financial reports of extra-budgetary units	NA	There are no extra-budgetary units at the local government level

Background

Article 13 (Part nine) of the Budget Code of Ukraine (BCU) establishes a prohibition for state and local authorities, and other key spending units to create an extra-budgetary unit and to open an extra-budgetary account. Only in some cases spending units are allowed to open accounts in the banks, such as execution of the local budgets' development budget and own revenues of local budgets' spending units (Part two of the Article 78 of the BCU), and placement of temporary free local budgets' cash in deposits (Part eight of the Article 16 of the BCU).

Following from the above, MoF Order № 44 dated 24th January 2012 mandates all KSUs to prepare reports on such extra-budgetary accounts and submit these reports to their respective budgetary units and the Treasury. At present, there are no extra-budgetary accounts at Starosynnyavska ATC

PI-6.1 Expenditure outside financial reports

There is no expenditure outside local government financial reports; all expenditures emanating from own revenues of key spending units are reported as part of the consolidated financial statements.

Dimension Score = A

PI-6.2 Revenue outside financial reports

There are no revenues outside local government financial reports; all revenues including own revenues from key spending units are budgeted for in the annual budget statements and reported in the consolidated annual financial statements.

Dimension Score = A

PI-6.3 Financial reports of extra-budgetary units

There are no extra-budgetary units at Starosynnyavska ATC.

Dimension Score = NA

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 receive timely information about their allocations to facilitate fiscal planning.

Summary of scores

PI-7 (M2)	Dimension	Score 2019	Justification for 2019 score
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.

PI-7.1 System for allocating transfers

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

Dimension score = NA

PI-7.2 Timeliness of information on the transfers

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

Dimension score = 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	Dimension	Score 2019	Justification for 2019 score
	PI-8 Performance information for service delivery	B+	
	8.1 Performance plans for service delivery	A	All key spending units prepare annual action plan with KPIs, outcomes and outputs to be achieved for the following fiscal year. The information is published on the local government website (https://starosynjavska-gromada.gov.ua//ijjj-10-15-25-12-02-2019/)
	8.2 Performance achieved for service delivery	A	All key spending units prepare and publish annual performance reports on the local government website (https://starosynjavska-gromada.gov.ua//zviti-pro-vikonannya-bjudzhetnih-program--2018-11-28-57-12-

PI-8 M2	Dimension	Score 2019	Justification for 2019 score
			03-2019/ . The information contains outputs and outcomes broken down according to programme codes
	8.3 Resources received by service delivery	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. This report is part of the annual financial report, which is prepared every year
	8.4 Performance evaluation for service delivery	C	Every year, internal evaluation is conducted by all budget institutions at the local government level. Both individual and summarised performance reports are published on the website

PI-8.1 Performance plans for service delivery

All the local government key spending units prepare annual action plans (as per Ministry of Finance Order № 836 dated 26th August 2014), incorporating key performance indicators on outputs and outcomes to be achieved for the next fiscal year. This information is published on the local government website; for FY2019, they were published on <https://starosynjavska-gromada.gov.ua//jiji-10-15-25-12-02-2019/> for the previous FY2018, they were published on <https://starosynjavska-gromada.gov.ua/pasporta-bjudzhetnih-program-2018-10-40-36-15-03-2018/>.

The information contained in the annual action plan is disaggregated by programme. For example, the education plan for 2019 is by programme code as follows:

- (i) 0610160 – Governance in Education (maintenance of the education structural division)
- (ii) 0611010 – Pre-school education
- (iii) 0611020 – Secondary Education
- (iv) 0611090 – Extracurricular (out-of-school) Education
- (v) 0611150 – Methodical support to the Educational Institutions
- (vi) 0611161 – Other Educational Institutions costs
- (vii) 0615031 – Youthful and reserve sport development

The key spending units also indicate key performance indicators (KPIs) in their annual action plan; for instance, the education plan contains among others the following KPIs: (i) increase the number of classes in 2nd degree schools from 41 to 51, (ii) reduce average student population in primary schools from 1,547 to 1,521 (this means increasing school infrastructure to accommodate more students), and increase average student spending from UAH36,712 to UAH39,114 per annum.

Dimension score = A

PI-8.2 Performance achieved for service delivery

The national MoF has issues clear guidelines and legal provisions with regards to how key spending units (KSU) should report on their outputs and outcomes; these are contained in Order №836 issued in 2014. Per the rules, KSU are obliged:

- 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*

Available evidence suggests that all the key spending units at Starosynnyavska ATC have been complying with MoF directives. The annual performance reports, indicating outputs and outcomes according to each programme code, are published on the local government website (<https://starosynnyavska-gromada.gov.ua//zviti-pro-vikonannya-bjudzhetnih-program--2018-11-28-57-12-03-2019/>).

Dimension score = A

PI-8.3 Resources received by service delivery

On August 8, 2012, MoF issued Order No.938 on “Approval of the Procedure for Treasury servicing of local budgets” stipulating that all spending units must report all resources received in kind in accordance with laid down procedures in the local budget implementation reports. The Budget Code of Ukraine also mandates all spending units to report on resources received in cash. Available evidence obtained from the local government finance department shows a report consolidating (each service delivery unit prepares a detailed report on these resources in kind and in cash) all resources received in kind; these resources are quantified in monetary terms and reported in the annual financial reports; this report is prepared every year. The annual financial report (which includes a section on resources received in kind – quantified in monetary terms) is supported by certificates of receipts (good receipt notes) and clearly describes specific items received and the donor. For the fiscal year 2018, some of the resources received in kind include Christmas candies and toys for school pupils, footballs, food items, drilling machines and sewing machines, among others valued at UAH300,000 – all reported in the annual financial statements of 2018

Dimension score = A

PI-8.4 Performance evaluation for service delivery

All local budget institutions also known as key spending units conduct annual internal evaluation (no independent evaluations conducted) based on guidelines and legal provisions issued by MoF; some of these guidelines and rules include but not limited to the following:

- MoF Order No.608 dated 17th May 2011 “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”

The internal evaluation reports are summarized and published on the local government website (<https://starosynnyavska-gromada.gov.ua//zviti-pro-vikonannya-bjudzhetnih-program--2018-11-28-57-12-03-2019/>). The individual evaluation reports are also published; for instance, the education performance report for FY2018 was published on 8th February 2019. Some key issues identified in the education performance report include the following: (i) reasons for deviation of the planned and actual performance indicators; (ii) conclusion on the effectiveness level of a budget program; and (iii) proposals on ways to increase budget program effectiveness as well as transparency of the budget funding.

Dimension score = C

PI-9 Public access to fiscal information

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

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

Summary of scores

PI-9	Dimension	Score 2019	Justification for 2019 score
9.1	Public access to fiscal information	B	The government makes available to the public four basic elements and one additional element within the required timeframe as described in Table 9.1 below. Elements 5 and 7 are not applicable since external audits are under the purview of central government Supreme Audit Institution

As indicated in Table 9.1 below, the sub-national government makes available to the public four basic elements within the specified timeframe as per the PEFA requirements. 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. Public access to fiscal data in a timely manner is considered evidence of fiscal transparency.

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 week of the executive submitting them to the legislature.	Yes	On Starosynjavska ATC website within 24 hours (https://starosynjavska-gromada.gov.ua)
2.	Enacted Budget: The annual budget law approved by the legislature is publicized within two weeks of passage of the law	Yes	Published in local newspaper and on the website with one week after promulgation (https://starosynjavska-gromada.gov.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 (https://starosynjavska-gromada.gov.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 in local newspaper within 60 days after the end of the previous financial year
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 central government Supreme Audit Institution
Additional elements			

No.	Fiscal information benchmarks	Availability (Yes/No)	Notes (Means of Availability)
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	No pre-budget statement
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 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 legislature and within one month of the budget's approval	No	No summarised budget (usually known as citizens' budget)
9.	Macroeconomic forecasts: The forecasts as assessed in PI-14.1 are available within one week of its endorsement	Yes	Three years macroeconomic forecast, included in explanatory note to the draft budget for upcoming year, is published on the village council web-site next day after the draft budget with explanatory note submitted to the executive committee and to village council.

Dimension Score = B

Ongoing reforms

The Starosynnyavska ATC will from FY2020 introduce a 'Pre-Budget Statement'; this will provide the broad parameters for the executive budget proposal regarding expenditure, planned revenue.

3.4 Pillar III. Management of assets and liabilities

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 fiscal risk posed by sub-national governments and dimension 10.3 measures the level of sub-national government contingent liabilities and other fiscal risks

PI-10 M2	Dimension	Score 2019	Justification for 2019 score
Fiscal risk reporting		D+	
10.1	Monitoring of public corporations	C	The FY2018 financial reports of public corporations have not been audited. That notwithstanding, the

PI-10 M2	Dimension	Score 2019	Justification for 2019 score
			local government received the un-audited annual financial statements for FY2018 on 28 th January 2019 (within one month after year end) for all three 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		D	The sub-national government does not keep records of explicit contingent liabilities and any other fiscal risks that could arise out of their operations

PI-10.1 Monitoring of public corporations

There are three public corporations; these corporations have not been audited within the last three completed fiscal years. The legal statute establishing these corporations does not provide for independent external auditors to conduct financial audit. Also, the FY2018 financial reports have also not been audited by any external auditor; the local government finance office has however conducted some internal review of the financial operations of these public corporations. That notwithstanding, the local government received the un-audited annual financial statements for FY2018 on 28th January 2019 (within one month after year end) for all three public corporations, as indicated in Table 10.1 below

Table 10.1 Financial reports of public corporations for FY 2018

Name of Public corporations	Date of audited financial statements	Date of submission of FY2018 financial reports to local government	Total expenditure UAH'000	As a % of total expenditure of public corporations	Are contingent liabilities of the public corporation disclosed in the financial report? (Y/N)
Municipal enterprise "Starosynavsky comunkhoz"	Not audited	28 th January 2019	2,033.2	52.3%	No
Municipal enterprise "Starosynavsky Central Water Utility No. 1"	Not audited	28 th January 2019	931.2	24.0%	No
Specialized Municipal Forestry Enterprise Dibrova Starosynavsky Village Council	Not audited	28 th January 2019	919.9	23.7%	No
Total			3,884.3	100.0	

Dimension score = C

PI-10.2 Monitoring of sub-national governments

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

Dimension score = NA

PI-10.3 Contingent liabilities and other fiscal risks

The sub-national government does not keep records of explicit contingent liabilities and any other fiscal risks that could arise out of their operations. These explicit contingent liabilities include court fines arising out of litigation. There are however no known PPP arrangements.

Dimension score = D

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)	Dimension	Score 2019	Justification for 2019 score
11	Public investment management	D	
11.1	Economic analysis of investment projects	D	There are no established guidelines for project appraisal. Also, economic analysis is not conducted to assess investment projects.
11.2	Investment project selection	D	No institution is in place to guide the project selection processes, including a centralized review of major investment project appraisals before projects are included in budget submissions to the legislature. Most (at least 80%) capital investment projects are prioritised by the Executive Committee without standard criteria.
11.3	Investment project costing	D	The annual budget document does not indicate the total capital cost of projects as well as the capital cost of projects for the upcoming fiscal year
11.4	Investment project monitoring	D	Though the local government has no technical capacity to undertake M&E of capital projects, the function is outsourced to independent expert. Annual physical and financial progress reports are prepared by this expert, but not submitted to the spending unit except where some challenges relating to the project are identified. The report is not published

Background

In 2018 Starosynnyavska ATC major investment projects has been implemented with support of two transfers from the State Budget: (i) for Infrastructure of Amalgamated Communities; and (2) for socio-economic development. The procedures for investment project implemented with support of the transfer for Infrastructure of Amalgamated Communities (about 80% of cost of all investment projects in 2018) are established by the Decree of the Cabinet of the Ministers of Ukraine (CMU) No. 200 dated March 16, 2016; for investment project implemented with support of the transfer for some territories socio-economic development (about 20% of cost of all investment projects 2018) – by the Decree of the Cabinet of the Ministers of Ukraine (CMU) No. 106 dated February 6, 2012.

Table 11.1 below provides a list of ten major capital investment projects with their total capital cost compared with the actual local government expenditure for FY2018. As indicated in the table, only three

out of the ten listed projects meet the PEFA definition of 'major capital project'. According to PEFA, major investment projects are defined according to the following criteria:

- (i) the total investment cost of the project amounts to 1 percent or more of total annual budget expenditure; and
- (ii) the project is among the largest 10 projects (by total investment cost) for each of the 5 largest central government units, measured by the units' investment project expenditure

Table 11.1 List of major capital investment projects FY2018

No	Name of Project	Total Cost of project (UAH'000)	Starosynnyavska ATC actual budget expenditure for FY2018	% of budget
1	Construction of external water supply networks in the Paplinki village of Starosynnyavsky rayon of Khmelnytska oblast	6,819.7	158,623.80	4.3%
2	Capital repairs of the building (thermal modernization) of Starosynnyavsky preschool educational institution # 1 Zernyatko str. Grushevskogo, 21 in the Stara Synyava urban village, Starosynnyavsky rayon of Khmelnytska oblast	2,845.6	158,623.80	1.8%
3	Capital repairs of the therapeutic department of Starosynnyavsky central district hospital, Stara Synyava urban village, Starosynnyavsky rayon of Khmelnytska oblast	1,522.6	158,623.80	1.0%
4	Reconstruction of water supply networks from the Artesian well # 2 of Ivankivtsi village of Starosynnyavsky rayon of Khmelnytska oblast	1,497.1	158,623.80	0.9%
5	Reconstruction of street water supply networks of Yosypivka willage, Starosynnyavsky rayon of Khmelnytska oblast	1,487.1	158,623.80	0.9%
6	Reconstruction of street water supply networks from Artesian wells №2 of Kharkivtsi village, Starosynnyavsky rayon of Khmelnytska oblast	1,483.6	158,623.80	0.9%
7	Reconstruction of street water supply networks of Pyshky village, Starosynnyavsky rayon of Khmelnytska oblast	1,365.5	158,623.80	0.9%
8	Reconstruction of street water supply networks of Babyne village, Starosynnyavsky rayon of Khmelnytska oblast	1,273.8	158,623.80	0.8%
9	Reconstruction of street water supply networks of Ozharivka village, Starosynnyavsky rayon of Khmelnytska oblast	1,242.4	158,623.80	0.8%
10	Reconstruction of street water supply networks of Ivankivtsi village, Starosynnyavsky rayon of Khmelnytska oblast	655.8	158,623.80	0.4%

PI-11.1 Economic analysis of investment projects

By national regulations, investment projects implemented with the support of the transfer for infrastructure of the amalgamated communities should be prepared in a capital project standard form. This standard form contains, among others, costing of the project for three years (annual amounts) and expected quantitative and qualitative results of the project. The standard form does not include analysis of economic factors (social or economic costs and policy benefits). In 2018, capital projects were prepared

by Economic Development, Trade and Investments Affairs Division¹⁰ in standard forms but the expected results of the project were not analysed. Thus, economic analysis was not conducted. Guidelines for completing the capital project standard form are not established, neither are they published. Projects were not published and were not reviewed by any other entity. Furthermore, there is no capital project standard form established for investment project implemented with support of the transfer for some territories socio-economic development. Economic analysis is not conducted.

Dimension score = D

PI-11.2 Investment project selection

According to the established procedure, prior to inclusion into the annual budget, the list of capital investment projects implemented with support from infrastructure fund of the united communities must be determined by the executive committee of the village council and approved by the State administration of the Khmelnytska oblast. At present, there are no published standards for project selection for inclusion into the annual budget at the local government level. That said, for projects funded from the infrastructure fund, the Executive Committee of the local government selects projects based on their priorities (social significance and compliance with the plan for socio-economic development of the ATC) and these projects funded from infrastructure allocation constitute about 80% of total capital budget. The remaining 20% (funded from support for socio-economic development) must accordingly be determined by the Commission created by the Ministry of Finance. However, there are currently no standardised selection criteria for these projects funded from the socio-economic support fund. The selected projects are also not reviewed by the executive committee

Dimension score = D

PI-11.3 Investment project costing

The annual budget documents do not show the total capital cost of the projects nor the capital cost for the following year; this is so because the local council approves the annual budget before receiving information from the national government infrastructural fund. The current practice is that capital investment projects are selected after the annual budget has been approved by the village council. The cost of the project is then determined after the annual budget process, submitted to the executive committee for approval once the sub-national government receives indication of how much the national government is providing for infrastructure projects and socio-economic projects.

Dimension score = D

PI-11.4 Investment project monitoring

The local government presently has no technical capacity to conduct project monitoring and evaluation. In this regard therefore, the sub-national government outsources this function to independent expert to carry out M&E functions. Annual physical and financial progress reports are prepared by this expert, but not submitted to the spending unit except where some challenges relating to the project are identified. In addition to the independent expert opinion and M&E report on capital projects, the State Architectural Inspectorate also appoints expert to undertake further project inspection; the experts then submit their project completion report upon which the final certificate is issued for final payment. The information is however not published.

Dimension score = D

¹⁰ Structural division of the KSU “Starosynnyavska village council”, which financing those investment projects.

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

The assessment of this indicator covers central government budget entities and extra-budgetary units.

Summary of scores

PI-12 (M2)	Dimension	Score 2019	Justification for 2019 score
12	Public asset management	B	
12.1	Financial asset monitoring	C	The government maintains records of some financial assets (cash and receivables) but not shares held in corporations. As at 31 st December 2018, cash balance stood at UAH6.2 million
12.2	Non-financial asset monitoring	C	Each local government institution maintains a fixed asset register of buildings, vehicles, fixtures and fittings, indicating their cost, age and usage. The cadastre office is still working on mapping government land. Natural resources are not recorded.
12.3	Transparency of asset disposal	A	So far, there has not been any transfer or sale of asset (financial and non-financial). The legal and regulatory framework for transfer and sale of financial and non-financial assets are well established. There are also clear provisions on the need for the legislative body (village council) to approve the sale or transfer of assets

PI-12.1 Financial asset monitoring

Cabinet Decree No. 351 “On Approval of the Procedure for Monitoring the Effectiveness of Asset Management” provides the legal basis for asset (financial and non-financial) management; this is also applicable at the local government level. The local government finance office maintains records of the consolidated cash and receivable balances at the end of each financial year; for the year ended 31st December 2018, aggregate cash balance stood at UAH6.2 million. As indicated under PI-10.1 above, the local government wholly owns three public corporations but it does not maintain records of the number of shares held in these corporations nor the value of these shares. Also, the values of these corporations are not reported in the consolidated financial statements of the local government administration.

Dimension score = C

PI-12.2 Non financial asset monitoring

The fixed asset management framework is decentralized at the local government level with each budget entity and extra-budgetary unit maintaining a fixed asset register for buildings, vehicles, fixtures and fittings, computers and office equipment, showing both the historical cost of asset, depreciation, and net

book value. The asset register at each local government institution provides information on their usage and age as well as the custodian of the asset.

The local government administration has a cadastre office responsible for mapping and registering all government land as well as private property at a fee. The cadastre office began mapping of public land in 2016; the total land size within its jurisdiction is 66,222 hectares but the office is in the process of determining which part belongs to the local government and the other part for private owners. Officials of the cadastre office have indicated that some natural resources (granite) exist but they have no idea the volume and corresponding value of these natural resources.

Dimension score = C

PI-12.3 Transparency of asset disposal

So far, within the assessment period, no asset (financial and non-financial) has been disposed. The national legal framework (which are well established) on asset transfer and disposal are also applicable at the local government level. The law Number 2269-VIII on “Privatization of State and Municipal Properties” was promulgated and adopted on January 18, 2018. Since then, a number of subsidiary legislations (by-laws) have been passed to effectively implement the main law on asset disposal. These include Cabinet Decrees:

- (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”
- (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.

In summary, the above legal provisions and other relevant administrative procedures such as publication of tenders for assets to be disposed, public auction, and transfer of proceeds from asset disposal into the Treasury account provide a good basis for a transparent asset disposal mechanism. There are also clear legal provisions referencing the need for the legislature (national and/or village council for local government) to approve such sale or transfer of assets

Dimension score = 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	Dimension	Score 2019	Justification for 2019 score
Debt management		NA	
13.1	Recording and reporting of debt and guarantees	NA	As per Article 16 and 17 of the Budget Code village councils have no borrowing powers and cannot issue guarantees; therefore, this dimension is not applicable
13.2	Approval of debt and guarantees	NA	As per Article 16 and 17 of the Budget Code, village councils have no borrowing powers and cannot issue guarantees; therefore, this dimension is not applicable
13.3	Debt management strategy	NA	As per Article 16 and 17 of the Budget Code 2001 village councils have no borrowing powers and cannot issue guarantees; therefore, this dimension is not applicable

PI-13.1 Recording and reporting of debt and guarantees

As per Article 16 and 17 of the Budget Code of Ukraine (BCU), Starosynavska ATC has no borrowing powers and cannot issue guarantees; therefore, this dimension is not applicable. As per the BCU, amalgamated hromadas formed around towns have borrowing powers. At present, only cities, oblasts and the Autonomous Republic of Crimea have the power to borrow and issue guarantees.

Dimension score = NA

PI-13.2 Approval of debt and guarantees

As per Article 16 and 17 of the Budget Code of Ukraine (BCU), Starosynavska ATC has no borrowing powers and cannot issue guarantees; therefore, this dimension is not applicable. As per the BCU, amalgamated hromadas formed around towns have borrowing powers. At present, only cities, oblasts and the Autonomous Republic of Crimea have the power to borrow and issue guarantees.

Dimension score = NA

PI-13.3 Debt management strategy

As per Article 16 and 17 of the Budget Code of Ukraine (BCU), Starosynavska ATC has no borrowing powers and cannot issue guarantees; therefore, this dimension is not applicable. As per the BCU, amalgamated hromadas formed around towns have borrowing powers. At present, only cities, oblasts and the Autonomous Republic of Crimea have the power to borrow and issue guarantees.

Dimension score = NA

Ongoing reforms

No reforms

3.5 Pillar IV. Policy-based fiscal strategy and budgeting

PI-14 *Macroeconomic and fiscal forecasting*

This indicator measures the ability of a government to develop robust macroeconomic and fiscal forecasts, which are crucial to developing a sustainable fiscal strategy and ensuring greater predictability of budget allocations.

Summary of scores

PI-14 (M2)	Dimension	Score 2019	Justification for 2019 score
14	Macroeconomic and fiscal forecasting	B	
14.1	Macroeconomic forecasts	NA	The Finance Office prepares three years' macroeconomic forecasts of some indicators related to village level economy; these are updated each year. The list of indicators includes: (1) agricultural products sold in UAH; (2) agricultural products index in % of the previous year; (3) wage fund; and (4) average monthly salary. Clear explanation of the underlying assumptions used to prepare the forecasts are provided. The forecasts are reviewed by the Executive Committee while approving draft budget estimates to be submitted it to the village council. The local government has no capacity to forecast its own GDP. Interest and inflation rates are forecasted by the central government
14.2	Fiscal forecasts	B	The Finance Office prepares three years' fiscal forecast, which includes revenues by type and expenditures by aggregated codes of functional classification. Underlying assumptions to the forecasts are provided in the explanatory note to the budget document submitted to the village council
14.3	Macro-fiscal sensitivity analysis	NA	The local government finance office does not prepare macroeconomic forecast with assumptions GDP; forecast on interest and inflation rates are done by the central government. Therefore, this dimension is not applicable

PI-14.1 *Macroeconomic forecasts*

According to Article 76 of the Budget Code¹¹, explanatory note has to be submitted by the Executive Committee to the local council together with the local draft budget and should contain the territory development forecast for planned fiscal year and local budget forecast for the next two budget periods following the planned. The Finance Office prepares three years' macroeconomic forecasts of some indicators related to village level economy; these are updated annually. The list of indicators includes: (1) agricultural products sold in UAH; (2) agricultural products index in % of the previous year; (3) wage fund; and (4) average monthly salary. Clear explanation of the underlying assumptions used to prepare the forecasts are provided. The local government has no capacity to forecast its own GDP. Interest and inflation rates are forecasted by the central government

These indicators (in addition to national level macroeconomic forecasts) are used during preparation of the revenue forecast of the draft budget for the following year and forecast for the medium-term period. The Finance Office includes these macroeconomic forecasts in the explanatory note to the draft budget,

¹¹ In the version in force in the assessed period.

submitted to the Executive Committee and local Village Council; these forecasts are reviewed by the Executive Committee while approving the draft budget estimates to be submitted to the village council.

Dimension score = NA

PI- 14.2 Fiscal forecasts

According to the part four of Article 21¹² of the Budget Code local executive committees have to prepare and adopt local budgets forecasts of general revenue, expenditure, financing, crediting, local debt and guarantees for the next three budget years. Draft forecast is to be submitted to local council together with the draft annual budget.

Currently the Finance Office prepares three years' fiscal forecast, which includes revenues by type and expenditures by aggregated codes of functional classification. Fiscal forecast also includes measures that will be implemented with regards to revenues and expenditures, and the results that are planned to be achieved. Underlying assumptions and explanation of the main differences from the forecasts made in the previous year's budget are provided. The fiscal forecast is the part of explanatory note to the draft budget, submitted by Finance Office to executive committee and to the village council.

Dimension score = B

PI- 14.3 Macroeconomic sensitivity analysis

The local government finance office does not prepare macroeconomic forecast with assumptions GDP; forecast on interest and inflation rates are done by the central government. Therefore, this dimension is not applicable.

Dimension score = NA

Ongoing reforms

According to the Article 75-1 of the Budget Code, starting from 2020, Local Financial authorities in collaboration with key spending units (KSU) are obliged to prepare local budget forecast annually. This local budget forecast should be approved by executive committee before September 1st (before drafting local budget). The forecast should contain (for the budget year and the two following fiscal years): (1) the basic forecast indicators of economic and social development of the territory, which are taken into account when developing the local budget forecast; (2) general ceiling indicators of revenue, expenditures, and financing; (3) fiscal deficit and local and guaranteed debt; (4) expenditure ceilings for KSU; (5) investment projects and capital expenditures for their implementation. The said Article of the Budget Code also establishes the conditions under which differences of the forecasts made in the previous year's budget are allowed.

PI-15 Fiscal Strategy

This indicator provides an analysis of the capacity to develop and implement a clear fiscal strategy. It also measures the ability to develop and assess the fiscal impact of revenue and expenditure policy proposals that support the achievement of the government's fiscal goals. No Fiscal Strategy is developed for Starosynnyavska ATC.

¹² Article was valid until the end of 2018. Starting 2020 new Article 75-1 will be valid (see "Recent or ongoing reform activities" of PI-14).

Summary of scores

PI-15 (M2)	Dimension	Score 2019	Justification for 2019 score
15	Fiscal Strategy	D	
15.1	Fiscal impact of policy proposals	D	The local government prepares some explanations of budget implications of changes in policy, with estimates of the budgetary impact of some major revenue policy changes and/or major changes to expenditure programs
15.2	Fiscal strategy adoption	D	The local government does not produce a fiscal strategy
15.3	Reporting on fiscal outcomes	NA	This dimension is not applicable, as the local government does not produce a fiscal strategy.

PI- 15.1 Fiscal impact of policy proposals

The local government does not prepare a fiscal strategy. Nonetheless, as indicated under 'Element 10' of PI-5, the local government prepares some explanation of budget implications of changes in policy, with estimates of the budgetary impact of all major revenue policy changes and/or major changes to expenditure programs; these are contained in the explanatory note to the draft budget.

Dimension score = D

PI- 15.2 Fiscal strategy adoption

The local government of Starosynnyavska ATC does not produce a fiscal strategy. A fiscal strategy usually provides macroeconomic projections for national (and this case sub-national) economic development outlook in terms of resource envelop.

Dimension score = D

PI- 15.3 Reporting on fiscal outcomes

This dimension is not applicable, as the local government does not produce a fiscal strategy.

Dimension score = NA

Ongoing reforms:

None

PI-16 Medium-term perspective in expenditure budgeting

This indicator examines the extent to which expenditure budgets are developed for the medium term within explicit medium-term budget expenditure ceilings. It also examines the extent to which annual budgets are derived from medium-term estimates and the degree of alignment between medium-term budget estimates and strategic plans.

Summary of scores

PI-16 (M2)	Dimension	Score 2019	Justification for 2019 score
16	Medium-term perspective in expenditure budgeting	D	
16.1	Medium-term expenditure estimates	D	For the last budget (FY2019 budget) submitted to the village council (legislature) for approval, each Key Spending Unit (KSU) prepared medium-term estimates of both revenue and expenditure for the budget year 2019 and the two outer years 2020 and 2021 according to administrative, programme and economic at GFS 3-digit level classifications. However, the consolidated annual budget does not present medium-term estimates; the estimates are only for the budget year.
16.2	Medium-term expenditure ceilings	D	At present the Finance Office prepares medium-term (three years) expenditure ceilings according to each budget institution as well as the aggregate ceilings. The Executive Committee (equivalent of cabinet of ministers at the national level) of Starosyniavska village council does not approve these medium-term expenditures ceilings before the issuance of the budget call circular
16.3	Alignment of strategic plans and budgets	D	The current practice is that key spending units do not prepare costed medium-term strategic plans. Education and Sports Office prepares a five-year strategy but this is not costed
16.4	Consistency of budgets with previous year estimates	D	The budget documents do not provide any explanations of changes to expenditure forecast presented in the current budget and the second year of the medium-term projections even though differences arise

PI- 16.1 Medium-term expenditure estimates

For the last budget (FY2019 budget) submitted to the village council (legislature) for approval, each KSU prepared medium-term estimates of both revenue and expenditure for the budget year 2019 and the two outer years 2020 and 2021 according to administrative, programme and economic at GFS 3-digit level classifications. The budget estimates preparation of the local government follows the same pattern as the national government and also based on standard forms of budget requests for the formation of local budgets, approved by the Ministry of Finance order No 648 dated July 17, 2015. However, the consolidated annual budget does not present medium-term estimates; the estimates are only for the budget year.

Dimension score = D

PI- 16.2 Medium-term expenditure ceilings

At present the Finance Office prepares medium-term (three years) expenditure ceilings according to each KSU as well as the aggregate ceilings. The Executive Committee (equivalent of cabinet of ministers at the national level) of Starosyniavska village council does not approve these medium-term expenditures ceilings before or after the issuance of the budget call circular.

Dimension score = D

PI- 16.3 Alignment of strategic plans and budgets

The current practice is that key spending units do not prepare costed medium-term strategic plans. The costed medium-term strategic plans usually give an indication of government's medium to long term policy initiatives plus cost estimates for those interventions. The only KSU that prepares a five-year strategy is the Education and Sports Office, but this is not costed.

Dimension score = D

PI- 16.4 Consistency of budgets with previous year estimates

The budget documents do not provide any explanations of changes to expenditure forecast presented in the current budget and the second year of the medium-term projections even though differences arise.

Dimension score = D

Ongoing reforms:

The current norm for preparation and approval of the local budget forecast (Article 75-1 of the Budget Code of Ukraine) will require Executive Committee's approval of the medium-term ceilings with effect from FY2020.

PI-17 Budget preparation process

This indicator assesses the budget formulation process that allows for an effective top-down and bottom-up participation of the relevant stakeholders, including their political leadership represented by Cabinet (Village Executive Committee). It also assesses the extent to which the annual budget preparation process supports the linking of the draft budget to public policy objectives. Dimensions (i) and (ii) are assessed using the last budget submission, for FY2018/2019. Dimension (iii) is assessed on the basis of the last three approved budgets: i.e. for the FY 2017/2018, 2019.

Summary of scores

PI-17 (M2)	Dimension	Score 2019	Justification for 2019 score
17	Budget preparation process	C	
17.1	Budget calendar	B	The budget calendar is generally respected. It allows key spending units at least 4 weeks to meaningfully complete their budget requests (detailed budget estimates)
17.2	Guidance on budget preparation	C	The local government finance office issued budget guidelines with expenditure ceilings to each budget unit for preparation of FY2019 budget, but these ceilings were not approved by the executive council. Once the final detailed budget estimates are completed, they are reviewed and approved by the executive committee
17.3	Budget submission to the legislature	D	As shown in Table 17.3 below, the executive committee (local cabinet) submitted the budget estimates one month before the start of the fiscal year for 2019 budget and less than one (around three weeks) for the remaining two fiscal years 2017 and 2018

17.1 Budget calendar

The main steps and deadlines for planning and approval of local budgets are clearly defined by the Budget Code of Ukraine (Articles 75, 751, 76, 77, 78), as shown in the table below:

Within one week after the Draft State Budget Law is approved by the Cabinet (by 22 September)	MoF issues to local governments 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; - 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 (by 27 November)	MoF submit 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

Table 17.1 below outlines the budget calendar.

Table 17.1: Starosynyavska ATC Budget Calendar¹³ for the preparation of the last budget submitted to the legislature

	Activity	Responsible units	Planned date	Actual date
1.	Establish and approve working group on draft budget preparation	Structural units of the village council	By September 1	<u>28.08.2018</u>
2.	Approve and submit to all key spending units Instruction on budget bids (budget calls) preparation	Financial department	Sep-Nov	<u>06.09.2018</u>
3.	Receive from the MoF indicative estimates of intergovernmental transfers and information on the Methodology used for their calculation	Financial department	Within one week after the Draft Budget Law is approved by the Cabinet (by 22 September)	21.09.2018
4.	Prepare budget revenue and expenditure forecast for the next budget period and two following budget periods	Financial department	By November 12	02.10.2018
5.	Issue and submit instructive letter on draft budget preparation, including binding indicators (limits) of total budget expenditure, forward budget estimates and deadline for budget requests (budget calls) preparation	Financial department	Sep-Oct	03.10.2018
6.	Determine and submit to key spending units binding indicators (limits) of budget expenditure (by budget programs)	Financial department	By November 15-16	05.11.2018
7.	Develop and submit to Financial department proposals on budget indicators and justification of their calculation (budget calls)	Key spending units	By November 3	13-15 Nov, 2018

¹³ Starosynyavska ATC Budget Calendar (literally: The Budget Process stages, activities and measures, responsible players and deadlines) approved by the Executive Committee of Starosynyavska ATC local council dated on 17.09.2018 № 09/2018.

	Activity	Responsible units	Planned date	Actual date
8.	Conduct consultations with key spending units regarding budget requests (budget calls) preparation	Financial department	By November 20	Oct-Nov
9.	Analyse budget requests (budget calls) submitted by key spending units	Financial department	Within the budget preparation stage	November
10.	Prepare decision of Financial department on how to consider budget bids' indicators during the draft budget preparation	Financial department	Within one month after a budget bid is submitted by spending unit to Financial department	26.11.2018
11.	Receive from the MoF indicators of intergovernmental relations (including transfers) established by the draft Budget Law approved by the Parliament in the second reading	Financial department	Within one week after the Draft Budget Law is approved by the Parliament in the second reading (by 27 November)	26.11.2018
12.	Receive from oblast state administration information regarding subventions for social security programs and other earmarked subventions	Financial department	Within 3 days after the Draft Budget Law is approved by the Cabinet (by 22 September)	26.11.2018
13.	Prepare draft local budget	Financial department	By November 20	28.11.2018
14.	Develop a draft resolution regarding approval of draft local budget by the executive committee of the local council	Financial department	By November 24	28.11.2018
15.	Develop a draft resolution regarding approval of local budget by the local council	Financial department	By November 25	28.11.2018
16.	Publish draft local budget at the official website of the local council	Financial department	By December 1	30.11.2018
17.	Debate draft local budget by the executive committee of the local council and its submission to the local council in case of approval of the draft	Executive committee of the village council	By December 5	22.12.2018
18.	Debate the approved draft local budget in the council's committees, prepare conclusions and comments	Village council's committees	By December 17	28.12.2018
19.	Elaborate the draft local budget taking into account mentioned conclusions and comments	Financial department	By December 20	28.12.2018
20.	Present and adopt the draft local budget in the local council session	Financial department Village council	By December 25	29.12.2018
21.	Publish the local budget adopted: - at the official website of the local council; - in mass-media	Financial department	Within 10 days after the local budget is adopted	29.12.2018 11.01.2019

Source: Local Government Finance Office

This budget calendar is clear and detailed enough and provides sufficient time for all stages of the preparation process; these stages and dates are adhered to. Based on steps 5 to 7 of the calendar and the actual dates of submission of budget estimates (Table 17.1 above) it allows KSUs at least 4 weeks from receipt of the budget circular (instructive letter) to meaningfully complete their budget requests (detailed budget estimates) on time.

Dimension score = B

17.2 Guidance on budget preparation

According to the Budget Code of Ukraine (Art.75, part 3) Local Financial Bodies must provide guidance to key spending units and issue instructions on budget requests (budget calls) for preparation of budget estimates for the next budget year. Per the budget calendar, this must be done between September and November. For FY2019, Starosynnyavska ATC finance department issued the budget call circular (BCC) on 3rd October 2018. The BCC contained budget guidelines and ceilings for each KSU, but these ceilings were not approved by the executive committee. For FY2019, the deadline for submission of budget estimates was 3rd November 2018.

Once the draft budget is completed, ceilings for each KSU are reviewed and approved by the executive committee.

Dimension score = C

17.3 Budget submission to the legislature

The Budget Code of Ukraine does not contain any strict deadline regarding budget submission to the legislature (local council). However, at the national level the Government must submit an annual budget for the next fiscal year to the Verkhovna Rada (parliament) by 15 September of the current year. As shown in Table 17.3 below, the executive committee (local cabinet) submitted the budget estimates one month before the start of the fiscal year for 2019 budget and less than one (around three weeks) for the remaining two fiscal years 2017 and 2018.

Dimension score = D

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

Fiscal year	Date of submission
2016	Data not available
2017	4 th December 2016
2018	8 th December 2017
2019	28 th November 2018

Ongoing reforms:

None

PI-18 Legislative scrutiny of budgets

This indicator assesses the legislative scrutiny and debate of the annual budget decision as described by the scope of the scrutiny, the internal procedures for scrutiny and debate and the time allocated to that process, in terms of the ability to approve the budget before the commencement of new FY, and also assesses the existence of rules for in-year amendments to the budget estimates without ex-ante approval by the legislature.

Summary of scores

PI-18 (M1)	Dimension	Score 2019	Justification for 2019 score
18	Legislative scrutiny of budgets	C+	

PI-18 (M1)	Dimension	Score 2019	Justification for 2019 score
18.1	Scope of budget scrutiny	B	The budget review is only limited to the coming fiscal year's estimates. The review also covers the revenue and expenditure policies plus the underlying assumptions.
18.2	Legislative procedures for budget scrutiny	C	The Village Council approve procedures for reviewing budget proposals in provision on standing committee, which are followed. Procedures do not require public hearings to be conducted.
18.3	Timing of budget approval	C	Budget estimates were adopted by the village council within one month of the start of the year in two of the last three fiscal years; in 2016, they were adopted before the start of the new fiscal year.
18.4	Rules for budget adjustments by the executive	B	Although clear legislative rules exist for all budget amendments, they allow extensive executive (administrative) reallocations, since there are also no limits for these reallocations

PI-18.1 Scope of budget scrutiny

The main Standing Committee (SC) is responsible for draft budget scrutiny: it has two sub-committees; these are (i) SC on regulations, human rights, legality, parliamentary activity and ethics; and (ii) planning, finance, budget and socio-economic development (also known as the budget committee).

The committee invites KSUs to their meetings on draft budget and review both summarized and detailed budget estimates, prepared by these units. The review is on detailed calculations of revenues (by type), expenditure by economic and program classification, as well as historical trends (outturns) for both revenues and expenditures. The budget review is only limited to the coming fiscal year's estimates. The review also covers the revenue and expenditure policies plus the underlying assumptions.

Dimension score = B

PI-18.2 Legislative procedures for budget scrutiny

The Village Council approve procedures for reviewing budget proposals in provision on standing committee, which are followed. Procedures do not require public hearings to be conducted.

Regulations of the village council establishes that all meetings of the council and all council's authorities (as standing committees etc.) are opened to the public and journalists.

The Village Council places advertisements about the meeting of the various standing committees and the session on the notice board. These events are attended by citizens, public associations, but the public have no right to make proposals.

Dimension score = C

PI-18.3 Timing of budget approval

The legal requirements mandate the legislative body to approve annual budget estimates by the 25th of December before the start of the new fiscal year. As shown in Table 18.2 below, the village council has missed on the deadlines as per the legal provisions. Budget decisions were adopted by the village council within one month of the start of the year in two of the last three fiscal years; in 2016, they were adopted before the start of the new fiscal year. Actual dates of budget approval in the last three completed fiscal years is provided in Table 18.1

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

Fiscal Year	Actual dates of approval
FY2016	29 th December 2015
FY2017	17 th January 2017
FY2018	16 th January 2018

Source: Starosyniavska village council decisions on approval village budgets for 2016-2018.

The local council budget scrutiny and approval process is presented in Table 18.2 below; for FY2019, the budget was passed on 26th December 2018

Table 18.2. Starosyniavska village council budget approval process for 2019

Dates	Submitted by the Financial Department to the Village council	Consideration of the draft budget in the standing committees and preparation of conclusions and comments thereto	Consideration of the draft budget in the standing budget committee and preparation of consolidated conclusions and comments thereto	Elaboration of the draft budget by the Finance Department (according to conclusions and comments, prepared by the standing committees) and submission it to the village council ¹⁴	Consideration of the elaborated draft budget in the standing budget committee before approval by the village council ¹⁵
Planned dates	December 5, 2018	No date	December 17, 2018	December 20, 2018	By December 25, 2018
Actual dates	November 28, 2018	No date	No date	December 22, 2018	December 26, 2018

Dimension score = C

18.4 Rules for budget adjustments by the executive

Article 23 of the Budget Code allows the Financial Department to change budget allocations during the budget year without amending the village council decision on the budget. Some of these changes should be approved by the Standing Committee of the village council responsible for budget issues. It is forbidden to increase wage and decreasing other expenditures, and also to increase expenditures for functioning of local authorities.

The Financial Department may change budget allocations in the following circumstances:

- increase of the Special Fund's revenues, in line with the actual amount, and the Special Fund's expenditures with approval of the village council but without a change in the budget law for that particular year
- transfer powers to make expenditures from one KSU to another one in accordance with the village council decision with approval of the village council Standing Committee on budget;
- redistribution of budget expenditures between budget programs of KSU within a total amount of budget allocations of budget with approval of the village council Standing Committee on budget.
- distribution of expenditures of the budget's reserve fund with approval of the village council Standing Committee on budget.

¹⁴ <https://starosynjavska-gromada.gov.ua/news/1545548873/>

¹⁵ <https://starosynjavska-gromada.gov.ua/news/1545836070/>

Although clear legislative rules exist for all budget amendments, they allow extensive executive (administrative) reallocations, since there are also no limits for these reallocations.

Dimension score = B

Ongoing reforms:

None

3.6 Pillar V: Predictability and control in budget execution

PI-19 Revenue administration

The indicator assesses the procedures used to collect and monitor local government revenues. A local government's ability to collect revenue is an essential component of any PFM system. It has four dimensions; dimension (i) assesses the rights and obligations of taxpayers, dimension (ii) assesses the revenue risk measures, dimension (iii) assesses the revenue audit and investigation mechanisms, and dimension (iv) assesses the measures for monitoring and collecting revenue arrears.

Summary of scores

PI-19 M2	Dimension	Score 2019	Justification for 2019 score
Revenue administration		NA	
19.1	Rights and obligations for revenue measures	NA	As the central government SFS collects all revenues through its local revenue SFS office in Starosynnyavska ATC and has sharing arrangements with the sub-national revenue authority, this dimension is not applicable.
19.2	Revenue risk management	NA	As the central government SFS collects all revenues through its local revenue SFS office in Starosynnyavska ATC and has sharing arrangements with the sub-national revenue authority, this dimension is not applicable.
19.3	Revenue audit and investigation	NA	The local tax office does not conduct any tax audit and fraud investigations; this function is the remit of the oblast Tax Authority. On the basis of this information, assessors consider this dimension as 'not applicable'
19.4	Revenue arrears monitoring	NA	As the central government SFS collects all revenues through its local revenue SFS office in Starosynnyavska ATC and has sharing arrangements with the sub-national revenue authority, this dimension is not applicable.

Background

Article 12.4 of the Tax Code of Ukraine mandates local authorities (sub-national governments) to set up local tax rates and fees within the rates specified in the tax code, as well as determine the list of tax agents in accordance with the tax code. In accordance with Resolution of the Cabinet of Ministers Number

106 dated February 16, 2011¹⁶, local governments control the collection of some (only 0.36% controlled and collected by Starosynnyavska ATC) budget revenues with revenue-sharing arrangements. As the central government SFS collects all revenues through its local revenue SFS office in Starosynnyavska ATC and has sharing arrangements with the sub-national revenue authority, this indicator (PI-19) and all its dimensions are not applicable. Table 19.1 shows revenue collections for the three years under review.

Table 19.1: Summary of total revenues (excluding grants) for 2016 to 2018 (in thousand UAH)

Revenue types	Total for 3 years	
	UAH'000	%
Tax revenue		
Taxes on income, profit and capital gains	7,687.3	4.7%
Taxes on payroll and workforce	84,147.4	51.1%
Taxes on property	50,563.2	30.7%
Taxes on goods and services	7,612.8	4.6%
Other taxes	297.6	0.2%
Non-tax revenue		
Property income	1,181.9	0.7%
Sales of goods and services	4,807.8	2.9%
Fines, penalties and forfeits	291.0	0.2%
Other non-tax revenue	8,040.5	4.9%
Total	164,629.5	100%

PI-19.1 Rights and obligations for revenue measures

As the central government SFS collects all revenues through its local revenue SFS office in Starosynnyavska ATC and has sharing arrangements with the sub-national revenue authority, this dimension is not applicable.

Dimension Score = NA

PI-19.2 Revenue risk management

As the central government SFS collects all revenues through its local revenue SFS office in Starosynnyavska ATC and has sharing arrangements with the sub-national revenue authority, this dimension is not applicable.

Dimension Score = NA

PI-19.3 Revenue audit and investigation

The local tax office does not conduct any tax audit and fraud investigations; this function is the remit of the Oblast (Regional) Tax Authority. On the basis of this information, assessors consider this dimension as 'not applicable'

Dimension Score = NA

¹⁶ <https://zakon.rada.gov.ua/laws/show/106-2011-%D0%BF>

PI-19.4 Revenue arrears monitoring

As the central government SFS collects all revenues through its local revenue SFS office in Starosynnyavska ATC and has sharing arrangements with the sub-national revenue authority, this dimension is not applicable.

Dimension Score = NA

PI-20 Accounting for revenue

This indicator assesses procedures for recording and reporting revenue collections, consolidating revenues collected, and reconciling tax 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.

Summary of scores

PI-20 M1	Dimension	Score 2019	Justification for 2019 score
Accounting for revenue		A	
	20.1 Information on revenue collections	A	Each month, the finance office receives a revenue report from the tax authority referencing total revenue collections (representing 91.3% of local government domestic revenues), broken down into revenue types; this is consolidated by the finance office every month
	20.2 Transfer of revenue collections	A	All taxpayers pay their taxes directly into the Treasury main account; therefore, all revenues (representing 91.3% of local government domestic revenues – both tax and non-tax) are directly transferred to the Treasury within 24 hours
	20.3 Revenue accounts reconciliation	A	All taxpayers pay their taxes direct into the local office Treasury accounts opened at the level of the State Treasury Service; therefore, no reconciliation between collections and transfers required. That said, a daily, monthly and annual reconciliation occurs between tax assessed and collections as well as tax arrears.

PI-20.1 Information on revenue collections

As shown in Table 19.1 above the Local Tax Authority collects 91.3% of sub-national government domestic revenues excluding grants from central government. Each month, the finance office receives a revenue report from the tax authority referencing total tax collections, broken down into tax types; this is consolidated by the finance office every month. In addition to the monthly revenue report, the finance office also receives a daily collection report from the local tax authority; as at the time of this assessment tax collections for 9th July 2019 as per the report from the tax authority amounted to UAH224,672.50. Furthermore, entities collecting non-tax revenues (8.7% of local domestic revenue) submit monthly reports to the finance office.

Dimension Score = A

PI-20.2 Transfer of revenue collections

The tax administration system does not allow taxpayers to pay their taxes to any tax official. Also, the local tax authority does not maintain a transit bank account. All taxpayers pay their taxes directly into the local office Treasury accounts opened at the level of the State Treasury Service; therefore, all tax revenues (representing 91.3% of local government domestic revenues – both tax and non-tax) are directly transferred to the Treasury within 24 hours. The remaining 8.7% of total local revenues (which are non-tax) are transferred to the Treasury within one month.

Dimension Score = A

PI-20.3 Revenue accounts reconciliation

At present, the local tax office has no holding bank account; all taxpayers pay their taxes direct into the local office Treasury accounts opened at the level of the State Treasury Service. Therefore, there is no need for reconciliation between the tax office and the local treasury in terms of tax collected and transferred. The local tax office however undertakes daily, monthly and annual reconciliation between tax assessed, tax collected and outstanding balances on the basis of which tax arrears are ascertained. The reconciliation report shows total tax assessed for the year, collection to date, and the variance analysis (nominal and percentage). As at the time of this assessment (July 2019), the reconciliation report showed total annual tax assessed of UAH37.63 million and total collections to date of UAH40.93 million which reflects an over-collection about 8.7%. The assessed tax for the month of July 2019 was UAH6.48 million with actual collections standing at UAH6.87 million, reflecting about 6% high in terms of actual collections.

Dimension Score = A

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 and dimension 21.4 assesses significance of in-year budget adjustments.

Summary of scores

PI-21 M2	Dimension	Score 2019	Justification for 2019 score
	Predictability of in-year resource allocation	B+	
	21.1 Consolidation of cash balances	A	All the balances in accounts are consolidated daily by the local Department of the Treasury; as at 10 th July 2019, the consolidated balance stood at UAH581,984.42
	21.2 Cash forecasting and monitoring	A	The local government finance office prepares a consolidated cashflow forecast at the beginning of the new fiscal year, following the village council's approval of

PI-21 M2	Dimension	Score 2019	Justification for 2019 score
			the budget estimates. The consolidated cash flow plan is updated each month based on actual cash inflow and outflow
	21.3 Information on commitment ceilings	A	The local government finance office issues reliable annual expenditure commitment ceilings to each KSU, which issue limits for each budgetary unit, once the village council (local parliament) approves the annual budget
	21.4 Significance of in-year budget adjustments	C	Starosynyavska village council amended local budget in 2018 seven times in line with documented procedure. Significant amendments to KSU's budget allocations were adopted four times: three times for one of them (twice for more than 15% and once for more than 10%) and once for more than 15% for another KSU. Average virements were 30.44% of the originally approved budget

PI-21.1 Consolidation of cash balances

The local government cash management framework uses the national government Treasury Single Account (TSA) system, as per Order 122 of June 26, 2002 issued by the State Treasury Service of Ukraine. The number of bank accounts operated by the local Department of the Treasury and budgetary units depends on the number of expenditure codes; so, for instance if there are fifteen codes of program classification of the expenditure and crediting approved by the local budget in a particular fiscal year, then the number of bank accounts will also be fifteen, in case if each budget program is implemented out by one budgetary unit. That said, all these bank accounts are linked to the main treasury account. For the fiscal year 2018, there were 26 bank accounts (and therefore 26 expenditure codes), all linked to the TSA. All the balances in these accounts are consolidated daily by the local Department of the Treasury; as at 10th July 2019, the consolidated balance stood at UAH581,984.42

Dimension score = A

PI-21.2 Cash forecasting and monitoring

In 2018 (last completed fiscal year), and in previous fiscal years, the local government finance office prepared a consolidated cashflow forecast at the beginning of the new fiscal year, following the village council's approval of the budget estimates. The cash flow plan shows cash requirements per month, not twelve equal instalments but based on cash needs of budgetary units. That said, budgetary units do not prepare annual cash flow plans. The consolidated cashflow plan prepared by the finance office is updated monthly on the basis of actual cash inflows (from revenues – revenues of local government and grants from national government) and outflows (expenditure payments of budget entities).

Dimension score = A

PI-21.3 Information on commitment ceilings

The local government finance office issues reliable monthly expenditure commitment ceilings to each Key Spending Unit (KSU), which issue such ceilings to each budgetary unit) once the village council (local parliament) approves the annual budget. The expenditure ceilings allow budget units to make commitment for one full year within the approved budget allocations, which is strictly complied with and in line with available cash, which consequently eliminates the accumulation of expenditure arrears as evidenced in PI-22 below.

Dimension score = A

PI-21.4 Significance of in-year budget adjustments

As shown under PI-2 above, variances in both economic and functional classifications were extremely high (between 29% and 64%) in all three completed fiscal years. According to the Article 78 of the Budget Code local council have rights to amend local budget in case of over fulfilment (under fulfilment) of the budget and in other cases established by Article 52 of the Budget Code. Article 52 also requires Financial Department's expert conclusion and the Budget Committee's decision for specific amendments if they are not prepared by the Financial Department and submitted by Executive committee.

In Starosynnyavska ATC only the Executive Committee initiated budget amendments, which were prepared by Financial Department. Starosynnyavska village council amended local budget in 2018 seven times. Significant amendments to key spending unit's (KSU) budget allocations¹⁷ were adopted four times: three times for one of them (twice for more than 15% and once for more than 10%) and once for more than 15% for another KSU. On average, budget virements for FY2018 were 30.44% when compared with the originally approved budget. These changes were done in line with local government documented procedures referencing request for budget reallocations.

Dimension score = 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	Dimension	Score 2019	Justification for 2019 score
Expenditure arrears		A	
	22.1. Stock of expenditure arrears	A	In each of the last three completed fiscal years 2016, 2017, and 2018, there were no stock of expenditure arrears.
	22.2. Expenditure arrears monitoring	A	Even though there were no stock of expenditure arrears each budgeted entity prepares, as part of the monthly financial reporting requirements, a statement to show any commitment that is unpaid even if the arrears are nil. This statement of arrears together with the monthly financial report, is prepared every month within one week after the end of the previous month

PI-22.1. Stock of expenditure arrears

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

¹⁷ The significance of these adjustments is assessed in relation to the percentages specified in the PI-2 rating criteria.

In each of the last three completed fiscal years 2016, 2017, and 2018, there were no stock of expenditure arrears relating to employee remuneration/salary, pension payments, suppliers, contractors and loan creditors (SNG not allowed borrow). The Treasury management framework strictly limits expenditure commitments to actual cash available for payment of expenditure; therefore, no expenditure commitments are made if there is no actual cash to pay for these commitments. The assessment team also visited education, youth and sports office, and infrastructure offices and examined their records; in all cases, there were no stock of expenditure arrears.

Dimension score = A

22.2. Expenditure arrears monitoring

Even though there were no stock of expenditure arrears each budgeted entity prepares, as part of the monthly financial reporting requirements, a statement to show any commitment that is unpaid even if the arrears are nil. This statement of arrears together with the monthly financial report, is prepared every month within one week after the end of the previous month. The finance office prepares a consolidated financial report each quarter within one after the end of the previous quarter. As at the time of the assessment (July 2019), the monthly financial reports for June 2019 from sampled budget entities and the consolidated quarterly financial report for the second quarter ending June 2019 showed zero balances for expenditure arrears.

Dimension score = A

PI-23 Payroll Controls

This indicator contains four dimensions; Dimension 23.1 assesses the effectiveness of payroll control, dimension 23.2 examines the integration of payroll and personnel records, dimension 23.3 assesses the management of payroll changes and dimension 23.4 assesses the extent of payroll audits.

Summary of scores

PI-23 M1	Dimension	Score 2019	Justification for 2019 score
Payroll controls		D+	
	23.1 Integration of payroll and personnel records	B	The personnel and payroll management systems are manual, with each staff having a personnel file, maintained by the HR department, once recruited by the respective institution. The personnel and payroll records are not directly linked. Staff recruitment and promotions are done in accordance with approved civil service staff list. Again, every month before the monthly payroll is processed and paid, the head of each institution checks the current month's payroll against the previous month's record for any discrepancies
	23.2 Management of payroll changes	A	Available evidence obtained from personnel and payroll records from the village council, the local government finance office and the education, youth and sports office indicates that there were no changes to both personnel and payroll records as at the time of the field work (July 2019)

PI-23 M1	Dimension	Score 2019	Justification for 2019 score
23.3 Internal control of payroll		B	The current practice referencing authority to change personnel and payroll records are well established with clear responsibilities and provide sufficient guarantees for the integrity of both personnel and payroll data. However, the existing manual processes do not result in audit trail
23.4 Payroll audit		D	There has not been any payroll audit (either partial or comprehensive payroll audit) over the assessment period (2016-2018)

PI-23.1. Integration of payroll and personnel records

The personnel and payroll management systems are decentralised, each sub-national government institution (budgeted and extra-budgeted units) recruiting and paying staff in accordance with approved civil servants staff list. The personnel and payroll management systems are manual, with each staff having a personnel file, maintained by the HR department, once recruited by the respective institution. Each local government institution uses Microsoft Excel to process the payroll. Therefore, the personnel and payroll records are not directly linked. Each month, all staff sign attendance sheet and this is used to calculate and process the monthly payroll. Again, before the monthly payroll is processed and paid, the head of each institution checks the current month's payroll (using records from HR department for personnel and records from Accounts department for payroll) against the previous month's record for any discrepancies. Any discrepancies are properly supported and approved by the Head of the Village Council who is the overall authorised local government personnel responsible for approving all changes to personnel and payroll records in terms of promotion and other related staff benefits.

Dimension score = B

PI-23.2. Management of payroll changes

Available evidence obtained from personnel and payroll records from the village council, the local government finance office and the education, youth and sports office indicates that there were no changes to both personnel and payroll records as at the time of the field work (July 2019). Furthermore, officials have indicated that where changes to personnel and payroll records are required (very rare – no such changes in the last three months April-June 2019 based on evidence adduced), they are done within one month, in time for the processing and payment of the following month's payroll.

Dimension score = A

PI-23.3 Internal control of payroll

The HR department of each local government institution safely keeps all personnel files in a safe. The finance department of each institution prints the monthly payroll (using Microsoft Excel) and submits same to the head of institution for approval, after which staff salaries are transferred directly into individual bank accounts. All changes to both personnel and payroll records are done and approved by the Head of the Village Council, as he is the sole responsible local government official with such authority. Such changes are officially communicated to the head of the respective institution, with copies to the HR and accounting departments. The current practice referencing authority to change personnel and payroll

records are well established with clear responsibilities and provide sufficient guarantees for the integrity of both personnel and payroll data. However, the existing manual processes do not result in audit trail.

Dimension score = B

PI-23.4. Payroll audit

There has not been any payroll audit (either partial or comprehensive payroll audit) over the assessment period (2016-2018). This is so because there is no functional internal audit system in sub-national government institutions of the Starosynnyavska village council and also, there has not been any external audit conducted in the last three completed fiscal years. That said, the accounting department of each local government institution undertakes a monthly verification of the payroll records against the personnel files before the monthly payroll is processed and paid. The current practice provides assurance of the existence of staff even though it does not guarantee the actual staff output.

Dimension score = D

PI-24 Procurement

This indicator focuses with the management of procurement expenditure for managing and promotes predictably of resource availability. The indicator has four dimensions that focus on key procurement management, Procurement monitoring, transparency, openness and competitiveness of procurement methods applied, public access to procurement information and the management of procurement complaints and redress arrangements.

Summary of scores

PI-24 M2	Dimension	Score 2019	Justification for 2019 score
Procurement		B	
24.1	Procurement monitoring	A	Only 23.2% (refer to Table 24.1 below) by value of procurement goes through competitive method in the electronic system (prozorro.gov.ua) and the complete data is publicly available in real time showing the purpose of the contract, who won the contract and the value of the contract. There is also complete and accurate information (from the central procurement department of the sub-national government) on the remaining 76.8% of procurement that does not go through the electronic system
24.2	Procurement methods	D	As shown in Table 24.1 below, 76.8% of procurement by value were done through non-competitive means
24.3	Public access to procurement information	A	All six PEFA elements have been met as shown in Table 24.2 below
24.4	Procurement complaints management	B	The procurement complaints framework meets all but criteria (ii) of the PEFA requirements. Please refer to Table 24.3 below

PI-24.1. Procurement monitoring

By law, results of all forms and methods of procurement above 50,000 UAH must be published; in practice, only 23.2% (refer to Table 24.1 below) by value of procurement goes through competitive method in the electronic system (prozorro.gov.ua) and the complete data is publicly available in real time showing the purpose of the contract, who won the contract and the value of the contract. There is also complete and accurate information (from the central procurement department of the sub-national government) on the remaining 76.8% of procurement that does not go through the electronic system.

Dimension score = A

PI-24.2 Procurement methods

Public procurement can be carried out using one of these methods: (i) open bidding; (ii) competitive dialogue; (iii) procurement under the framework agreement; and (iv) negotiation procurement procedure. The thresholds are as follows:

Procurement method	Threshold			
	Normal activity in the economy		Other areas of economy ¹⁸	
	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

Available data (verified by the procurement authority) indicates that for the fiscal year 2018, 76.8% by value of actual procurement by the sub-national government as shown in Table 24.1 below were done through non-competitive means (sole sourcing procurement method); therefore, only 23.2% of procurement by value went through competitive means (20% through open tender and 3.2% through restricted tender).

Table 24.1 Methods of procurement for FY2018

Procurement method	Plan (UAH'000)	Plan (%)	Actual (UAH'000)	Actual (%)
Open bidding	6,500.0	19.6%	6,500.0	20.0%
Without the use of an electronic system (sole sourcing)	25,509.1	77.1%	24,966.7	76.8%
Negotiation procedure (restricted tender)	480.0	1.5%	480.0	1.5%

¹⁸ Examples of other areas of the economy include: (i) gas production, transportation, supply and storage; (ii) production, transportation and supply of thermal energy; (iii) production, transmission, distribution, purchase and sale, supply of electric energy, centralized dispatch (operational-technological) management of the unified energy system of Ukraine; (iv) production, transportation and supply of drinking water, ensuring the functioning of a centralized water disposal system; (v) the services delivery for the use of public railway infrastructure, the functioning of urban electric transport and the operation of its facilities for the delivery of transportation services;

Negotiation procedure (shortened restricted tender)	607.6	1.8%	555.6	1.7%
Total	33,096.7	100.0%	32,502.3	100.0%

Dimension score = D

PI-24.3. Public access to procurement information

Article 10 of the Public Procurement Law defines the list of information which must be published:

- 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);
- the 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;
- a report on the results of the procurement procedure;
- notification of changes to the contract;
- contract performance report;
- a report on concluded contracts;
- public procurement report;
- complaints to the body of appeal;
- decisions taken by the body;
- the 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;
- the decision to start procurement monitoring and the conclusion on the results of such monitoring;
- information on conducting competitive dialogue;
- the annual MEDT report containing an analysis of the functioning of the public procurement system and summarized information on the results of controls in the procurement area.

The legal and regulatory framework for public procurement is unitary (applicable to both national and sub-national governments). And for this reason, the principal public access to all procurement information is on the website (<https://prozorro.gov.ua>). Table 24.1 below summarises the PEFA requirements for public access to procurement information, and as can be seen, all six PEFA elements have been met.

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) and in the local newspaper as well as the 'Informational Bulletin of Starosynnyavska ATC

Element/ Requirements	Met (Y/N)	Evidence used/ Comments
4. Contract awards (Purpose, contractor and value)	Yes	Published on the website (https://prozorro.gov.ua) and in the local newspaper as well as the 'Informational Bulletin of Starosynnyavska ATC
5. Data on resolution of procurement complaints	Yes	Published on the website (https://prozorro.gov.ua); but so far there has been no complaints in the last three completed fiscal years
6. Annual procurement statistics.	Yes	Published on the website (https://prozorro.gov.ua) and in the local newspaper as well as the 'Informational Bulletin of Starosynnyavska ATC

Dimension score = A

PI-24.4. Procurement complaints management

Article 18 of the Public Procurement Law outlines the legal and regulatory framework for procurement complaints. The independent complaints body, known as Antimonopoly Committee of Ukraine (AMCU) is a functional national body in charge of both national and sub-national procurement complaints; therefore, there is no separate local government procurement complaint body. Table 24.3 below summarises the procurement complaints framework; the complaints framework meets all but criteria (ii) of the PEFA requirements.

Table 24.4 Elements of procurement complaints framework

Elements/Requirements	Met (Y/N)	Evidence used/ Comments
Complaints are reviewed by a body which:		
(i) Is not involved in any capacity in procurement transactions or in the process leading to contract award decisions	Y	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.	N	UAH 5,000 – in the event of appeal for goods or services and UAH 15,000 – in case of appeal of works (<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 submission and resolution of complaints that are clearly defined and publicly available	Y	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	Y	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 and	Y	The deadline for consideration of 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	Y	The AMCU Complaint Board decisions are binding but could be challenged in the law court

Dimension score = 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 local government, including budget units and extra-budgetary units.

Summary of scores

PI-25 M2	Dimension	Score 2019	Justification for 2019 score
Internal controls on non-salary expenditure		B	
25.1 Segregation of duties		C	A walk-through test of the administrative and financial management processes of Starosynavska ATC local government clearly shows segregation of duties in terms of who is responsible for generating (or triggering) an authorised expenditure, who authorises such expenditure and who approves and pays (signs payment orders) expenditures. Assessors have got a copy of the accounting policy of the Starosynavska village council. No further evidence of a comprehensive financial management manual has been provided.
25.2 Effectiveness of expenditure commitment controls		A	Manual controls of expenditure commitments exist where commitments are checked against approved budget per expenditure classification by the head of accounting department of each local government institution; approval is then given once there is sufficient approved budget for such expenditure. Another level of check is from the local Department of the Treasury for all budget institutions, to ensure that there is available cash to pay for commitments. The current practice is comprehensive; it effectively limits expenditure commitments to actual cash available as well as to approved budget limits
25.3 Compliance with payment rules and procedures		C	Presently, the absence of a functional internal audit unit as well as the non-existence of external audit reports as evidence limits assessors' judgement on the effectiveness and the level of compliance with payment rules and procedures. That said, sampled documentary evidence (assessors used payment files for June and July 2019) shows that at least 70% by value of these payment files are properly supported with proper documentation with authorised signatures. All exceptions are properly justified

PI-25.1. Segregation of duties

The Ministry of Finance sets out the general principles of internal control across central government, and local government budget institutions and extra-budgetary units also. These internal control practices are clearly defined in Cabinet of Ministers of Ukraine (CMU) Resolution No.1062 dated 12th December 2018,

but became functional in FY2019. This resolution is also applicable at the sub-national government levels. Three key elements of Resolution No.1062 are fundamental to an effective internal control framework across central (and local) government; these are: (i) itemising of tasks and functions (job description) for each employee (heads of departments and subordinate staff); (ii) creation of authorisation and approval mechanisms; and most importantly (iii) outlining clear segregation of duties for each staff especially for those with administrative and financial implications.

A walk-through test of the administrative and financial management processes of Starosynnyavska ATC local government clearly shows segregation of duties in terms of who is responsible for generating (or triggering) an expenditure, who authorises such expenditure and who approves and pays (signs payment orders) expenditures. It is also important to note that there are two signatories to payment orders, with both of them to sign at a time. Assessors got a copy of the accounting policy of the Starosynnyavska village council. No further evidence of a comprehensive financial management manual has been provided.

Dimension score = C

PI-25.2 Effectiveness of expenditure commitment controls

The local financial management software has no module that automatically blocks unapproved expenditures. The current practice therefore is manual control where expenditure commitments are checked against approved budget per expenditure classification by the head of accounting department of each local government institution; approval is then given once there is sufficient approved budget for such expenditure. Another level of check is from the local Department of the Treasury for all budget institutions, to ensure that there is available cash to pay for commitments. The current practice is comprehensive; it effectively limits expenditure commitments to actual cash available as well as to approved budget limits. As cash inflow is currently not a problem (as evidenced by the non-existence of expenditure arrears – PI-22 above) the current system of limiting expenditure commitments appears to be sufficient but may be inadequate once cash inflows become a challenge going forward.

Dimension score = A

PI-25.3. Compliance with payment rules and procedures

Presently, the absence of a functional internal audit unit as well as the non-existence of external audit reports as evidence limits assessors' judgement on the effectiveness and the level of compliance with payment rules and procedures. That said, sampled documentary evidence (assessors used payment files for June and July 2019) shows that at least 70% by value of these payment files are properly supported with proper documentation with authorised signatures. All exceptions are properly justified.

Dimension score = C

Ongoing reforms:

None

PI-26 Internal audit

International good practice in public financial management looks for 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 local government budget institutions and extra-budgetary units.

Summary of scores

PI-26 M1	Dimension	Score 2019	Justification for 2019 score
Internal audit		D	
26.1	Coverage of internal audit	D	Budgetary institutions in Starosyniavska ATC have not established any internal audit divisions or appointed an official responsible for internal audit. Therefore, there is no functional internal audit unit in the local government administration.
26.2	Nature of audits and standards applied	NA	As there is no functional internal audit unit, this dimension is not applicable
26.3	Implementation of internal audits and reporting	NA	As there is no functional internal audit unit, this dimension is not applicable
26.4	Response to internal audits	NA	As there is no functional internal audit unit, this dimension is not applicable

Background

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

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

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

Internal Audit Standards, approved by MoF's order No 1247, dated October 4, 2011, (chapter three) sets independence of internal audit. Organizational independence requires direct subordination and accountability of the internal audit division to the head of the institution. Organizational independence is ensured through: (1) approval by the head of the institution of the regulation on the internal audit division and the six-month internal audit activity plan; (2) informing the head of the institution by the head of the internal audit division about the status of the implementation of the internal audit plan and other tasks, as well as about the existence of restrictions in conducting the internal audit or resources.

Functional independence relates to preventing employees of the internal audit division from performing functions not related to the implementation of internal audit plan.

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

PI-26.1. Coverage of internal audit

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

Dimension score = D

PI-26.2 Nature of audits and standards applied

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

Dimension score = NA

PI-26.3. Implementation of internal audit and reporting

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

Dimension score = NA

PI-26.4. Response to internal audits.

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

Dimension score = NA

Ongoing reforms:

The village council intends to recommend the establishment of a functional internal audit unit in the next fiscal year 2020.

3.7 Pillar VI. Accounting and reporting

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 reconciliation of suspense accounts, dimension 27.3

measures the frequency of reconciling advance accounts and dimension 27.4 measures the financial data integrity processes.

Summary of scores

PI-27 M2	Dimension	Score 2019	Justification for 2019 score
Financial data integrity		A	
PI-27.1	Bank account reconciliations	A	The 26 bank accounts are directly linked to the Treasury Single Account (TSA). The local government finance offices received daily transactional report on the movement of funds from each of the 26 accounts, which it reconciles with its cash ledgers. In addition to this, there is a complete weekly bank reconciliation for all 26 accounts; this is done within a day or two following the end of the week in question.
PI-27.2	Suspense accounts	NA	Not applicable. There are no suspense accounts
PI-27.3	Advance accounts	A	Advances to staff for salary and operational activities are zero. Contractors receive 30% mobilisation which is set-off against any future payment. All advances are reconciled at least every quarter within one month after the end of the preceding quarter. As at the time of assessment, the balance on contractor account was zero.
PI-27.4	Financial data integrity process	B	Only authorised staff have access to financial records. All changes to these records are duly authorised by the head of department and/or budget institution; changes result in audit trail. There is however no special unit or body responsibility for financial data integrity.

PI-27.1 Bank account reconciliations

The local government of Starosynnyavska ATC has 26 bank accounts, actually expenditure accounts based on approved by MoF expenditure classifications. It should be noted that the number of bank accounts depends on each year's budget programs, approved by the local budget decision. Therefore, the number of bank accounts could change from year to year.

The 26 bank accounts are directly linked to the Treasury Single Account (TSA). The local government finance offices received daily transactional report on the movement of funds from each of the 26 accounts, which it reconciles with its cash ledgers. In addition to this, there is a complete weekly bank reconciliation for all 26 accounts; this is done within a day or two following the end of the week in question.

Dimension score = A

PI-27.2 Suspense accounts

There are no suspense accounts

Dimension score = NA

PI-27.3 Advance accounts

The balances on advances to staff for either salaries or approved operational activities are zero. The current practice is that the local government does not give staff cash advances for operational activities;

once the activity is approved, staff are asked to use their own resources to pay for expenses and submit the necessary receipts for refund. Salary advances are automatically deducted from the monthly salary. For expenses such as air ticket, train ticket, or bus ticket that are standardised and for which receipts can be produced before departure, the local government pays for those expenses directly. This practice has eliminated instances of unreconciled and un-acquitted balances on staff account, hence the zero balance.

Referencing infrastructure contracts, the local government pays 30% mobilisation fee to contractors. This is set-off against future payments based on approved completion certificates received from contractors. For infrastructure contracts (which are usually medium to long term), most advance reconciliation takes place at least quarterly within a month after the end of the quarter, and also based on project completion rate. As at the time of assessment (July 2019), the balance on contractor account was zero.

Dimension score = A

PI-27.4 Financial data integrity process

Only authorised staff have access to financial records. The level of access is based on the level of authority; some staff have read-only access, some have access for data entry, and others (head of budget entity) have full access. All changes to these records are duly authorised by the head of department and/or budget institution; changes result in audit trail. The local accounting software generates an audit trail report. There is however no special unit or body responsibility for financial data integrity.

Dimension score = 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 monitoring of budget performance and if necessary, timely use of corrective measures. It contains three dimensions. Dimension 28.1 assesses coverage and compatibility of reports 28.2 timing of in-year budget reports and 28.3 assesses accuracy of in-year budget reports.

Summary of scores

PI-28 M1	Dimension	Score 2019	Justification for 2019 score
In-year budget reports		D+	
PI-28.1	Coverage and compatibility of reports	D	Coverage and classification of financial report do not allow direct comparison between originally approved expenditure budget and actual expenditure outturns for the main administrative headings. Only the revenues by detailed codes of classifications are directly comparable
PI-28.2	Timing of in –year budget reports	A	As indicated in table 28.2 below, the local government prepares monthly in-year budget execution reports; these are issued within two weeks after the end of the previous month.
PI-28.3	Accuracy of in-year budget reports	C	The in-year budget execution reports include planned and actual expenditures but do not cover expenditure at commitment stage. At present, there is no

PI-28 M1	Dimension	Score 2019	Justification for 2019 score
			functional independent internal audit to validate the accuracy of these reports. Also, external audit has not been conducted to equally authenticate the integrity of these reports. That said, the reports are very useful as they provide information and variance analysis of both revenue and expenditure for management use.

PI-28.1 Coverage and compatibility of reports

Each budgetary unit prepares and submits monthly in-year budget execution reports to the local Department of the Treasury as required by law (CMU Decree No.419 dated 28th February 2000 and MoF Order No.44 dated 24th January 2012). These reports are directly produced from the accounting software; the local Department of the Treasury then prepares a consolidated monthly report for management use. The reports indicate revenues by detailed codes of revenue classification and expenditure (recurrent and capital) by budget programs, detailed functional and economic classifications and the financing of budget. They allow direct comparison between approved revenue budgets and actual outturns for the period, as well as year-to-date outturns. However, the reports do not allow direct comparison between originally approved expenditure budget and actual expenditure outturns. There are no transfers to de-concentrated units.

Dimension score = D

PI-28.2 Timing of in-year budget reports

Table 28.2 below shows the dates on which in-year budget execution reports are issued. As indicated in the table below, the local Department of the Treasury prepares monthly in-year budget execution reports; these are issued within two weeks after the end of the previous month.

Table 28.2: Timing of in-year budget reports for the last completed fiscal year 2018

Period covered by the report	Actual date of issuance
January 2018	8 th February 2018
February 2018	7 th March 2018
March 2018	9 th April 2018
April 2018	8 th May 2018
May 2018	8 th June 2018
June 2018	9 th July 2018
July 2018	9 th August 2018
August 2018	7 th September 2018
September 2018	9 th October 2018
October 2018	9 th November 2018
November 2018	7 th December 2018
December 2018	8 th January 2019

Dimension score = A

PI-28.3 Accuracy of in-year budget reports

The in-year budget execution reports include planned and actual expenditures but do not cover expenditure at commitment stage. At present, there is no functional independent internal audit to validate the accuracy of these reports. Also, external audit has not been conducted to equally authenticate the integrity of these reports. That said, the reports are very useful as they provide information and variance analysis of both revenue and expenditure for management use.

Dimension score = 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 completeness of annual financial reports. 29.2 submissions of reports for external audit 29.3 assess the accounting standards used to prepare financial statements.

Summary of scores

PI-29 M1	Dimension	Score 2019	Justification for 2019 score
Annual financial reports		D+	
PI-29.1	Completeness of annual financial reports	A	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.
PI-29.2	Submissions of reports for external audit	D	The local government of Starosynavska ATC has not submitted the FY2018 annual financial statement for external audit
PI-29.3	Accounting standards	C	Though the local government has never been audited within the last three completed years 2016-2018, it prepares annual financial statements in accordance with National Public Sector Accounting Regulations prescribed by MoF which are generally in line with IPSAS; the annual financial statements have been consistent over time

PI-29.1 Completeness of annual financial reports

Table 29.1 below summarises the information contained in the annual financial statements for FY2018. As shown in the table, 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.

Table 29.1: Information contained in annual financial statement

Financial report ¹⁹	Date annual report submitted for external audit	Content of annual financial report			Reconciled cash flow statement (Yes/No)
		Expenditures by programmatic, functional and economic classifications and revenues (Yes/No)	Financial and non-financial assets and liabilities (Yes/No)	Guarantees and long-term obligations (Yes/No)	
Consolidated annual	No report for submission for external audit	Yes	Yes	Yes (guarantees not applicable, as village council is not	Yes

¹⁹ This may be a consolidated financial report or a list of financial reports from all individual BCG units.

financial report (2018)				allowed by law to issue loan guarantees)	
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Dimension score = A

PI-29.2 Submissions of reports for external audit

The local government of Starosynnyavska ATC has not submitted the FY2018 annual financial statement for external audit. The financial records of the government have never been audited since the creation of the ATC and the preparation of the first budget execution report for 2016.

Dimension score = D

PI-29.3 Accounting standards

Though the local government has never been audited within the last three completed years 2016-2018, it prepares annual financial statements in accordance with National Public Sector Accounting Regulations prescribed by MoF which are generally in line with IPSAS; the annual financial statements have been consistent over time.

Dimension score = C

3.8 Pillar VII. External scrutiny and audit

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 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 3 financial years

Summary of scores

PI-30 M1	Dimension	Score 2019	Justification for 2019 score
External audit		D	
30.1	Audit coverage and standards	D	Over the last three completed fiscal years, the Supreme Audit Institution known as the Accounting Chamber of Ukraine (ACU) has not conducted any external audit of the financial record and operation activities of the Starosynnyavska ATC local government administration
30.2	Submission of audit reports to the legislature	D	The Accounting Chamber of Ukraine has not conducted any external audit of the financial records of the local government administration; therefore, it has also not submitted any audit reports to the local government village council (legislature) for scrutiny
30.3	External audit follow-up	D	Within the assessment period (2016-2018), the Accounting Chamber of Ukraine has not undertaken

PI-30 M1	Dimension	Score 2019	Justification for 2019 score
			any external audit follow-up within the local government administration.
30.4 Supreme Audit Institution (SAI) Independence		D	ACU is not fully independent. Its staff are civil servants under the authority and control of the executive government. Again, it has no full mandate to audit all public funds

PI-30.1. Audit coverage and standards

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

Dimension score = D

PI-30.2. Submission of audit reports to the legislature

The Accounting Chamber of Ukraine, over the last three completed fiscal years, has not conducted any external audit of the financial records of the local government administration; therefore, it has also not submitted any audit reports to the local government village council (legislature) for scrutiny.

Dimension score = D

PI-30.3. External audit follow-up

Within the assessment period (2016-2018), the Accounting Chamber of Ukraine has not undertaken any external audit of the financial records of the local government administration; therefore, it has also not issued any recommendations.

Dimension score = D

PI-30.4. Supreme Audit Institution independence

In 2015, parliament promulgated a new law aimed at strengthening the independence of the Accounting Chamber of Ukraine (which is the Supreme Audit Institution of Ukraine). Per the new law, the Chairperson of the Accounting Chamber (who is member of the ACU) and other members of the ACU are appointed by the legislature; their removal is only at the instance of parliament based on sufficient evidence as prescribed by law. Nonetheless, the staff of ACU are civil servants; this means that ACU staff are not independent from executive authority. Also, their remuneration and benefits are determined by the executive government and not the ACU governing council. Furthermore, staff of ACU could be transferred at any time by the executive government. ACU however has full authority to develop its own audit plan but has no full authority to audit all public funds; for instance, it has mandate to audit some part of sub-national government revenues and expenditures and the remaining part is to be audited by the State Audit Service - SAS (which is more of a centralised internal audit directorate, reporting directly to the executive government). SAS's audits are not aligned to the budget cycle and they are also more directed

towards performance and effectiveness audits as opposed to financial audit. In terms of the share of revenue and expenditure to be audited by ACU and SAS, officials say the actual proportions are yet to be determined based on the amended law on November 2018.

Another element of independence²⁰ relates to ACU budget; the ACU does not submit its budget directly to the legislature but it is submitted to Ministry of Finance for consolidation. Officials of ACU have indicated that although the institution has not experienced any cuts in approved budget and/or delays in actual transfers for its operations, the future remains unpredictable.

Dimension score = D

PI-31 Legislative scrutiny of audit reports

This indicator focuses on legislative scrutiny of the audited financial reports of the central government, and on 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 take action on their behalf. The assessment of this indicator is based on the audit reports submitted to the legislature within the last three years.

Summary of scores

PI-31 M2	Dimension	Score 2019	Justification for 2019 score
Legislative scrutiny of audit reports		D	
31.1	Timing of audit report scrutiny	D	The village council has not received any external audit and/or audited financial report for scrutiny from the Accounting Chamber of Ukraine (ACU), State Audit Service (SAS) and the Finance Office of the local government administration
31.2	Hearings on audit findings	D	The village council has not conducted any hearing on external audit findings and also hearing on any audited financial reports from the finance office of the local government administration
31.3	Audit recommendations by the legislature	D	The village council has not issued any recommendations on audit and/or financial findings
31.4	Transparency of legislative scrutiny of audit reports	D	The village council has not conducted any public scrutiny of audit reports

31.1. Timing of audit report scrutiny

The village council has not received any external audit and/or audited financial report for scrutiny from the Accounting Chamber of Ukraine (ACU), State Audit Service (SAS) and the Finance Office of the local government administration

Dimension score = D

²⁰ Cf INTOSAI ISSAI 1, Section 7, Point 2, Financial independence of Supreme Audit Institutions.

31.2 Hearings on audit findings

The village council has not conducted any hearing on external audit findings and also hearing on any audited financial reports from the finance office of the local government administration

Dimension score = D

31.3. Audit recommendations by the legislature

The village council has not issued any recommendations on audit and/or financial findings

Dimension score = D

31.4. Transparency of legislative scrutiny of audit reports

The village council has not conducted any public scrutiny of audit reports

Dimension score = D

4 Conclusions of the analysis of PFM systems

4.1 Integrated assessment of PFM performance

Budget reliability

The expenditure budget is not reliable as evidenced by the performance indicator scores (HLG-1 'D+', PI-1 'D', and PI-2 'D+'). This is due to the fact that actual expenditure significantly exceeds the original budget. Even though actual transfers from central and regional governments are evenly distributed within the year (HLG-1.3 'A'), both block and earmarked grants outturns significantly exceeded the approved budget by between 23% and 66% (HLG-1.1 'D' and HLG-1.2 'D'). For block grants, actual transfers for 2016 exceeded approved budget by as much as 59.6%; in 2017 and 2018, they exceeded the budget by 23.6% and 24.3% respectively. Earmarked grants exceeded approved budget by 66.3% in 2016, 34.3% in 2017 and 24.1% in 2018. These clearly affected aggregate expenditure budget outturns (PI-1) and functional and economic classifications (PI-2.1 and PI-2.2), where aggregate expenditure outturns were 142.4%, 132% and 128.3% in 2016, 2017, and 2018 respectively. In terms of functional allocations, the outturns exceeded the budget by 40.6%, 29.6% and 30.1% in 2016, 2017, and 2018 respectively. Economic allocations were not left out; they exceeded the budget by 47.6%, 64.0% and 35.3% in 2016, 2017, and 2018 respectively. That said, the use of the contingency vote is respected; actual expenditure charged to the contingency budget is currently at 0%.

The unreliability of transfers from higher-level government (HLG-1) also impacted negatively on aggregate revenue budget (PI-3.1 'D' with actual outturns of 146.2%, 153.8%, and 117.2% in 2016, 2017, and 2018 respectively) but with less impact on revenue composition (PI-3.2 'B' with actual outturns of 5.0% in 2016, 25.6% in 2017, and 5.7% in 2018), thereby resulting in an overall score of 'C' indicating some level of reliability referencing revenue outturn. Furthermore, the unrealistic budgeting of revenues – both transfers from higher-level government (HLG-1.1 'D') and those from own sources (PI-3.1 'D') have serious repercussions on the efficiency of resource allocation for the execution of government policies. Therefore, the scores and performances of PI-2.1 'D' and PI-2.2 'D' are not surprising.

Transparency of public finances

Transparency of public finances is good as evidenced by the scores attained. Budget classification established by the central government; the budget formulation, execution and reporting are based on every level of details of administrative, economic, and programmatic classification. Each budget program code is linked to the detailed functional classification code, developed using GFS/COFOG standards but budget reporting is not aligned with the same classification used in budget formulation and preparation (PI-4 'D'). Information contained in the budget document is not comprehensive (PI-5 'D') as only two of the four basic elements are contained in the budget; also two key elements are missing from budget documentation; these are (i) information on fiscal risks and (ii) quantification of tax expenditures (also known as tax exemptions - although information is available, this is not reported in the budget). It is commendable to note that all revenues and expenditures from own resources of budget units are budgeted for and reported in financial statements; therefore, no expenditure or revenue is outside local government fiscal and financial reports (PI-6 'A'). As there are no lower-level governments below Starosynnyavska ATC local government administration, PI-7 (transfers to sub-national governments) is not applicable.

Information on service delivery is good (PI-8 'B+'). Both planned performance outputs and outcomes with KPIs are published on the website, providing very useful information of planned resources for service delivery. Furthermore, actual performance outputs and outcomes are also published on the website. The Treasury prepares a consolidated report on all resources received in kind; these are quantified in monetary terms and reported. Every year, analysis of the effectiveness of the budget programs is conducted by all budget institutions at the local government level. Both individual and summarised performance reports are published on the website. Public access to fiscal information is satisfactory level (PI-9 'B'); external audit reports are currently not available, hence not published. Also not published is a summarised budget (usually known as the citizen's budget) and a pre-budget statement showing broad parameters of government revenue-generation and expenditure policies.

Management of assets and liabilities

Overall, the management of assets and liabilities is weak. At present, the local government keeps no records of both explicit and implicit contingent liabilities arising out of its operations (PI-10.3 'D'). Public corporations do not report contingent liabilities even though they submit annual financial statements to the government within one month after the end of the financial year (PI-10.1 'C'); these public corporations have also never been audited by the external auditor. As there are no first-tier sub-national government under Starosynnyavska ATC, PI-10.2 is not applicable.

There are no guidelines for public investment management. Most capital investment projects are selected by the executive committee (local cabinet) based on their priorities, with less emphasis on project economic viability; monitoring and evaluation of capital projects is outsourced to private independent M&E experts due to lack of local government competence; M&E reports are not systematically submitted to the local government (overall score for PI-11 'D'). There is no comprehensive and consolidated fixed asset management policy (i.e. fixed asset management is decentralised with each entity maintaining and updating its own fixed asset register). The local government has no records of shares (number and value) in its public corporations in financial statement; it however reports on some financial assets such as cash and receivables. Clear legal framework is in place for the disposal of both financial and non-financial assets; transfer and sale of assets can take place only by the decision of the legislative body, i.e. the village council (overall score for PI-12 'C+'). No asset disposal has taken place over the assessment period. By law, the local government has no borrowing powers; therefore, PI-13 is not applicable.

Policy-based fiscal strategy and budgeting

The local government finance department prepares medium-term macro-fiscal forecasts on some key indicators (such as on agriculture and the wage fund) but without GDP, clearly providing the underlying assumptions used for the forecasts; further, these forecasts are reviewed by the executive committee when approving the draft budget estimates (PI-14.2 'B'). The finance department also prepares fiscal forecast which includes revenues by type and expenditures by aggregated codes of functional classification; nonetheless, it prepares no macro-fiscal sensitivity analysis because current forecasts do not include GDP at the sub-national government level. The performances of HLG-1, PI-1, PI-2, and PI-3.1 – all rated D or D+ signify that the fiscal forecasting framework is weak and appears to be a mere formality, lacking any meaningful macro-fiscal analysis. Again, the government does not prepare a fiscal strategy even though it provides some explanation of budget implications to policy changes in the budget explanatory note (PI-15 'D').

One positive element to note is the preparation of medium-term expenditure estimates of both revenue and expenditure for the budget year and the two following years according to administrative, economic at GFS 3-digit level and programme classifications at the level of each key spending unit but the same is not done for the consolidated budget (PI-16.1 'D'); also, the medium-terms expenditure ceilings are not approved by the executive council before or after the issuance of the budget call circular. Another weakness identified is the absence of medium-term sector strategies, except for the education and sports sector with a five-year plan but not costed. Budget preparation process could be improved; budget ceilings are not approved by the executive committee. Furthermore, there are delays of up to one month referencing the executive's submission of the annual budget estimates to the village council.

Currently, there are clear legislative rules (standing orders) for budget review process (PI-18.2 "B"). Nonetheless, the village council's budget review includes underlying assumptions for the current year's budget (only a year's budget is submitted to the village council). In-year budget amendment procedures are in place, but they do not limit extensive executive (administrative) reallocations (PI-18.4 'B').

Predictability and control in budget execution

Revenue administration is not applicable (PI-19 'NA'); revenue accounting scores well (PI-20 'A'), indicating satisfactory performance in terms of ensuring that the needed revenues are properly assessed, collected and accurately accounted for. Current and comprehensive tax information is made available to the public, coupled with a well-functioning tax client service and redress systems that address taxpayer needs. Revenue (tax) arrears are insignificant (currently at 1.8% of total tax collections) but the proportion of these arrears older than 12 months is a little above 67%; this needs to be monitored and reduced, going forward. Taxes collected are directly deposited into the Treasury accounts, thereby eliminating the need for reconciliation between collections and transfers. Also, there is frequent reconciliation between taxes assessed, collected and outstanding balances. Predictability of cashflows for expenditure commitment and payment is satisfactory, thereby eliminating expenditure arrears (PI-22.1 'A').

Predictability of in-year resource allocation (PI-21) shows satisfactory performance with an overall score of 'B+' but this is weakened by the frequency and volume of in-year budget reallocations (virements); average virements were 30.44% of the originally approved budget for FY2018. The good news is the absence of expenditure arrears; all expenditure commitments are paid by the last day of the fiscal year (PI-22 'A'). Also, the good cash management framework (PI-21 'B+') has a positive impact on expenditure arrears in terms of avoiding their accumulation. Payroll controls are at an average level (PI-23 'C+') but for the absence of comprehensive payroll audits either by internal and/or external auditors. Overall, the public procurement management framework is good (PI-24 'B'), the main weakness identified relates to the low competitive procurement method (currently at 23.2% by value). Generally, internal control practices are at acceptable levels mainly due to the extremely high professionalism and attention to detail of key staff in spite of the fact that these staff have insufficient technical and academic prowess, coupled with the absence of central government guidance and supervision and lack of a comprehensive and consolidated financial management manual (PI-25 'B'). The comprehensiveness and effectiveness of the expenditure commitment control system (PI-25 'B'), though manual, has largely contributed to the non-existence of stock of expenditure arrears (PI-22.1 'A') as commitments are made only when there is cash to pay for those commitments. There is no functional internal audit unit (PI-26 'D') to enforce internal

control rules and procedures as well as check data accuracy; this however did not significantly affect the overall internal control framework.

Accounting and reporting

Despite the absence of a functional internal audit framework to check internal control activities, the financial data integrity process shows strong performance (PI-27 'A'). While complete bank accounts reconciliation is done weekly within 24 hours, the advance accounts are fully reconciled (with a zero balance) by the end of the fiscal year (quarterly advance reconciliations are carried out within a month after the end of the previous quarter). The local government does not maintain suspense accounts which also shows a relatively good degree of data accuracy. Only authorised staff have access to financial records. All changes to these records are duly approved by the head of department and/or budget institution; changes result in audit trail.

In-year budget execution reports are generally useful as they provide information and variance analysis of both revenue and expenditure for management use (PI-28.3 'C'). The reports indicate revenues by detailed codes of revenue classification and expenditures (recurrent and capital) by budget programs, detailed function and economic classifications and KSU's indication (administrative category), and also financing of the budget. However, they do not allow direct comparison between approved budgets (revenue and expenditure) and actual outturns for the period, as well as year-to-date outturns (PI-28.1 'D'); they are issued within two weeks after the end of the previous month (PI-28.2 'A').

Annual financial statements are prepared based on national accounting standards. One good element is the comprehensiveness of the annual financial statements; they present information on revenue and expenditure according to economic classification, cash balances and receivables, tangible assets, payables and long-term liabilities, plus a reconciled cash flow statement (PI-29.1 'A'). That said, the government has never (within the last three completed fiscal years) submitted annual financial statements to the external auditor for audit (PI-29.2 'D').

External scrutiny and audit

The local government has never been audited by the Accounting Chamber of Ukraine²¹ (Supreme Audit Institution) since its inception in 2015 as part of the national decentralisation agenda. Following from this, the village council (legislative body) has not done any scrutiny of external audit reports since these reports do not exist, hence the D score for PI-30 and PI-31.

The assessment has however revealed that the independence of the Accounting Chamber of Ukraine (ACU) is undermined by the fact that its staff are civil servants with the same employment conditions as any other public servant in terms of remuneration, appointment, transfer, and termination (even though Auditor General and the ACU governing council have full independence regarding appointment, termination and remuneration).

4.2 Effectiveness of the internal control framework

An effective internal control system plays a vital role across every pillar in addressing risks and providing reasonable assurance that operations meet the four control objectives: (i) operations are executed in an

²¹ ACU is responsible for external audit of local government finances

orderly, ethical, economical, efficient, and effective manner; (ii) accountability obligations are fulfilled; (iii) applicable laws and regulations are complied with; and (iv) resources are safeguarded against loss, misuse and damage.

Control environment: The laws, regulations of the Cabinet of Ministers of Ukraine (CMU) and orders of the ministries are the guidance for the internal control environment. Institutions do not develop documents that would provide clear and consistent goals for their activities. Management and staff support the existing internal control systems, which are defined in various documents of the institution: regulations, job descriptions, internal conduct regulations, etc., and there is no comprehensive document/regulation on internal control (PI-25). The organizational structure and staffing of the institutions are determined by the village council. Proper distribution of responsibilities across key areas is required at the legislative level and must be established by internal documents. The Accounting Chamber's capacity is limited to cover all local budgets with its audits. No external audits were conducted in Starosynavska ATC; there are also no internal audit functions.

Risk assessment: An organizational level risk assessment is a systematic and forward-looking analysis to see whether the existing internal control procedures in place are effective and efficient to support the achievement of organizational objectives within a stated time frame. Internal audit units have not been created. 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. Managers do not develop or approve internal control regulations for an institution that should include a section on risk management. No comprehensive approach to risk management is implemented. The results of the valuation partially reflect the weakness of certain control measures in the areas of procurement, property management, investment management and asset management (PI-11, PI-12, PI-25). There is no localised State Fiscal Service (SFS) revenue risk management framework; PI-19 is not applicable.

Control activities: Various pieces of legislation that provide for the division of responsibilities and procedures for preparing, reviewing and approving payments, procurement and use of other resources are generally as comprehensive and instrumental as internal control tools (PI-25). In small institutions, separate units or designated persons responsible for accounting, staffing or legal support may be absent, so the necessary division of responsibilities is not always the case. All types of liabilities and all assets of the enterprise, regardless of their location, are covered by a complete inventory prior to the preparation of the annual financial statements, and partial inventory in the case of the lease of property, changes in material liability of staff, etc.

The use of ICT as a control activity is restricted except for financial management and procurement of more than UAH 200,000 for goods (services) and UAH 1.5 million for works. Procurement procedures worth less than UAH 200,000 for goods (services) and UAH 1.5 million for works, property, inventory, human resources and payroll management are not automated. When executing the state budget and local budgets, treasury servicing of budget funds is used, which provides for accounting and reporting on the implementation of budgets in compliance with national provisions (standards) of accounting in the public sector and other regulations of the Ministry of Finance. The Treasury of Ukraine provides treasury servicing of budget funds on the basis of maintaining a single treasury account (STA) opened with the National Bank of Ukraine. Institutions make payments through the STA. Therefore, all the balances in these accounts are consolidated daily by the local government finance office (PI-21.1). Budget adjustments throughout the year affect budgetary control strength (PI-21.4). Absence of a unit (individual) authorized to carry out internal audit partly indicates that the effectiveness of control measures is limited. There is no economic analysis of investment projects (PI-11). Each month, the finance office receives a revenue report from the tax authority referencing total tax collections (PI-20).

Information and communication: Each budgetary unit prepares and submits monthly in-year budget execution report to the Treasury. Comprehensive interim financial statements are prepared by Treasury and submitted to management on a monthly and quarterly basis. The reports indicate revenues by detailed codes of revenue classification and expenditure (recurrent and capital) by budget programs, detailed functional and economic classifications and KSU's indication (administrative category), and

financing of the budget also. (PI-28). The annual financial statements present information on revenue and expenditure according to programmatic, functional and economic classifications, cash balances and receivables, tangible assets, payables and long-term liabilities, plus a reconciled cash flow statement (PI-29). Though the local government has never been audited within the last three completed years 2016-2018, it prepares annual financial statements in accordance with National Public Sector Accounting Regulations prescribed by MoF which are generally in line with IPSAS (PI-29). Consolidated financial statements do not contain information on tangible assets, which is only contained in the statement at each institution level.

Access to information for the public is multi-fold: due to the official public procurement portal (PI-24), public has access to procurement; a town council publishes information on planned and actual indicators for service delivery (PI-8); the budget and its forecast for the medium term, macroeconomic indicators (PI-14); and budget execution information. The local SFS office conducts public forums to educate taxpayers. It also has billboards for posting notices on taxation. It also has a client service unit for walk-in customers for enquiries; tax leaflets are also available free-of-charge for public use.

Monitoring: At the state level, a sufficiently strong legislative and methodological framework is in place to support activities of the internal audit unit (or designated person); there is no such unit in Starosynnyavska ATC AH. There were no internal audit functions during the assessed period (PI-26). A specialist of the Finance Department is entrusted with control and supervision (audit) functions regarding financial and economic activity of enterprises, subordinate and/or accountable to the village council, providing conclusions and proposals on elimination of identified shortcomings and optimization of financial and economic activities of such organizations. These responsibilities are outlined in the job description. The head of the village council approves the schedule of such financial audits of institutions, enterprises and organizations for six months.

4.3 PFM Strengths and Weaknesses

Impact of PFM Systems on the three main budgetary outcomes

Fiscal discipline

The existence of strong public financial management laws (promulgated at the central level) is seen as a positive stride towards fiscal discipline but this may be affected by the inadequate human and technical capacity of local government staff to fully implement PFM rules and regulations even though the current output of existing staff provides reasonable assurance for safeguarding public assets.

The systematic deviation from original budget and unpredictability of central government transfers and own revenues are causes of concern. The current central government legal framework does not allow sub-national governments to include expected inflows from higher-levels of government into the local government budgeting system. This situation significantly distorts both revenue and expenditure outturns. The current situation also lends itself to possible misuse and misallocation of resources, thereby affecting strategic resource allocation and efficient service delivery. The unreliable aggregate budget (for both revenue and expenditure) has a negative impact on fiscal discipline; this is so because the excess transfers inflows from central government and other local budget revenue creates an opportunity to spend on activities not originally planned for. Thus, fiscal discipline is negatively affected by the huge functional and economic budget changes as well as the frequency and significance of budget virements (from the approved original budget); this phenomenon clearly portrays weaknesses in procedures for budget formulation, preparation and execution, established at the national level. There is however some respite; there are no revenues and expenditures outside local budget and financial reports, indicating a good measure of fiscal discipline. Furthermore, the non-existence of expenditure arrears provides some realistic budget estimates capable of delivering on local government mandates because planned resources will be used to pay current year's commitments for the provision of public service instead of using those resources to pay for expenditure arrears.

Fiscal risk monitoring and reporting is very weak, indicating significant financial risk exposure to the government with the potential to drain scarce public resources needed for service delivery; the same could be said for public investments management - weaknesses in public investment management leads to misallocation of funds which affects fiscal discipline. One key element that usually distorts government budget and consequently impacting negatively on fiscal discipline is payroll; presently, payroll management and controls are reasonable with very little or no impact on fiscal discipline.

Strategic allocation of resources

Strategic allocation of resources is crucial for efficient service delivery. The assessment reveals that budget classification aligns with international good practice, detailed enough to assure traceability (and transparency) of local government resources but this good practice is negated by the fact that budgeting reporting does not follow the same format as budget formulation and preparation. Information contained in the budget documentation is significantly deficient, not allowing citizens to digest useful fiscal data. Furthermore, the absence of a citizens' budget (a summarised and simplified budget) limits ordinary citizens' ability to fully appreciate the extent of resource allocation in order to demand more accountability. The finance department prepares some macroeconomic forecasts but no GDP at local level, with the disclosure of underlying assumptions. Also, these macroeconomic forecasts are reviewed by the executive committee during approval of the draft budget estimates. The absence of a fiscal strategy – a policy document that outlines government's medium-term revenue and expenditure framework in terms of how it wants to generate revenue and for what expenditure, raises questions regarding local government's ability to make resources available to fund its policies and programmes. The budget preparation and approval processes are weak (some of these weaknesses include: (i) budget ceilings not approved by the executive committee, (ii) delays in budget submission to the village council for approval, and (iii) delays in budget approval by village council), contributing to inefficient resource allocation with consequential effect on efficient service delivery.

The local government does not feel the impact of some of the weaknesses enumerated above because of one thing: it receives significant resources from central government after local budget approval which facilitates the implementation of programmes. Again, domestic revenues (tax and non-tax generated by the local government) is well administered and accounted for, thereby making resources available for efficient service delivery.

Efficient service delivery

The assessment concludes that primary service delivery is good, based on a number of factors: (i) the local government receives significant amount of resources from central government; (ii) local/domestic revenues are well managed and allocated; (iii) planned performance outcomes/outputs and actual performance, and resources received in kind and cash are well communicated to the public for proper accountability. Nevertheless, the huge and frequent in-year budget changes coupled with functional and economic budget changes as a result of excess transfers inflows from central government and domestic revenue, compared with the original budget, have a negative impact on strategic resource allocation which consequently affects efficient service delivery. Another element that negatively affects service delivery is the non-competitiveness of public procurement; most procurement activities are non-competitive – this could imply high cost of service and less efficiency.

The absence of a functional internal audit unit coupled with lack of a well-documented internal control framework limit the ability to effectively detect and prevent fraud and financial irregularities but it is worth noting that public assets (required for efficient service delivery) are well safeguarded due to the professionalism of existing staff in spite of low technical capacity. Efficient service delivery is also positively impacted by the good practices of regular and timely reconciliations of resources (cash and advances); these good practices have ensured that resources are always available in a timely manner to pay for the required services. The frequent and timely compilation and release of financial information

to the public underscores the importance for citizens' accountability in terms of resources spent on planned programmes; this promotes efficient service delivery.

4.4 Performance changes since a previous assessment

As this is the first assessment (baseline study), this section is not applicable

5 Government Reform Process

5.1 Approach to PFM Reforms

The main government document under which the PFM reform in Ukraine is carried out is the Strategy for Public Finance Management System Reformation for 2017-2020 (hereinafter referred to as the Strategy) approved by the Cabinet of Ministers Decree dated 8th February 2017. The Strategy defines the goal, objectives, priorities of the reform and consists of four sections:

- compliance with the general budget and tax discipline in the medium term;
- increasing the efficiency of resource allocation at the level of state policy-making;
- ensuring effective budget execution;
- enhancing transparency and accountability in PFM.

Section II “Increasing the Efficiency of Resource Allocation at the Level of State Policy-Making” of the Strategy envisages implementation of tasks and activities in the area of “Intergovernmental Relations and Fiscal Decentralization” aimed at:

- clear division of powers between state authorities and local self-governments;
- increase of own financial resources of local self-governments;
- improvement of financial support to expenditures delegated by the state to local self-government;
- introduction of medium-term budget planning and improvement of the program-based budgeting at the local level;
- enhancing the financial transparency and accountability of local governments.

There is however no standalone sub-national (Starosyniyavska ATC) government PFM reform strategy; PFM reforms are defined and driven by the central government.

5.2 Recent and Ongoing Reform Actions

Reform of government decentralization and amalgamation of territorial communities (2015-2020)

It is expected that 2019 will be a key year in setting the basic level of local self-government: by the end of the year, most existing small local councils may amalgamate, and thus local governments will become more capable, use resources appropriately, and be accountable for their responsibilities. This will provide a sound basis for the next steps in local government reform, as well as accelerate reforms in health, education, social services, energy efficiency and other sectors.

Between 2015-2019, 951 amalgamated hromadas were created, of which 69 are awaiting the decision of the Central Election Commission to hold the first local elections, and 35 are cities of oblast significance joined by territorial communities. The new stage of government decentralization envisages:

- consolidation of successes already gained and formation of capable communities;
- changes in the territorial structure at the level of rayons and communities;
- clear separation of powers and functions at different levels of management;
- development of the forms of local democracy.

Furthermore, it is important to emphasize that the process of territorial communities’ amalgamation is in the progress and expected to be completed in 2020. Considering poor qualification and professional skills of the amalgamated communities’ representatives (local government public servants), there is an

urgent need for providing trainings for local government officials in amalgamated communities on how to prepare their budgets, midterm forecasts, and provide for efficient budget managements at the local level.

Increasing financial transparency and accountability of local self-government bodies (2019)

The strategy of reforming the public finance management system for 2017-2020 foresees the development of general recommendations for local self-government bodies on the preparation and approval of Budgetary Regulations. In order to implement the above, the Ministry of Finance adopted the Order No. 228 of 31 May 2019, which approved the methodological recommendations for the preparation and approval of the Budget Regulation for the budget process at the local level. The key objective for the preparation of the recommendations is to provide local authorities with guidelines for drafting and adoption of the Budget Regulation – document that establishes the order for implementation of budget process at each stage, determines their timing and parties responsible for the timely implementation of appropriate measures.

Medium-term budget planning at the local level (starting in 2020)

The Strategy's task for the implementation of medium-term budgetary planning at the local level provides for the development of methodological recommendations for the preparation of local budgets for the medium term. In accordance with BCU (Article 75¹), medium-term budget planning at the local level would have to be implemented from 2020. According to the 2017-2020 Government Strategy for PFM reforms, the medium-term budget planning methodology at the local level must be consistent with the methodology of medium-term planning at the state level. The latter is currently under development. Consequently, the methodological recommendations on medium-term budget planning at the local level are expected to be completed by the end of 2019.

The BCU defines a document of medium-term budget planning at the local level – Local Budget Forecast which should include:

- key economic and social development indicators of the respective territory;
- general indicators of local budget revenues and financing, repayment of loans to the local budget, ceilings of local budget expenditures and provision of loans from the local budget (with division into general and special funds);
- indicators for the main types of local budget revenues (with division into general and special funds);
- indicators of the deficit (or surplus) of the local budget, indicators of the main sources of financing of the local budget (with division into general and special funds), indicators of local debt and provision of local guarantees;
- thresholds of local budget expenditures and provision of loans from the local budget by the key spending units (with division into general and special funds);
- volume of capital investments with the breakdown by investment projects;
- other indicators and provisions required for drafting a local budget decision.

Changes in financing of individual social expenditures (starting in 2020)

In order to improve management of budget expenditures, the Government prepared draft amendments to the Budget Code of Ukraine (Draft Law Reg. No. 2144), which was submitted to the Verkhovna Rada (Parliament) of Ukraine together with the draft State Budget of Ukraine for 2020.

Among the innovations planned for implementation starting in 2020, there are changes in the way social expenditures are spent. In particular, the draft State Budget of Ukraine for 2020 contains the transfer to

the Ministry of Social Policy of Ukraine of expenditures that are currently being carried out through appropriate subventions from the State Budget to local budgets (in particular, for granting benefits and housing subsidies to households for the purchase of solid and liquid household fuel and liquefied gas and public social assistance expenditures).

Accounting in the public sector (2018-2025)

Certain issues of public sector accounting are in the process of reform, as well. In particular, according to the plan of measures for modernization of the system of accounting and financial reporting in the public sector for the period up to 2025 (Cabinet of Ministers Decree dated 20th June 2018 №437-p) the full package of national regulations (standards) and the chart of accounts in the public sector are to be applied by the Treasury bodies starting in 2019. At the same time, the development of national regulations (standards) will be based on international public sector accounting standards (IPSAS). An electronic version of the original IPSAS text has been obtained by the Ministry of Finance for the purpose of implementation of the above. The IPSAS text is currently being translated.

Donor coordination

Development partners have no direct relationship with sub-national governments; all supports are channelled through the central government Ministry of Finance.

5.3 Institutional Considerations

Government Leadership and Ownership

As indicated above, there is no standalone PFM reform strategy for Starosynnyavska ATC. All reforms emanate from central government PFM reform strategy. The Central Government Strategy for Public Finance Management System Reformation for 2017-2020 is in line with the Association Agreement with the EU, the EFF Program with the IMF, the terms of EU budget support and macro-financial assistance. Government leadership and ownership is demonstrated by the fact that the Strategy was developed by the Ministry of Finance in collaborations with the Ministry of Economic Development and Trade, the State Treasury, the State Audit Service, the Academy of Financial Management under the Ministry of Finance, the Accounting Chamber, the Association of Ukrainian Cities, SIGMA EU Program, World Bank, GIZ, US Treasury, the Dutch Ministry of Finance, UNDP-Slovakia, the Institute of Budget and Socioeconomic Research, and EY (Ernst&Young)²²

Coordination across Government

For coordination of the tasks and activities in the process of implementation of the Strategy, a Working Group was formed for reforming the system of public finance management of Ukraine by the Order No.1124 of the Ministry of Finance dated 22nd December 2018. The Working Group consists of the representatives of the Administration of the President of Ukraine, sectoral committees of the Verkhovna Rada of Ukraine, the Cabinet of Ministers of Ukraine, the Ministry of Finance, the State Treasury, the State Fiscal Service, the Ministry of Economic Development and Trade, the Association of Ukrainian Cities, NGOs and Trade Unions, International Financial Organizations (IMF, World Bank), and EU Delegation to Ukraine. There however no evidence to show the involvement of local government officials during the development of the comprehensive central government PFM reform strategy.

A Sustainable Reform Process

As there is no standalone sub-national government PFM reform strategy, one cannot assess the level of sustainability of reform process. However, there is substantial development partner support referencing

²² Source: https://mof.gov.ua/storage/files/PFM_Strategy_presentation.pdf

the central government PFM reform strategy which includes some elements of fiscal and administrative decentralisation.

Transparency of the PFM Programme

Transparency of the central government strategy implementation process is ensured by the availability of a detailed action plan developed for four years (2017-2020) and approved by the Cabinet of Ministers Decree No 415 dated 24th May 2017. The Action Plan specifies measures aimed at fulfilling the objectives of the Strategy, their time frames, executors in charge and performance indicators (deliverables). Ministries and other Central Executive Bodies (CEBs) are obliged to report on a quarterly basis to the Ministry of Finance on the progress of implementation of the Action Plan. The Ministry of Finance shall summarize information received and, within the timeframes set by the Decree No. 415, submit it to the Cabinet of Ministers of Ukraine, and publish it on the Ministry's official website²³.

²³ Source: <https://mof.gov.ua/uk/zvit>

ANNEXES

Annex 1: Performance Indicator summary

No.	Indicator	2019 Score	Justification for 2019 Score
HLG-1	Transfer from a higher-level of government	D+	
1.1		D	The analyses show that in all three years 2016 to 2018, deviations between approved central government block grants and actual transfers exceeded 23%. The highest deviation occurred in 2016, where actual transfers exceeded approved grant budget by as much as 59.6%. In 2017 and 2018, actual transfers exceeded the budget by 23.6% and 24.3% respectively
1.2		D	As shown in Table 3.2 below, deviations in all three years were above 24%, following a similar pattern referencing the block grants. Actual earmarked transfers exceeded approved earmarked budget by 66.3% in 2016, 34.3% in 2017 and 24.1% in 2018.
1.3		A	The central (national) government agrees with and provides a disbursement schedule to the sub-national government of Starosynnyavska ATC before the start of each fiscal year as part of the budget preparation process. These grants are provided for in accordance with Cabinet Decree No. 1132. Furthermore, actual transfers for all grants (more than 90%) in each of the last three years under review (2016, 2017, and 2018) were done in a timely manner in line with agreed schedules
PI-1	Aggregate expenditure outturn	D	In all three years, aggregate budget outturns were more than 15% of the originally approved budget. Actual outturns were 142.4%, 132% and 128.3% in 2016, 2017, and 2018 respectively
PI-2	Expenditure composition outturn	D+	
2.1	Expenditure composition by function	D	The analyses indicate significant budget reallocation between votes of more than 25% in each of the three years under review. The actual composition variances were 40.6%, 29.6% and 30.1% in 2016, 2017, and 2018 respectively
2.2	Expenditure composition by economic type	D	As shown in Table 2.2 below actual variances were 47.6%, 64.0% and 35.3% in 2016, 2017, and 2018 respectively
2.3	Expenditure from contingency	A	Actual expenditure charged to contingency budget averaged 0.0%; this means there has been no expenditure out of contingency vote within the last three completed fiscal years.
PI-3	Revenue outturn	C	
3.1	Aggregate revenue outturn	D	Actual outturns were 146.2%, 153.8%, and 117.2% in 2016, 2017, and 2018 respectively

No.	Indicator	2019 Score	Justification for 2019 Score
3.2	Revenue composition variance	B	Actual composition variances were 5.0% in 2016, 25.6% in 2017, and 5.7% in 2018
PI-4	Budget classification	D	Budget formulation and execution are based on every level of details of administrative, economic, and functional and sub-functional classification using GFS/COFOG standards. However, budget reporting is based only on sub-functional level. The classification is following GFS 2001 but IPSAS are not yet fully implemented.
PI-5	Budget documentation	D	The budget documentation meets two out of four basic elements. It also meets three of the additional elements as shown in Table 5.1
PI-6	Central government operations outside the budget	A	
6.1	Expenditure outside financial reports	A	There is no expenditure outside local government financial reports; all expenditures emanating from own revenues of key spending units are reported as part of the consolidated financial statements
6.2	Revenue outside financial reports	A	There are no revenues outside local government financial reports; all revenues including own revenues from key spending units are reported in the consolidated financial statements
6.3	Financial reports of extra-budgetary units	NA	There are no extra-budgetary units at the local government level
PI-7	Transfers to sub-national government	NA	
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+	
PI-8.1	Performance plans for service delivery	A	All key spending units prepare annual action plan with KPIs, outcomes and outputs to be achieved for the following fiscal year. The information is published on the local government website (https://starosynjavska-gromada.gov.ua//jiji-10-15-25-12-02-2019/)
PI-8.2	Performance achieved for service delivery	A	All spending units prepare and publish annual performance reports on the local government website (https://starosynjavska-gromada.gov.ua//zviti-pro-vikonannya-bjudzhetnih-program--2018-11-28-57-12-03-2019/) The information contains outputs and outcomes broken down according to programme codes
PI-8.3	Resources received by service delivery units	A	Each service delivery unit prepares a detailed report on resources received in kind; the local government finance department consolidates these reports and quantifies them in monetary terms. This report is part of the annual financial report, which is prepared every year

No.	Indicator	2019 Score	Justification for 2019 Score
PI-8.4	Performance evaluation for service delivery	C	Every year, internal evaluation is conducted by all budget institutions at the local government level. Both individual and summarised performance reports are published on the website
PI-9	Public access to fiscal information	B	The government makes available to the public four basic elements and one additional element within the required timeframe as described in Table 9.1 above. Elements 5 and 7 are not applicable since external audits are under the purview of central government Supreme Audit Institution
PI-10	Fiscal risk reporting	D+	
10.1	Monitoring of public corporations	C	The FY2018 financial reports of public corporations have not been audited. That notwithstanding, the local government received the un-audited annual financial statements for FY2018 on 28 th January 2019 (within one month after year end) for all three 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 risks	D	The sub-national government does not keep records of explicit contingent liabilities and any other fiscal risks that could arise out of their operations
PI-11	Public investment management	D	
11.1	Economic analysis of investment proposals	D	There are no established guidelines for project appraisal. Also, economic analysis is not conducted to assess investment projects.
11.2	Investment project selection	D	No institution is in place to guide the project selection processes, including a centralized review of major investment project appraisals before projects are included in budget submissions to the legislature. Most (at least 80%) capital investment projects are prioritised by the Executive Committee without standard criteria.
11.3	Investment project costing	D	The annual budget document does not indicate the total capital cost of projects as well as the capital cost of projects for the upcoming fiscal year
11.4	Investment project monitoring	D	Though the local government has no technical capacity to undertake M&E of capital projects, the function is outsourced to independent expert. Annual physical and financial progress reports are prepared by this expert, but not submitted to the spending unit except where some challenges relating to the project are identified. The report is not published
PI-12	Public asset management	B	
12.1	Financial asset monitoring	C	The government maintains records of some financial assets (cash and receivables) but not shares held in corporations. As at 31 st December 2018, cash balance stood at UAH6.2 million
12.2	Non-financial asset monitoring	C	Each local government institution maintains a fixed asset register of buildings, vehicles, fixtures and fittings, indicating their cost, age and usage. The

No.	Indicator	2019 Score	Justification for 2019 Score
			cadastre office is still working on mapping government land. Natural resources are not recorded.
12.3	Transparency of asset disposal	A	So far, there has not been any transfer or sale of asset (financial and non-financial). The legal and regulatory framework for transfer and sale of financial and non-financial assets are well established. There are also clear provisions on the need for the legislative body (village council) to approve the sale or transfer of assets
PI-13	Debt management	NA	
13.1	Recording and reporting of debts and guarantees	NA	Not Applicable
13.2	Approval of debts and guarantees	NA	Not Applicable
13.3	Debt management strategy	NA	Not Applicable
PI-14	Macro-economic and fiscal forecasting	B	
14.1	Macro-economic forecasting	NA	The Finance Office prepares three years' macroeconomic forecasts of some indicators related to village level economy; these are updated each year. The list of indicators includes: (1) agricultural products sold in UAH; (2) agricultural products index in % of the previous year; (3) wage fund; and (4) average monthly salary. Clear explanation of the underlying assumptions used to prepare the forecasts are provided. The forecasts are reviewed by the Executive Committee while approving draft budget estimates to be submitted it to the village council. The local government has no capacity to forecast its own GDP. Interest and inflation rates are forecasted by the central government
14.2	Fiscal forecasting	B	The Finance Office prepares three years' fiscal forecast, which includes revenues by type and expenditures by aggregated codes of functional classification. Underlying assumptions to the forecasts are provided in the annex to the budget document submitted to the village council
14.3	Macro-fiscal sensitivity analysis	NA	The local government finance office does not prepare macroeconomic forecast with assumptions GDP; forecast on interest and inflation rates are done by the central government. Therefore, this dimension is not applicable
PI-15	Fiscal strategy	D	
15.1	Fiscal impact of policy proposals	D	The local government prepares some explanations of budget implications of new policy initiatives and major new public investments, with estimates of the budgetary impact of some major revenue policy changes and/or major changes to expenditure programs
15.2	Fiscal strategy adoption	D	The local government does not produce a fiscal strategy

No.	Indicator	2019 Score	Justification for 2019 Score
15.3	Reporting on fiscal outcomes	NA	This dimension is not applicable, as the local government does not produce a fiscal strategy.
PI-16	Medium-term perspective in expenditure budgeting	D	
16.1	Medium term expenditure estimates	D	For the last budget (FY2019 budget) submitted to the village council (legislature) for approval, each Key Spending Unit (KSU) prepared medium-term estimates of both revenue and expenditure for the budget year 2019 and the two outer years 2020 and 2021 according to administrative, programme and economic at GFS 3-digit level classifications. However, the consolidated annual budget does not present medium-term estimates; the estimates are only for the budget year.
16.2	Medium term expenditure ceilings	D	At present the Finance Office prepares medium-term (three years) expenditure ceilings according to each budget institution as well as the aggregate ceilings. The Executive Committee (equivalent of cabinet of ministers at the national level) of Starosynnyavska village council does not approve these medium-term expenditures ceilings before the issuance of the budget call circular
16.3	Alignment of strategic plans and medium-term budgets	D	The current practice is that key spending units do not prepare costed medium-term strategic plans. Education and Sports Office prepares a five-year strategy but this is not costed
16.4	Consistency of budget with previous year's estimates	D	The budget documents do not provide any explanations of changes to expenditure forecast presented in the current budget and the second year of the medium-term projections even though differences arise
PI-17	Budget preparation process	C	
17.1	Budget calendar	B	The budget calendar is generally respected. It allows key spending units at least 4 weeks to meaningfully complete their detailed budget estimates
17.2	Guidance on budget preparation	C	The local government finance office issued budget guidelines with expenditure ceilings to each budget unit for preparation of FY2019 budget, but these ceilings were not approved by the executive council. Once the final detailed budget estimates are completed, they are reviewed and approved by the executive committee
17.3	Budget submission to the legislature	D	As shown in Table 17.3 below, the executive committee (local cabinet) submitted the budget estimates one month before the start of the fiscal year for 2019 budget and less than one (around three weeks) for the remaining two fiscal years 2017 and 2018
PI-18	Legislative scrutiny of budgets	C+	
18.1	Scope of budget scrutiny	B	The budget review is only limited to the coming fiscal year's estimates, as the local government finance office does not submit medium-term

No.	Indicator	2019 Score	Justification for 2019 Score
			revenue and expenditure estimates to the village council. The review also covers the revenue and expenditure policies plus the underlying assumptions.
18.2	Legislature procedures budget scrutiny	C	The Village Council does not approve procedures for reviewing budget proposals; in other words, there are no clear standing orders for legislative budget procedures
18.3	Timing of budget approval	C	Budget estimates were adopted by the village council within one month of the start of the year in two of the last three fiscal years; in 2016, they were adopted before the start of the new fiscal year.
18.4	Rules for budget adjustment by the executive	B	Although clear legislative rules exist for all budget amendments, they allow extensive executive (administrative) reallocations as per evidence gathered under PI-2 above. There are also no limits for these reallocations
PI-19	Revenue administration	NA	
19.1	Rights and obligation for revenue measures	NA	As the central government SFS collects all revenues through its local revenue SFS office in Starosynnyavska ATC and has sharing arrangements with the sub-national revenue authority, this dimension is not applicable.
19.2	Revenue risk management	NA	As the central government SFS collects all revenues through its local revenue SFS office in Starosynnyavska ATC and has sharing arrangements with the sub-national revenue authority, this dimension is not applicable.
19.3	Revenue audit and investigation	NA	The local tax office does not conduct any tax audit and fraud investigations; this function is the remit of the rayon Tax Authority. On the basis of this information, assessors consider this dimension as 'not applicable'
19.4	Revenue arrears monitoring	NA	As the central government SFS collects all revenues through its local revenue SFS office in Starosynnyavska ATC and has sharing arrangements with the sub-national revenue authority, this dimension is not applicable.
PI-20	Accounting for revenues	A	
20.1	Information on revenue collections	A	Each month, the finance office receives a revenue report from the tax authority referencing total tax collections (representing 91.3% of local government domestic revenues), broken down into tax types; this is consolidated by the finance office every month
20.2	Transfer of revenue collections	A	All taxpayers pay their taxes directly into the Treasury main account; therefore, all tax revenues (representing 91.3% of local government domestic

No.	Indicator	2019 Score	Justification for 2019 Score
			revenues – both tax and non-tax) are directly transferred to the Treasury within 24 hours
20.3	Revenue account reconciliation	A	All taxpayers pay their taxes direct into the Treasury account held and controlled by the central government with access to local Treasury; therefore, no reconciliation between collections and transfers required. That said, a daily, monthly and annual reconciliation occurs between tax assessed and collections as well as tax arrears.
PI-21	Predictability of in-year resource allocation	B+	
21.1	Consolidation of cash balances	A	All the balances in these accounts are consolidated daily by the local government finance office; as at 10 th July 2019, the consolidated balance stood at UAH581,984.42
21.2	Cash forecasting and monitoring	A	The local government finance office prepares a consolidated cashflow forecast before the start of the new fiscal year, following the village council's approval of the budget estimates even though budget entities do not prepare cashflow forecasts. The consolidated cash flow plan is updated each month based on actual cash inflow and outflow
21.3	Information on commitment ceilings	A	The local government finance office issues reliable annual expenditure commitment ceilings to each budgetary unit once the village council (local parliament) approves the annual budget
21.4	Significance of in-year budget adjustments	C	Starosynyavska village council amended local budget in 2018 seven times in line with documented procedure. Significant amendments to KSU's budget allocations were adopted four times: three times for one of them (twice for more than 15% and once for more than 10%) and once for more than 15% for another KSU. Average virements were 30.44% of the originally approved budget
PI-22	Expenditure arrears	A	
22.1	Stock of expenditure arrears	A	In each of the last three completed fiscal years 2016, 2017, and 2018, there were no stock of expenditure arrears.
22.2	Expenditure arrears monitoring	A	Even though there were no stock of expenditure arrears each budgeted entity prepares, as part of the monthly financial reporting requirements, a statement to show any commitment that is unpaid even if the arrears are nil. This statement of arrears together with the monthly financial report, is prepared every month within one week after the end of the previous month
PI-23	Payroll controls	D+	
23.1	Integration of payroll and personnel records	B	The personnel and payroll management systems are manual, with each staff having a personnel file, maintained by the HR department, once recruited by the respective institution. The personnel and payroll records are not directly linked. Staff

No.	Indicator	2019 Score	Justification for 2019 Score
			recruitment and promotions are done in accordance with approved civil service staff list. Again, every month before the monthly payroll is processed and paid, the head of each institution checks the current month's payroll against the previous month's record for any discrepancies
23.2	Management of payroll changes	A	Available evidence obtained from personnel and payroll records from the village council, the local government finance office and the education and sports office indicates that there were no changes to both personnel and payroll records as at the time of the field work (July 2019)
23.3	Internal controls of payroll	B	The current practice referencing authority to change personnel and payroll records are well established with clear responsibilities and provide sufficient guarantees for the integrity of both personnel and payroll data. However, the existing manual processes do not result in audit trail
23.4	Payroll audits	D	There has not been any payroll audit (either partial of comprehensive payroll audit) over the assessment period (2016-2018)
PI-24	Procurement	B	
24.1	Procurement monitoring	A	Only 23.2% (refer to Table 24.1 below) by value of procurement goes through competitive method in the electronic system (prozorro.gov.ua) and the complete data is publicly available in real time showing the purpose of the contract, who won the contract and the value of the contract. There is also complete and accurate information (from the central procurement department of the sub-national government) on the remaining 76.8% of procurement that does not go through the electronic system
24.2	Procurement methods	D	As shown in Table 24.1 below, 76.8% of procurement by value were done through non-competitive means
24.3	Public access to procurement information	A	All six PEFA elements have been met as shown in Table 24.2 below
24.4	Procurement complaints management	B	The procurement complaints framework meets all but criteria (ii) of the PEFA requirements. Please refer to Table 24.3 below
PI-25	Internal controls on non-salary expenditure	B	
25.1	Segregation of duties	C	A walk-through test of the administrative and financial management processes of Starosynnyavska ATC local government clearly shows segregation of duties in terms of who is responsible for generating (or triggering) an authorised expenditure, who authorises such expenditure and who approves and pays (signs cheques) expenditures. However, no further

No.	Indicator	2019 Score	Justification for 2019 Score
			evidence of localised single documented financial management procedure exists
25.2	Effectiveness of expenditure commitment controls	A	Manual expenditure commitments exist where commitments are checked against approved budget per expenditure classification by the head of finance of each local government institution; approval is then given once there is sufficient approved budget for such expenditure. Another level of check is from the local government finance office for all budget institutions, to ensure that there is available cash to pay for commitments. The current practice is comprehensive; it effectively limits expenditure commitments to actual cash available as well as to approved budget limits
25.3	Compliance with payment controls	C	Presently, the absence of a functional internal audit unit as well as the non-existence of external audit reports as evidence limits assessors' judgement on the effectiveness and the level of compliance with payment rules and procedures. That said, sampled documentary evidence (assessors used payment files for June and July 2019) shows that at least 70% by value of these payment files are properly supported with proper documentation with authorised signatures. All exceptions are properly justified
PI-26	Internal audit	D	
26.1	Coverage of the internal audit	D	Budgetary institutions in Starosynavska ATC ATC have not established any internal audit divisions or appointed an official responsible for internal audit. Therefore, there is no functional internal audit unit in the local government administration.
26.2	Nature of audits and standards applied	NA	Not applicable
26.3	Implementation of internal audits and reporting	NA	Not applicable
26.4	Response to internal audits	NA	Not applicable
PI-27	Financial data integrity	A	
27.1	Bank account reconciliation	A	The 26 bank accounts are directly linked to the Treasury Single Account (TSA). The local government finance offices received daily transactional report on the movement of funds from each of the 26 accounts, which it reconciles with its cash ledgers. In addition to this, there is a complete weekly bank reconciliation for all 26 accounts; this is done within a day or two following the end of the week in question.
27.2	Suspense accounts	NA	Not applicable. There are no suspense accounts
27.3	Advance accounts	A	Advances to staff for salary and operational activities are zero. Contractors receive 30% mobilisation which is set-off against any future payment. All advances are reconciled at least every quarter within one month after the end of the

No.	Indicator	2019 Score	Justification for 2019 Score
			preceding quarter. As at the time of assessment, the balance on contractor account was zero.
27.4	Financial data integrity process	B	Only authorised staff have access to financial records. All changes to these records are duly authorised by the head of department and/or budget institution; changes result in audit trail. There is however no special unit or body responsibility for financial data integrity.
PI-28	In-year budget reports	D+	
28.1	Coverage and comparability of reports	D	Coverage and classification of financial report do not allow direct comparison between originally approved expenditure budget and actual expenditure outturns for the main administrative headings. Only the revenues by detailed codes of classifications are directly comparable
28.2	Timing of in-year reports	A	As indicated in table 29.2 below, the local government prepares monthly in-year budget execution reports; these are issued within two weeks after the end of the previous month.
28.3	Accuracy of in-year budget reports	C	The in-year budget execution reports include planned and actual expenditures but do not cover expenditure at commitment stage. At present, there is no functional independent internal audit to validate the accuracy of these reports. Also, external audit has not been conducted to equally authenticate the integrity of these reports. That said, the reports are very useful as they provide information and variance analysis of both revenue and expenditure for management use.
PI-29	Annual financial reports	D+	
29.1	Completeness of annual financial reports	A	As shown in the table, the annual financial statements present information on revenue and expenditure according to economic classification, cash balances and receivables, tangible assets, payables and long-term liabilities, plus a reconciled cash flow statement.
29.2	Submission of reports for external audit	D	The local government of Starosynavska ATC has not submitted the FY2018 annual financial statement for external audit
29.3	Accounting standards	C	Though the local government has never been audited within the last three completed years 2016-2018, it prepares annual financial statements in accordance with National Public Sector Accounting Regulations prescribed by MoF which are generally in line with IPSAS; the annual financial statements have been consistent over time
PI-30	External audit	D	
30.1	Audit coverage and standards	D	Over the last three completed fiscal years, the Supreme Audit Institution known as the Accounting Chamber of Ukraine (ACU) has not conducted any external audit of the financial record and operation

No.	Indicator	2019 Score	Justification for 2019 Score
			activities of the Starosynnyavska ATC local government administration
30.2	Submission of audit reports to the legislature	D	The Accounting Chamber of Ukraine has not conducted any external audit of the financial records of the local government administration; therefore, it has also not submitted any audit reports to the local government village council (legislature) for scrutiny
30.3	Extent of follow up	D	Within the assessment period (2016-2018), the Accounting Chamber of Ukraine has not undertaken any external audit follow-up within the local government administration.
30.4	Supreme Audit Institution independence	D	ACU is not fully independent. Its staff are civil servants under the authority and control of the executive government. Again, it has no full mandate to audit all public funds
PI-31	Legislative scrutiny of audit reports	D	
31.1	Timing of audit scrutiny	D	The village council has not received any external audit and/or financial report for scrutiny from the Accounting Chamber of Ukraine (ACU), State Audit Service (SAS) and the Finance Office of the local government administration
31.2	Hearing on audit findings	D	The village council has not conducted any hearing on external audit findings and also hearing on any financial reports from the finance office of the local government administration
31.3	Recommendations on audit by the legislature	D	The village council has not issued any recommendations on audit and/or financial findings
31.4	Transparency of the legislative scrutiny of audit reports	D	The village council has not conducted any public scrutiny of audit reports

Annex 2: Summary of observations on the internal control framework

Internal control components and elements	Summary of observations
<p>1. Control environment</p>	
<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, in particular, 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 local self-government (Article 8).</p> <p>By its Order No. 158 of 5th 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. No such units were created at the time of the assessment (responsible persons are directly subordinated to the manager, not assigned) in Starosynnyavska ATC.</p> <p>For other employees, internal documents have not created any necessary conditions for the implementation of this element. Pursuant to Article 142 of the Labour Code (No. 322 of 10.12.1971), the work arrangements at enterprises, institutions, organizations are determined by the internal rules of conduct approved on the basis of standard rules. Such standard rules have been in force since the Soviet Union (Resolution of the USSR State Committee on Labour and Social Affairs No. 213 of 20th July 1984), are outdated in terms of professional integrity and do not contain necessary requirements for ethical values. Individual Ministries have adopted their own standard rules for their subordinate institutions, which contain only general requirements for the personal and professional integrity and ethical values of management and staff. 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. However, it does not determine whether they contain a code of corporate ethics as it is not formulated as a separate document.</p>

Internal control components and elements	Summary of observations
1.2 Commitment to competence	<p>According to the Order of the Ministry of Social Policy of 29th December 2004 No. 336, the section of the job description "Qualification Requirements" contains provisions concerning education, educational-qualification levels and experience that are sufficient for complete and high-quality performance of jobs on the positions. The "Must Know" section contains requirements for specific knowledge, as well as knowledge of the legal acts and regulations required to perform the duties. The same Order stipulates that all employees must improve their professional qualifications in accordance with the requirements of current legislation, and all managers must implement measures for the professional development of staff in order to achieve high economic results.</p> <p>According to the General Rules of Ethical Conduct of Civil Servants and Officials of Local Self-Government (Order of the National Civil Service Agency No. 158 dated 5th 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. However, such a requirement is not always contained in the individual job description of the employee or in the rules of internal conduct that govern the employees.</p> <p>According to Law of Ukraine No. 2493 of June 7, 2001, the main responsibilities of local government officials, in particular, include continuous improvement of the organization of their work and professional development (Article 8). In order to increase the efficiency of local self-government officials, their certification is conducted once every 4 years, during which work results, business and professional qualities are evaluated. The Standard Regulation for certification of local government officials was approved by CMU Resolution No. 1440 of 26th October 2001. Between the appraisals, annual performance by local government officials of their tasks and responsibilities is assessed annually.</p> <p>In accordance with the Resolution of the Cabinet of Ministers № 59 of 26th January 2011 a chief accountant must submit proposals to the manager for the organization of training of employees of the accounting service including accounting staff of budgetary institutions, which are subordinated to the budgetary institution, in order to improve their professional and qualification level.</p> <p>CMU Resolution No. 1040 of November 26, 2008 obliges the legal service to organize and carry out work related to the improvement of qualifications of employees of the legal service and the company belonging to its field of management.</p>

Internal control components and elements	Summary of observations
	<p>Depending on the industry (profession), employees undergo periodic attestation, which is preceded by the completion of advanced training. For example, the Order of the Ministry of Finance № 1537 of 1st December 2011 approved the procedure of evaluation of the performance by the chief accountant of the budgetary institution of his/her powers. Such an assessment shall be carried out annually. According to the Law of Ukraine No. 2145 of September 5, 2017 "On Education," pedagogical staff undergo regular attestation at least once every five years (Article 50). Regular certification of employees of cultural institutions (Order of the Ministry of Culture No. 44 of 16th July 2007) and doctors (Order of the Ministry of Health № 359 of 19th December 1997 "On further improvement of the attestation of doctors" (in the wording of the Order of the Ministry of Health No. 650 2th October 2015)) are also held once in five years, and the annual review of personal educational portfolio will begin in 2021 with points of continuous professional development (Order of the Ministry of Health № 446 22th February 2019 "Some issues of continuous professional development of doctors").</p>
<p>1.3 The "tone at the top" (i.e. management's philosophy and operating style)</p>	<p>According to the law, all managers must:</p> <ul style="list-style-type: none"> - in terms of risk acceptance and monitoring: analyze the state of implementation of plans, organization of works, executive skills of employees, satisfaction of customer requirements and technological, market, financial achievements or missteps (Order of the Ministry of Social Policy of 29th December 2004 № 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 16.07.1999 "On Accounting and Financial Reporting in Ukraine"); - in terms of the management's attitude to: <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 29th December 2004 № 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 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 29th December 2004 № 336); • monitoring, auditing and evaluation: to analyse the state of implementation of plans, organization of works, executive skill of employees, satisfaction of customer requirements and technological, market, financial achievements or failures (Order of the Ministry of Social Policy of 29th 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>

Internal control components and elements	Summary of observations
	<p>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>The organizational structure of the institutions funded by the AH budget is approved by their founder: the village council. According to Article 26 of the Law of Ukraine "On Local Self-Government in Ukraine" exclusive competence of village and city councils includes 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. There are no clear and agreed objectives for the activities of the institutions.</p> <p>Legislation provides for the organizational structure of institutions that contains key units required for internal control.</p> <p>CMU Resolution No. 59 of 26th January 2011 approved the Standard Regulation on the Accounting Service of a Budgetary Institution, in accordance with which the Accounting Services operate. In particular, it is envisaged that such a service is an independent structural unit (or a designated specialist) reportable directly to the head of the institution or his/her deputy.</p> <p>Pursuant to Article 18 of the Law of Ukraine No. 889 of 10th December 2015 "On Civil Service" the Human Resource Service of a state body (or the position of a staff specialist) is established with direct subordination to the head of the civil service. Responsibilities of the Human Resource Service may be entrusted to one of the public officials of the authority. A standard regulation on the HR service of a state body was approved by the Order of the National Agency of Ukraine for Civil Service No. 47 of 3rd March 2016.</p> <p>As a rule, institutions create departments responsible for accounting and staff issues, or appoint appropriate specialists. However, in small institutions they are absent. In such cases, accounting is performed by a higher organization (for example, a centralized accounting service of the department of education, youth, sports, culture covers financial activity of educational institutions). HR recruitment and accounting responsibilities may be shared with other employees.</p> <p>CMU Resolution No. 1040 of November 26, 2008 approved the General Regulation on the Legal Service of ministries, other executive bodies, state enterprises, institutions and organizations. In accordance with this Regulation, the Legal Service of an executive authority or enterprise is formed as an independent structural unit reportable directly to the manager. In small institutions (such as schools), such units and staffing positions are not created, and a lawyer is contracted to provide legal services. Some small institutions do not have legal support for their operation.</p>

Internal control components and elements	Summary of observations
	<p>According to Clause 7 of the Order of the Ministry of Justice № 1000/5 of 18th June 2015 organization of office management in institutions is entrusted with independent structural units for record keeping (documentation support), general departments, offices, etc. or a person responsible for record keeping in the institution - secretary, record keeper (hereinafter referred to as the recordkeeping service). According to Paragraph 8 of the above Order, archive is an independent structural unit or part of the record keeping service of the institution. In numerically insignificant institutions, the person responsible for keeping the institution's archive is appointed. In small institutions, such persons may be absent, and other staff may share these responsibilities.</p> <p>Pursuant to Article 26 of the BCU, for the purpose of internal audit, a spending unit represented by the manager forms an independent internal audit unit subordinated and accountable directly to the manager. The basic principles of internal control and internal audit²⁴ as well as the procedure for the formation of internal audit units²⁵ are defined by the CMU. As noted above, internal audit units have not been established in Starosynnyavska ATC (no responsible persons directly subordinate to the head are assigned).</p>
1.5. Human resource policies and practices	<p>The standard regulation on the human resource service of a state body approved by the Order of the National Agency of Ukraine for Civil Service No. 47 of 3rd March 2016 includes, in particular, selection of personnel; forecasting staff development, encouraging employees to build work careers, 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, while staff recruitment and accounting responsibilities may be shared with other employees. This may indicate a lack of capacity to formulate personnel policies, namely to forecast staff development and enhance their professional competence.</p> <p>Pursuant to Article 16 of the Law of Ukraine No. "On Service in Local Self-Government Bodies", according to the decision of the local self-government body, personnel reserve is created for occupying positions and promotion, which is approved by the village or city mayor, head of rayon or city district, or oblast council. The procedure of formation and maintenance of staff reserve of officials is determined by the relevant council. CMU Resolution No. 1386 of 24th October 2001 approved the standard procedure for formation of personnel reserve in local self-government bodies.</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>

²⁴ CMU Resolution No. 1062 of 12.12.2018.

²⁵ CMU Resolution No. 1001 of 28.09.2011.

Internal control components and elements	Summary of observations
	<p>Pursuant to Article 20 of the BCU, at all stages of the budgetary process, its participants are required, within the limits of their powers, to evaluate efficiency of budgetary programs, which includes measures to monitor, analyse and control the targeted and effective use of budgetary funds. There is no formalized methodology for taking such measures.</p> <p>Several parameters are connected with each other based on the degree of risk determination including:</p> <p>Economic analysis of investment proposals is rated as "D" under indicator 11.1 - There is no economic analysis to evaluate investment projects.</p> <p>Macro-fiscal sensitivity analysis is rated as "NA" under indicator 14.3 - The local government finance office does not prepare any macro-fiscal sensitivity analysis, indicating different scenarios of the budget.</p> <p>Revenue risk management is rated as "NA" under indicator 19.2 – This dimension is not applicable</p> <p>Cash flow forecasting and monitoring is rated as "A" under indicator 21.2 - The local government finance office prepares a consolidated cashflow forecast before the start of the new fiscal year, following the village council's approval of the budget estimates. The consolidated cash flow plan is updated each month based on actual cash inflow and outflow.</p>
2.5 Responses to risk (transfer, tolerance, treatment or termination)	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>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 26th 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 11th January 2015, the chief accountant develops, and the manager of the institution approves the regulation on accounting policy.</p> <p>According to the Order of the Ministry of Finance No. 88 of 24th May 1995 "On Approval of the Regulations on the Documentary Support of Accounting Records", the manager of the institution should establish a schedule of workflow, which should ensure the optimal number of units and executors through which each primary document passes, determine the minimum term of its stay in a unit, as well as 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 all contractors, indicating their relationship and work timing. In AH, all institutions are small and employees are guided by their job descriptions.</p>

Internal control components and elements	Summary of observations
	<p>The processes for ensuring the reliability of the financial data were rated "B" under PI-27.4. Only authorised staff have access to financial records. All changes to these records are duly authorised by the head of department and/or budget institution; changes result in audit trail. There is however no special unit or body responsibility for financial data integrity.</p> <p>Efficiency of controlling the expenditure obligations is rated "A" under PI-25.2. Manual control for expenditure commitments exist where commitments are checked against approved budget per expenditure classification by the head of accounting department of each local government institution; approval is then given once there is sufficient approved budget for such expenditure. Another level of check is from the local government finance office for all budget institutions, to ensure that there is available cash to pay for commitments.</p> <p>Integration of the payroll and personal files is rated "B" under PI-23.1. The personnel and payroll management systems are manual, with each staff having a personnel file, maintained by the HR department, once recruited by the respective institution. The personnel and payroll records are not directly linked. Staff recruitment and promotions are done in accordance with approved civil service staff list. Again, every month before the monthly payroll is processed and paid, the head of each institution checks the current month's payroll against the previous month's record for any discrepancies.</p> <p>Management of changes in the payroll sector is rated "A" under PI-23.2. Available evidence obtained from personnel and payroll records from the village council, the local government finance office and the education and sports office indicates that there were no changes to both personnel and payroll records as at the time of the field work (July 2019).</p> <p>Compliance with payroll rules and procedures is rated "B" under PI-23.3. The current practice referencing authority to change personnel and payroll records are well established with clear responsibilities and provide sufficient guarantees for the integrity of both personnel and payroll data. However, the existing manual processes do not result in audit trail.</p>
3.2 Segregation of duties (authorizing, processing, recording, reviewing)	<p>Requirements for the segregation of key responsibilities are defined at the legislative level and must be confirmed by internal documents.</p> <p>According to the Resolution of the Cabinet of Ministers № 59 of 26th January 2011 "On Approval of the Standard Regulation on the Accounting Service of a Budgetary Institution", the main tasks include accounting of financial and economic activities of a budgetary institution and preparation of reports.</p> <p>The Law of Ukraine "On Accounting and Financial Reporting" stipulates that a primary document (a work (service) delivery act) must be signed by the person who participated in the business operation. Order of the Ministry of Justice No. 1000/5 of June 18, 2015 "On Approval of the Rules of Organization of Records Management and Archival Storage of Documents in State Bodies, Local Self-Government Bodies, Enterprises, Institutions and Organizations" defines the need for segregation of responsibilities when signing management documents. According to this Order, internal approval of the draft contract based on the procurement results should be carried out, inter alia, by the employee who prepared the document; the head of</p>

Internal control components and elements	Summary of observations
	<p>the structural unit in which it was created; financial unit or chief accountant (accountant); the head of legal service (lawyer).</p> <p>The full segregation of responsibilities for approval and signing of certain types of documents at the institution should be summarized in the workflow schedule approved by the head of the institution. In AHs, all institutions are small, and officials sign documents within the limits of their authority as defined in the institution's regulations (charters), structural unit regulations, job descriptions, 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 № 879 2nd September 2014 approved the regulation for inventory of assets and liabilities. The Order, in particular, specifies that for the inventory purposes, an executive document shall be issued by the head of the enterprise to establish an inventory commission out of representatives of the enterprise management, accounting service (representatives of an audit firm, centralized accounting office, business entity/natural person who performs accounting at the enterprise on a contractual basis) and experienced employees of the enterprise who know the object of inventory, pricing and primary accounting (engineers, technologists, mechanics, contractors, stock managers, economists, accountants). The inventory commission is headed by the head of the enterprise (his/her deputy) or the head of the structural subdivision of the enterprise authorized by the head of the enterprise. This regulation also stipulates that financially responsible persons are not included in the inventory commission to check the assets held in their custody.</p> <p>Segregation of duties is rated "C" under PI-25.1. A walk-through test of the administrative and financial management processes of Starosynavska ATC local government clearly shows segregation of duties in terms of who is responsible for generating (or triggering) an authorised expenditure, who authorises such expenditure and who approves and pays (signs payment orders) expenditures. Assessors have got a copy of the accounting policy of the Starosynavska village council. No further evidence of a comprehensive financial management manual have been provided.</p>
3.3 Controls over access to resources and records	<p>Compliance with payment rules and procedures is rated "C" under PI-25.3. Presently, the absence of a functional internal audit unit as well as the non-existence of external audit reports as evidence limits assessors' judgement on the effectiveness and the level of compliance with payment rules and procedures. That said, sampled documentary evidence shows that most payments comply with payment procedures but there is no evidence to show whether exceptions are properly justified.</p> <p>Processes for ensuring the reliability of financial data are rated "B" under PI-27.4. Only authorised staff have access to financial records. All changes to these records</p>

Internal control components and elements	Summary of observations
	are duly authorised by the head of department and/or budget institution; changes result in audit trail. There is however no special unit or body responsibility for financial data integrity.
3.4 Verifications	<p>According to the Law of Ukraine No. 996 of July 16, 1999 “On Accounting and Financial Reporting in Ukraine”, enterprises are required to keep inventory of assets and liabilities in order to ensure the accuracy of accounting and financial statements. Such audits verify the existence, condition and valuation of assets and liabilities, and document their existence. The regulation on inventory was approved by the Order of the Ministry of Finance № 879 of 2nd 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 partial inventory in the case of leases, changes of materially liable persons, etc.</p> <p>Accuracy of annual budget reports is rated “C” under PI-28.3. At present, there is no functional independent internal audit to validate the accuracy of in-year budget execution reports. Also, external audit has not been conducted to equally authenticate the integrity of these reports. That said, the reports are very useful as they provide information and variance analysis of both revenue and expenditure for management use.</p>
3.5 Reconciliations	<p>Reconciliation of bank accounts is rated “A” under PI-27.1. The 26 bank accounts are directly linked to the Treasury Single Account (TSA). The local government finance offices received daily transactional report on the movement of funds from each of the 26 accounts, which it reconciles with its cash ledgers. In addition to this, there is a complete weekly bank reconciliation for all 26 accounts; this is done within a day or two following the end of the week in question.</p> <p>PI-27.2 “Reconciling suspended accounts” is not applicable. There are no suspense accounts.</p>
3.6 Reviews of operating performance	<p>PI-19.3 «Process of revenue audit and investigation» is not applicable. The local tax office does not conduct any tax audit and fraud investigations; this function is the remit of the oblast Tax Authority.</p>
3.7 Reviews of operations, processes and activities	<p>Monitoring of procurement is rated “A” under PI-24.1. Only 23.2% (refer to Table 24.1 below) by value of procurement goes through competitive method in the electronic system (prozorro.gov.ua) and the complete data is publicly available in real time showing the purpose of the contract, who won the contract and the value of the contract. Data on the remaining 76.8%, although non-competitive, is accurate and complete</p>
3.8 Supervision (assigning, reviewing and approving, guidance and training)	Supervision policies are not approved.
4. Information and communication	Each budgetary unit prepares and submits monthly in-year budget execution reports to the local Treasury office. Comprehensive interim financial statements are prepared by Treasury and submitted to management on a monthly and quarterly basis. The reports indicate revenues by detailed codes of revenue classification and expenditure (recurrent and capital) by budget programs, detailed

Internal control components and elements	Summary of observations
	<p>functional and economic classifications and KSU's indication (administrative category), and the financing of the budget also. (PI-28). The annual financial statements present information on revenue and expenditure according to programmatic, functional and economic classifications, cash balances and receivables, tangible assets, payables and long-term liabilities, plus a reconciled cash flow statement (PI-29). Though the local government has never been audited within the last three completed years 2016-2018, it prepares annual financial statements in accordance with National Public Sector Accounting Regulations prescribed by MoF which are generally in line with IPSAS (PI-29). Consolidated financial statements do not contain information on tangible assets that is only included in the statement at each institution level.</p> <p>Access to information for the public is multi-fold: due to the official public procurement portal (PI-24), public has access to procurement; a village council publishes information on planned and actual indicators for service delivery (PI-8); the budget and its forecast for the medium term, macroeconomic indicators (PI-14); budget execution information. The local SFS office conducts public forums to educate taxpayers. It also has billboards for posting notices on taxation. It also has a client service unit for walk-in customers for enquiries; tax leaflets are also available free-of-charge for public use (PI-19).</p>
5. Monitoring	
5.1 Ongoing monitoring	<p>The evaluation highlighted a number of areas related to ongoing monitoring activities:</p> <p>Resources received by service units are rated "A" under PI-8.3. 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>Monitoring of state corporations is rated "C" under PI-10.1. The FY2018 financial reports have not been audited. That notwithstanding, the local government received the un-audited annual financial statements for FY2018 on 28th January 2019 (within one month after year end) for all three public corporations.</p> <p>Monitoring of local governments (PI-10.2) is not applicable, as there is no first-tier lower level government.</p> <p>Contingent liabilities and other fiscal risks are rated "D" under PI-10.3. The sub-national government does not keep records of both implicit and explicit contingent liabilities and any other fiscal risks that could arise out of their operations.</p> <p>Monitoring of investment projects is rated "D" under PI-11.4. Though the local government has no technical capacity to undertake M&E of capital projects, the function is outsourced to independent expert. Annual physical and financial progress reports are prepared but not published.</p> <p>Quality of monitoring of government financial assets is rated "C" under PI-12.1. The government maintains records of some financial assets (cash and receivables) but not shares held in corporations. As at 31st December 2018, cash balance stood at UAH6.2 million.</p>

Internal control components and elements	Summary of observations
	<p>Quality of monitoring of government non-financial assets is rated “C” under PI-12.2. Each local government institution maintains a fixed asset register of buildings, vehicles, fixtures and fittings, indicating their cost, age and usage. The cadastre office is still working on mapping government land. Natural resources are not recorded.</p> <p>Monitoring of revenue arrears is rated “NA” under PI-19.4. This dimension is not applicable</p> <p>Monitoring of expenditure arrears is rated “A” under PI-22.2. There is no stock of expenditure arrears. Statement of arrears together with the monthly financial report, is prepared every month within one week after the end of the previous month.</p> <p>Procurement monitoring is rated “A” under PI-24.1. Only 23.2% by value of procurement goes through competitive method in the electronic system (prozorro.gov.ua) and the complete data is publicly available in real time showing the purpose of the contract, who won the contract and the value of the contract. Data on the remaining 76.8%, although non-competitive, is accurate and complete.</p> <p>No internal or external audits conducted during the period under review (“D” under PI-26.3 and PI-30.1). A specialist of the Financial Department is entrusted with control and supervision (audit) functions regarding financial and economic activity of enterprises, subordinate and/or accountable to the village council, providing conclusions and proposals on elimination of identified shortcomings and optimization of financial and economic activities of such organizations. These responsibilities are outlined in the job description. The head of the village council approves the schedule of such financial audits of institutions, enterprises and organizations for six months.</p>
5.2 Evaluations	<p>Evaluation of service delivery efficiency is rated “C” under PI-8.4. The process of selecting an investment project is rated “D” under PI-11.2.</p>
5.3 Management responses	<p>No internal or external audits conducted during the period under review (“NA” under PI-26.3 and “D” under PI-30.1). Based on the results of the audits of the financial and economic activities of the enterprises subordinate and/or accountable to the village council, the specialist who carried out the audit prepares a reference containing proposals for elimination of the detected violations. The Financial Department reports on the results of the audit to the head of the village council. Enterprise executives report to the audit specialist on the corrective action taken.</p>

Annex 3A: Sources of Information per indicator/dimension

Indicator	Dimension	Data used
HLG-1: Transfer from a higher-level government		
HLG-1. Transfers from a higher-level government (M1)	HLG-1.1 Outturn of transfer from higher-level government	Decisions of SS Local Council on budget approval (2016-2018) Treasury reports on local budgets execution (2016-2018) State Budget Law (2016-2018)
	HLG-1.2 Earmarked grants outturn	Decisions of SS Local Council on budget approval (2016-2018) Treasury reports on local budgets execution (2016-2018) State Budget Law (2016-2018)
	HLG-1.3 Timeliness of transfer from higher-level government	Budget Code of Ukraine Cabinet Decree as of 15.12.2010 No. 1132 "On approval of the Procedure for distribution of intergovernmental transfers" Starosynavska ATC budget annual and monthly allocation plans (2016-2018) Starosynavska ATC daily transfers cash flows (2016-2018)
I. Budget Reliability		
1. Aggregate Expenditure Outturn	1.1 Aggregate Expenditure Outturn	Decisions of SS Local Council on budget approval (2016-2018) Treasury reports on local budgets execution (2016-2018)
2. Expenditure Composition Outturn	2.1 Expenditure Composition Outturn by Function	Decisions of SS Local Council on budget approval (2016-2018) Treasury reports on local budgets execution (2016-2018) MoF Order as of 14.01.2011 No. 11 "On Budget Classification"
	2.2 Expenditure Composition Outturn by Economic Type	Decisions of SS Local Council on budget approval (2016-2018) Treasury reports on local budgets execution (2016-2018) MoF Order as of 14.01.2011 No. 11 "On Budget Classification"
	2.3 Expenditure from Contingency Reserves	Decisions of SS Local Council on budget approval (2016-2018) Treasury reports on local budgets execution (2016-2018)
3. Revenue Outturn	3.1 Aggregate Revenue Outturn	Decisions of SS Local Council on budget approval (2016-2018) Treasury reports on local budgets execution (2016-2018) MoF Order as of 14.01.2011 No. 11 "On Budget Classification"

	3.2 Revenue Composition Outturn	Decisions of SS Local Council on budget approval (2016-2018) Treasury reports on local budgets execution (2016-2018) MoF Order as of 14.01.2011 No. 11 "On Budget Classification"
II. Transparency Of Public Finances		
4. Budget Classification	4.1 Budget Classification	MoF Order as of 14.01.2011 No. 11 "On Budget Classification" The GFS Classification
5. Budget Documentation	5.1 Budget Documentation	Budget Code of Ukraine State Budget Law (2016-2018) Decisions of SS Local Council on budget approval (2016-2018) Explanatory notes to Decisions of SS Local Council on budget approval (2016-2018) Treasury reports on local budgets execution (2016-2018) Budget circulars of SS Financial Department
6. Central Government Operations Outside Financial Reports	6.1 Expenditure Outside Financial Reports	Budget Code of Ukraine Treasury reports on local budgets execution (2016-2018)
	6.2 Revenue Outside Financial Reports	Budget Code of Ukraine Treasury reports on local budgets execution (2016-2018)
	6.3 Financial Reports of Extra Budgetary Units	MoF Order as of 24.01.2012 No. 44 "On Approval of the Procedure for Budgetary reports preparation by spending units and budget means recipients, and preparation of reports by Social and Pension Insurance Funds"
7. Transfers To Sub-national Governments	7.1 System for Allocating Transfers	Budget Code of Ukraine State Budget Law (2016-2018)
	7.2 Timeliness of Information on Transfers	Budget Code of Ukraine State Budget Law (2016-2018) Decisions of SS Local Council on budget approval (2016-2018) Explanatory notes to Decisions of SS Local Council on budget approval (2016-2018)
8. Performance Information For Service Delivery	8.1 Performance Plans for Service Delivery	Budget Code of Ukraine MoF Order as of 26.08.2014 No. 836 "Some Issues on PBB for local budgets planning and execution" Local budget program passports (2018): https://starosyniavska-gromada.gov.ua/pasporta-bjudzhetnih-program-09-08-10-23-02-2017/

		Midterm Education Development Program for 2016-2020 approved by Starosynjavska ATC Village Council Resolution as of 17.05.2016 No. 8
	8.2 Performance Achieved For Service Delivery	Local budget program passports and passports reports (2018): https://starosynjavska-gromada.gov.ua/pasporta-bjudzhetnih-program-09-08-10-23-02-2017/ Summary results of the analysis and evaluation of the effectiveness of budget programs (2018): https://starosynjavska-gromada.gov.ua/zviti-pro-vikonannya-bjudzhetnih-program--2018-11-28-57-12-03-2019/
	8.3 Resources Received By Service Delivery Units	MoF Order as of 23.08.2012 No. 938 "On approval of the Procedure for Treasury servicing of local budgets" Report on receipts and use of funds received as sources of the own revenues of local budget institutions (template № 4.2-m) (2018) Information (note) specifying proceeds in kind (2018) Certificates on actual services (operations) provided (completed, implemented) (2018)
	8.4 Performance Evaluation For Service Delivery	Budget Code of Ukraine MoF Order as of 17.05.2011 No. 608 "On approval of the Methodological recommendations for the evaluation of the effectiveness of budget programs" MoF Guidance for the Local Governments "Methodology of the comparative analysis for evaluation of effectiveness of the local budget programs" Local budget program passports and passport reports (2018): https://starosynjavska-gromada.gov.ua/pasporta-bjudzhetnih-program-09-08-10-23-02-2017/ Summary results of the analysis and evaluation of the effectiveness of budget programs (2018): https://starosynjavska-gromada.gov.ua/zviti-pro-vikonannya-bjudzhetnih-program--2018-11-28-57-12-03-2019/
9. Public Access To Fiscal Information	9.1 Public Access To Fiscal Information	SS official website: https://starosynjavska-gromada.gov.ua Local newspaper "Kolos"
III. Management Of Assets And Liabilities		
10. Fiscal Risk Reporting	10.1 Monitoring of Public Corporations	Financial reports of public corporations (2018)
	10.2 Monitoring of Sub-national Governments	N/A
	10.3 Contingent Liabilities and Other Fiscal Risks	Financial reports of public corporations (2018)
11. Public Investment Management	11.1 Economic Analysis of Investment Proposals	Cabinet Decree as of 16.03.2016 No. 200
	11.2 Investment Project Selection	Cabinet Decree as of 06.02.2012 No. 106
	11.3 Investment Project Costing	Decision of the executive committee of SS Village Council as of 01.06.2018 No. 01/2018

	11.4 Investment Project Monitoring	Plan of socio-economic development of SS amalgamated community List of major capital investment projects FY2018
12. Public Asset Management	12.1 Financial Asset Monitoring	Order No. 351 "On Approval of the Procedure for Monitoring the Effectiveness of Asset Management"
	12.2 Nonfinancial Asset Monitoring	Treasury report on local budgets execution FY2018 (Balance Sheet, form №1-дс)
	12.3 Transparency of Asset Disposal	Law "On Privatization of the State and Communal Property" No. 2269-VIII as of 18.01.2018 Law "On Local Self-Governance in Ukraine" No. 280/97-BP as of 21.05.1997 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"
13. Debt Management	13.1 Recording and Reporting of Debt and Guarantees	N/A (Budget Code of Ukraine)
	13.2 Approval of Debt and Guarantees	N/A (Budget Code of Ukraine)
	13.3 Debt Management Strategy	N/A (Budget Code of Ukraine)
IV. Policy-Based Fiscal Strategy And Budgeting		
14. Macroeconomic and Fiscal Forecasting	14.1 Macroeconomic Forecasts	Explanatory Note to the Draft village budget decision for 2019
	14.2 Fiscal Forecasts	Explanatory Note to the Draft village budget decision for 2019
	14.3 Macro Fiscal Sensitivity Analysis	Draft village budget decision for 2019 and supporting documents

15. Fiscal Strategy	15.1 Fiscal Impact of Policy Proposals	Explanatory Note to the Draft village budget decision for 2019
	15.2 Fiscal Strategy Adoption	Draft village budget decision for 2019 and supporting documents
	15.3 Reporting on Fiscal Outcomes	-
16. Medium Term Perspective In Expenditure Budgeting	16.1 Medium-Term Expenditure Estimates	Budget request of the Department of Education, Youth, Sports and Culture for 2019-2021; The Instruction on preparation of budget requests for 2019-2021 (order of village council # 99/2018-r dated September 6, 2018); MoF Order # 648 dated 17.07.2015 "On the approval of standard forms of budget requests for the formation of local budgets"
	16.2 Medium-Term Expenditure Ceilings	Letters of the Financial Department to the KSU on budget ceilings for 2019 Draft village budget decision for 2019
	16.3 Alignment of Strategic Plans and Medium-Term Budgets	-
	16.4 Consistency of Budgets with Previous Year's Estimates	Explanatory Note to the Draft village budget decision for 2019
17. Budget Preparation Process	17.1 Budget Calendar	Decision of the Starosynavska execution committee # 09/2018 dated September 17, 2018 "On preparation of the draft village budget for 2019 and forecast of the village budget for 2020 – 2021"; KSU's letters to the Financial Department on budget requests for 2019-2021 submission
	17.2 Guidance on Budget Preparation	Financial Department's letter to KSUs # 135 dated October 3, 2018
	17.3 Budget Submission to the Legislature	Letters of the Financial Department to the village council on the submission of draft budget decisions for 2017, 2018 and 2019
18. Legislative Scrutiny Of Budgets	18.1 Scope of Budget Scrutiny	Minutes of joint meeting of standing committee dated December 28, 2018 Minutes of the meeting of the standing committee on regulation, human rights, human rights, legality, parliamentary activity and ethics and planning of finance, budget and socio-economic development dated December 26, 2018
	18.2 Legislative Procedures for Budget Scrutiny	Starosynavska village's council decision # 3 dated December 9, 2015 "On the standing committee of the Starosynavska village's council" Regulations of the Starosynavska village's council of the VII convocation approved by the Starosynavska village's council decision # 32 dated June 24, 2016

	18.3 Timing of Budget Approval	Starosynavska village's council decisions: # 57 dated December 29, 2015 "On Starosynavska village's council budget for 2016"; # 01/2017 dated January 17, 2017 "On Starosynavska village's council budget for 2017"; # 01/2018 dated January 16, 2018 "On Starosynavska village's council budget for 2018"
	18.4 Rules for Budget Adjustment by the Executive	Budget Code (Article 23)
V. Predictability And Control In Budget Execution		
19. Revenue Administration	19.1 Rights And Obligations For Revenue Measures	Tax Code (Articles 19-3, 56) CMU's Resolution # 106 dated February 16, 2011 "Some issues of accounting for taxes, fees, payments and other budget revenues" SFS website: http://sfs.gov.ua Data on revenues for 2016-2018, provided by Financial Department
	19.2 Revenue Risk Management	Tax Code (Article 78) Budget Code (Article 45)
	19.3 Revenue Audit And Investigation	Tax Code (Article 19-3)
	19.4 Revenue Arrears Monitoring	Tax Code (Article 12) Data on tax arrears for 2018, provided by Financial Department
20. Accounting For Revenue	20.1 Information On Revenue Collections	Data on revenues for 2016-2018, provided by Financial Department
	20.2 Transfer Of Revenue Collections	Budget Code (Article 45)
	20.3 Revenue Accounts Reconciliation	Budget Code (Article 45) The reconciliation report as at the time of this assessment (July 2019), provided by State Tax Inspection
21. Predictability Of In-Year Resource Allocation	21.1 Consolidation Of Cash Balances	Budget Code (Article 2) Treasury's Order # 122 of June 26, 2002 "On the approval of the Regulation on the Single Treasury Account"
	21.2 Cash Forecasting And Monitoring	Consolidated cash flow forecast provided by Financial Department
	21.3 Information On Commitment Ceilings	MoF Order # 57 dated January 28, 2002 "On approval of documents used in the process of budget execution"

		Budget Appropriations and Credit Limit Reference for 2019, issued by Financial Department via letter # 4 dated January 08, 2019 and sent to Education, Youth, Sports and Culture Department (including monthly appropriations)
	21.4 Significance Of In-Year Budget Adjustments	Starosynavska village's council decisions on village's budget for 2018 amendments: # 01/2018 dated February 23, 2018; # 24/2018 dated May 23, 2018; # 12/2018 dated July 20, 2018; # 02/2018 dated July 27, 2018; # 04/2018 dated August 17, 2018; # 7/2018 dated December 18, 2018
22. Expenditure Arrears	22.1 Stock Of Expenditure Arrears	Treasury's reports on expenditures arrears for 2016, 2017 and 2018 Budget Code
	22.2 Expenditure Arrears Monitoring	MoF Order # 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 # 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"
23. Payroll Controls	23.1 Integration Of Payroll And Personnel Records	Order of the MoF # 57 dated January 28, 2002 "On approval of documents used in the process of budget execution" Order of the State Statistic Committee # 489 dated December 5, 2008 "On the approval of standard forms of primary accounting documentation on labour statistics"
	23.2 Management Of Payroll Changes	Personnel and payroll records of the village council, of the local government finance office and the education and sports
	23.3 Internal Control Of Payroll	Order of the State Statistic Committee # 489 dated December 5, 2008 "On the approval of standard forms of primary accounting documentation on labour statistics" Annex to the staff list for the 2019, approved by the Head of the Starosynavska village's council Pay sheet of the Starosynavska village's council for April 2019
	23.4 Payroll Audit	Pay sheet of the Starosynavska village's council for April 2019
24. Procurement Management	24.1 Procurement Monitoring	Public Procurement Law # 922 dated December 25, 2015 (Article 2) MEDT's Order # 490 dated March 22, 2016 "On approval of forms of documents in the area of public procurement"
	24.2 Procurement Methods	Public Procurement Law # 922 dated December 25, 2015 (Article 2) Procurement data of Starosynavska village's council for 2018 (verified by the procurement authority)

		Electronic system https://prozorro.gov.ua Web-site https://bi.prozorro.org
	24.3 Public Access To Procurement Information	Public Procurement Law # 922 dated December 25, 2015 (Articles 2, 4, 7-1, 8, 9, 10) Electronic system prozorro.gov.ua Web-site https://bi.prozorro.org
	24.4 Procurement Complaints Management	Public Procurement Law # 922 dated December 25, 2015 (Article 18) Procurement complaints framework
25. Internal Controls On Non salary Expenditure	25.1 Segregation of Duties	MoF order # 995 dated September 14, 2012 "On approval of the Methodological recommendations on the organization of internal control by spending units in their institutions and in subordinate budget institutions" CMU's Resolution # 1062 dated December 12, 2018 "On approval of the Basic Principles of Internal Control by Spending Units" MoF order # 938 dated August 23, 2012 "On approval of the Treasury Services Order for local budgets" MEDT's Decree # 557 dated March 30, 2016 Regulation on the Accounting and Reporting Department of the Starosynavska village's council Order of the village head # f10-2017-r dated January 26, 2017 "On the approval of the standard instruction on paperwork in the Starosynavska village's council"
	25.2 Effectiveness of Expenditure Commitment Controls	MoF order # 938 dated August 23, 2012 "On approval of the Treasury Services Order for local budgets" NBU's Resolution as of 21.01.2004 № 22 Law of Ukraine as of 16.07.1999 № 996-XIV
	25.3 Compliance with Payment Controls	Budget Code (Article 26)
26. Internal Audit	26.1 Coverage of Internal Audit	Budget Code (Article 26) CMU's Resolutions as of 28.09.2011 № 1001 "Some issues are internal audit and the formation of internal audit units"
	26.2 Nature of Audits and Standards Applied	Internal Audit Standards, approved by MoF order # 1247 dated October 4, 2011
	26.3 Implementation of Internal Audits and Reporting	Information received at the meetings held with the Financial Department
	26.4 Response to Internal Audits	Information received at the meetings held with the Financial Department

VI. Accounting and reporting		
27. Financial Data Integrity	27.1 Bank Account Reconciliation	<p>Treasury's Order # 122 of June 26, 2002 "On the approval of the Regulation on the Single Treasury Account"</p> <p>CMU's Resolution # 215 dated April 15, 2015 "On approval of the Regulation of the State Treasury Service of Ukraine"</p> <p>MoF Order # 938 dated August 23, 2012 "On approval of Procedures of the Treasury Services for local budgets"</p> <p>MoF Order # 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"</p> <p>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 # 1280 dated October 12, 2011</p>
	27.2 Suspense Accounts	<p>MoF Order # 1219 dated December 29, 2015 "On the approval of certain regulatory acts on accounting in the public sector"</p> <p>MoF Order # 1203 dated December 31, 2013 "On Approving the Public Sector Accounting Chart of Accounts"</p> <p>Treasury's Order # 1 dated May 17, 2000 "Chart of accounts for the implementation of state and local budgets"</p>
	27.3 Advance Accounts	<p>CMU's Resolution # 117 dated April 23, 2014 "On the advance payment of goods, works and services purchased for budgetary funds"</p>
	27.4 Financial Data Integrity Processes	<p>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 # 1280 dated October 12, 2011</p> <p>Information received at the meetings held with the Financial Department and the Treasury</p>
28. In-Year Budget Reports	28.1 Coverage and Comparability of Reports	<p>CMU's Resolution # 419 dated February 28, 2000 "On approval of the Financial Reporting Procedure"</p> <p>Treasury's Order # 34 dated February 6, 2018 "Guidelines for filling out forms of financial statements by bodies of the State Treasury Service of Ukraine"</p>
	28.2 Timing of In-Year Budget Reports	<p>Budget Code (Article 59)</p> <p>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 # 1280 dated October 12, 2011</p>

		Actual dates of issuance monthly budget reports by the Treasury, provided by Financial Department
	28.3 Accuracy of In-Year Budget Reports	MoF Order # 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 # 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"
29. Annual Financial Reports	29.1 Completeness of Annual Financial Reports	MoF Order # 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 # 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"
	29.2 Submission of Reports for External Audit	Budget Code (Article 80) The Law # 576 dated July 2, 2015 "On The Accounting Chamber" (Article 7)
	29.3 Accounting Standards	Budget Code (Articles 43, 80) MoF Order # 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 # 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"
VII. External Scrutiny And Audit		
30. External Audit	30.1 Audit Coverage and Standards	The Law # 576 dated July 2, 2015 "On The Accounting Chamber" (Articles 7, 15)
	30.2 Submission of Audit Reports to the Legislature	The Law # 576 dated July 2, 2015 "On The Accounting Chamber" (Articles 7, 15)
	30.3 External Audit Follow-Up	The Law # 576 dated July 2, 2015 "On The Accounting Chamber" (Articles 7, 15)
	30.4 Supreme Audit Institution Independence	The Constitution of Ukraine, adopted at the fifth session of the Verkhovna Rada of Ukraine on June 28, 1996 (Article 85) The Law # 576 dated July 2, 2015 "On The Accounting Chamber" (Articles 17, 18, 20) The Law # 1861-VI dated February 10, 2010 "On the Regulation of the Verkhovna Rada of Ukraine" (Article 208-2)

31. Legislative Scrutiny Of Audit Reports	31.1 Timing of Audit Report Scrutiny	Law of Ukraine # 280/97-VR dated May 21, 1997 "About local self-government in Ukraine"
	31.2 Hearings on Audit Findings	Regulations of the Starosynavska village's council of the VII convocation approved by the Starosynavska village's council decision # 32 dated June 24, 2016
	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
Executive Committee of the Stara Syniava Village Council					
1.	Gnoianko Inna	Directorate of Finances of the Executive Committee of the Stara Syniava Village Council	Deputy Head of Directorate - Head of Budget Division	0689385310	finupr_stsotg@ukr.net
2.	Shekhar Olena	Directorate of Finances of the Executive Committee of the Stara Syniava Village Council	Head of Revenue Division	0988021356	shekhar_olena@ukr.net
3.	Rudenko Liudmya	Directorate of Finances of the Executive Committee of the Stara Syniava Village Council	Head of Accounting Division - Chief Accountant	0965726587	finupr_stsotg@ukr.net
4.	Panchuk Liudmyla	Division of Economic Development, Trade and Investments	Leading Specialist	0965015370	ivp22.11.84@gmail.com
5.	Posternak Petro	Division of Economic Development, Trade and Investments	Head of Division	0673588264	ivp22.11.84@gmail.com
6.	Damiiakovych L. D.	Division of Education	Chief Accountant	0975375321	sn_osvita@ukr.net
7.	Puzyrjuk Oleksandr	Division of Education	Head of Division	0678965142	sn_osvita@ukr.net
8.	Zhuk Liudmyla	Division of Education	Deputy Chief Accountant	0978672849	sn_osvita@ukr.net
9.	Bratenko Alla	Division of Education	Economist	0686393902	sn_osvita@ukr.net
1	Kuptsova Liudmyla	Division of Education	Senior Accountant	0686393904	sn_osvita@ukr.net
1	Dunets Victor	Division of Education	Head of business group	0976617933	sn_osvita@ukr.net
1	Dziuba Nataliia	Division of Land Relations	Deputy Chief	0962103497	
Stara Syniava Village Council					
13.	Synkovych Nadiia	Stara Syniava Village Council	Head of Accounting and Reporting Division, Chief Accountant	0984278933	selichna_ss@ukr.net
14.	Budnik Antonina	Stara Syniava Village Council	Specialist of the 1st category of the Accounting and Reporting Division	0974531939	selichna_ss@ukr.net
15.	Karpushyn Andrii	Stara Syniava Village Council	First Deputy Chairman of the village on the activities of the executive bodies of the council	0969512819	selichna_ss@ukr.net
16.	Sitnik Serhii	Stara Syniava Village Council	Chief Economist, System Administrator	0972055914	selichna_ss@ukr.net
Directorate of the State Treasury Service of Ukraine (DSTSU) in Stara Syniava district					
17.	Breiter Svitlana	(DSTSU) in the Stara Syniava district	Deputy Head of Directorate - Head of Reporting and Accounting Division - Chief Accountant	0977644989	-
Stara Syniava State Tax Inspection (STI)					
18.	Guk Galyna	Stara Syniava STI	Head of STI	0976207740	
Stara Syniava District State Administration (DSA)					
19.	Vikarska Nadiia	Stara Syniava DSA	First Deputy Chairman	0976655270	
Ministry of Finance of Ukraine					
20.	Machulna Olena	Ministry of Finance	Deputy Director of the Department - Head of the Directorate	0442775443	machulna@minfin.gov.ua
21.	Martseniuk Serhii	Ministry of Finance	Deputy Head of Directorate- Head of Division	0442775446	martsenyuk@minfin.gov.ua
22.	Zachynska Olena	Ministry of Finance	Leading Specialist	0442775447	
23.	Shevliakov Ihor	Ministry of Finance	Head of Expert Group	0442075643	shevliakov@minfin.gov.ua
State Audit Service of Ukraine					
24.	Solianik Yuliia	State Audit Service	Deputy Chairman	0444258020	tiv@dkrs.gov.ua
25.	Shkuropat Oleksandra	State Audit Service	Deputy Chairman	0444851778	tiv@dkrs.gov.ua
26.	Vasheka Galyna	State Audit Service	Deputy Chairman	0444636234	tiv@dkrs.gov.ua

No.	Name	Organization	Position	Telephone	Email
27.	Marchuk Tetiana	State Audit Service	Director of the Department	0444253837	marchuk.t@ukr.net
28.	Kuchma Olha	State Audit Service	Head of Directorate	0444258032	tiv@dkrs.gov.ua
29.	Datsenko Oleksandr	State Audit Service	Head of Directorate	0444257369	tiv@dkrs.gov.ua
30.	Gutsaliuk Olha	State Audit Service	Deputy Head of Directorate - Head of Division	0444258023	Hutsaluk@ukr.net
31.	Glushchenko Nataliia	State Audit Service	Deputy Director of the Department	0444258027	tiv@dkrs.gov.ua
32.	Tykhomyrova Inna	State Audit Service	Head of Division	0444258026	tiv@dkrs.gov.ua
State Treasury Service of Ukraine					
33.	Andruk Hryhorii	Treasury	Head of Agency for Organizational and Administrative work, Public Relations and International Cooperation	044 2814974	
34.	Botsman Nataliia	Treasury	Acting Director of the Department of Methodology for Budget Servicing, Accounting, Reporting and Treasury Development	044 2814986	
35.	Harpola Hrystyna	Treasury	Deputy Director of the Department of Methodology for Budget Servicing, Accounting, Reporting and Treasury Development - Head of the Division of Accounting Methodology and Reporting on Budget Execution		
36.	Shamrai Galyna	Treasury	Director of the Consolidated Reporting Department	0 442814922	
37.	Korniichuk Hryhorii	Treasury	Head of local budgets spending division, Department of Intergovernmental relations and local budgets spending		
Accounting Chamber of Ukraine (ACU)					
38.	Nevidomyi Vasyl	ACU	Member of the Accounting Chamber	0963011749	nevidomyi.vasyl@ac to - rada . gov . ua
39.	Karnaukh Olesia	ACU	Head Advisor	0638223823	Karnaukh.l@gmail.com
40.	Stefaniuk Ihor	ACU	Deputy Director of the Department - Head of the Audit Department of Investment Projects and Regional Development of the Department of Public Administration Control and Interbudgetary Relations	0674491553	fincontrol@ukr.net
41.	Hryhorashchenko Tetiana	ACU	Directorate of International Cooperation	0442060755	Hryhorashchenko_TV@rp.gov.ua

Annex 4: Data used for scoring PI-1, 2 & 3 (2016 methodology)

Data source: Budget and Finance Departments of Starosynnyavska ATC

Table 1.1A - Analysis for PI-1: Fiscal Year 2016

Table 1 - Fiscal years for assessment

	Year 1 =	2016
	Year 2 =	2017
	Year 3 =	2018

Table 2

Data for year = 2016						
administrative or functional head	budget	actual	adjusted budget	deviation	absolute deviation	percent
General public services	6395.8	8920.3	9,110.0	-189.7	189.7	2.1%
Public order, security and judiciary	218.8	204.5	311.7	-107.1	107.1	34.4%
Economic affairs	400.0	18767.4	569.8	18,197.7	18,197.7	3194.0%
Environmental protection			0.0	0.0	0.0	#DIV/0!
Housing and utilities	500.0	1628.7	712.2	916.5	916.5	128.7%
Health care	16993.0	17977.1	24,204.4	-6,227.3	6,227.3	25.7%
Cultural and physical development	3186.3	4019.6	4,538.5	-518.9	518.9	11.4%
Education	38281.5	42146.2	54,527.3	-12,381.1	12,381.1	22.7%
Social protection and social security	1261.7	2107.1	1,797.1	309.9	309.9	17.2%
allocated expenditure	67237.1	95771.0	95,771.0	0.0	38,848.2	
interests						
contingency	20.0					
total expenditure	67257.1	95771.0				
aggregate outturn (PI-1)						142.4%
composition (PI-2) variance						40.6%
contingency share of budget						0.0%

Table 1.1B - Analysis for PI-1: Fiscal Year 2017

Table 3						
Data for year = 2017						
administrative or functional head	budget	actual	adjusted budget	deviation	absolute deviation	percent
General public services	11593.0	12424.8	15,307.8	-2,883.0	2,883.0	0.188335
Public order, security and judiciary	481.2	523.4	635.4	-112.0	112.0	0.176276
Economic affairs	0.0	16064.6	0.0	16,064.6	16,064.6	#DIV/0!
Environmental protection	6.9	36.0	9.1	26.9	26.9	2.951266
Housing and utilities	800.0	4399.6	1,056.3	3,343.2	3,343.2	3.164904
Health care	21553.9	24805.4	28,460.5	-3,655.1	3,655.1	0.128428
Cultural and physical development	4320.0	4834.9	5,704.3	-869.4	869.4	0.152411
Education	57216.0	63803.7	75,550.0	-11,746.3	11,746.3	0.155478
Social protection and social security	3397.0	4316.7	4,485.5	-168.8	168.8	0.037633
allocated expenditure	99368.0	131209.0	131,209.0	0.0	38,869.4	
interests						
contingency	20.0					
total expenditure	<u>99388.0</u>	<u>131209.0</u>				
aggregate outturn (PI-1)						132.0%
composition (PI-2) variance						29.6%
contingency share of budget						0.0%

Table 1.1C - Analysis for PI-1: Fiscal Year 2018

Table 4						
Data for year = 2018						
administrative or functional head	budget	actual	adjusted budget	deviation	absolute deviation	percent
General public services	16469.3	17295.3	21,148.4	-3,853.1	3,853.1	0.182193
Public order, security and judiciary	559.1	580.8	717.9	-137.1	137.1	0.190988
Economic affairs		20626.4	0.0	20,626.4	20,626.4	#DIV/0!
Environmental protection	12.7	69.9	16.3	53.6	53.6	3.285427
Housing and utilities	2050.0	5854.2	2,632.4	3,221.8	3,221.8	1.223875
Health care	22562.7	27778.7	28,973.0	-1,194.2	1,194.2	0.041218
Cultural and physical development	5297.3	6793.4	6,802.3	-8.9	8.9	0.00131
Education	72744.1	75015.0	93,411.3	-18,396.3	18,396.3	0.196939
Social protection and social security	3833.2	4610.2	4,922.2	-312.1	312.1	0.063404
allocated expenditure	123528.4	158623.8	158,623.8	0.0	47,803.4	
interests						
contingency	100.0					
total expenditure	<u>123628.4</u>	<u>158623.8</u>				
aggregate outturn (PI-1)						128.3%
composition (PI-2) variance						30.1%
contingency share of budget						0.0%

Table 5 - Results Matrix

year	for PI-1.1	for PI-2.1	for PI-2.3
	total exp. Outturn	composition variance	contingency share
2016	142.4%	40.6%	
2017	132.0%	29.6%	0.0%
2018	128.3%	30.1%	

Table 1.2A - Analysis for PI-2: Fiscal Year 2016

Table 1 - Fiscal years for assessment

Year 1 =	2016
Year 2 =	2017
Year 3 =	2018

Table 2

Data for year = 2016						
Economic head	budget	actual	adjusted budget	deviation	absolute deviation	percent
Compensation of employees	46864.3	53369.8	66,732.6	-13,362.8	13,362.8	20.0%
Use of goods and services	18305.8	16981.1	26,066.6	-9,085.5	9,085.5	34.9%
Acquisition of fixed capital	100.0	21425.7	142.4	21,283.3	21,283.3	14946.6%
Interest	0.0	0.0	0.0	0.0	0.0	#DIV/0!
Subsidies	0.0	77.6	0.0	77.6	77.6	#DIV/0!
Grants	1837.4	2280.7	2,616.4	-335.7	335.7	12.8%
Social benefits	100.5	1076.5	143.1	933.4	933.4	652.2%
Other expenses	49.1	559.6	69.9	489.7	489.7	700.4%
Total expenditure	<u>67257.1</u>	<u>95771.0</u>	95,771.0	0.0	45,567.8	
composition variance						47.6%

Table 1.2B: Analysis for PI-2 Fiscal Year 2017

Table 3

Data for year = 2017						
Economic head	budget	actual	adjusted budget	deviation	absolute deviation	percent
Compensation of employees	82690.3	67191.4	109,165.2	-41,973.8	41,973.8	38.4%
Use of goods and services	16053.4	42315.8	21,193.2	21,122.6	21,122.6	99.7%
Acquisition of fixed capital	0.0	18899.9	0.0	18,899.9	18,899.9	#DIV/0!
Interest	0.0	0.0	0.0	0.0	0.0	#DIV/0!
Subsidies	60.0	986.0	79.2	906.8	906.8	1144.8%
Grants	0.0	460.9	0.0	460.9	460.9	#DIV/0!
Social benefits	526.3	836.6	694.8	141.8	141.8	20.4%
Other expenses	58.0	518.4	76.6	441.8	441.8	577.1%
Total expenditure	<u>99388.0</u>	<u>131209.0</u>	131,209.0	0.0	83,947.6	
composition variance						64.0%

Table 1.2C: Analysis for PI-2 Fiscal Year 2018

Table 4

Data for year = 2018						
Economic head	budget	actual	adjusted budget	deviation	absolute deviation	percent
Compensation of employees	84905.6	84496.3	108,939.8	-24,443.5	24,443.5	22.4%
Use of goods and services	37635.9	44698.7	48,289.5	-3,590.8	3,590.8	7.4%
Acquisition of fixed capital	0.0	22537.8	0.0	22,537.8	22,537.8	#DIV/0!
Interest	0.0	0.0	0.0	0.0	0.0	#DIV/0!
Subsidies	0.0	2349.7	0.0	2,349.7	2,349.7	#DIV/0!
Grants	220.0	379.6	282.3	97.4	97.4	34.5%
Social benefits	708.7	1968.3	909.3	1,059.0	1,059.0	116.5%
Other expenses	158.2	2193.3	203.0	1,990.4	1,990.4	980.6%
Total expenditure	<u>123628.4</u>	<u>158623.8</u>	158,623.8	0.0	56,068.4	
composition variance						35.3%

Table 5 - Results Matrix

year	composition variance
2016	47.6%
2017	64.0%
2018	35.3%

Table 1.3A: Analysis of revenue outturn - PI-3: Fiscal Year 2016

Table 1 - Fiscal years for assessment

Year 1 =	2016
Year 2 =	2017
Year 3 =	2018

Table 2

Data for year = 2016						
Revenue types	budget	actual	adjusted budget	deviation	absolute deviation	percent
Tax revenues						
Taxes on income, profit and capital gains	1,373.0	1,995.9	2,007.0	-11.1	11.1	0.6%
Taxes on payroll and workforce	13,126.4	18,373.4	19,188.0	-814.6	814.6	4.2%
Taxes on property	9,260.0	13,634.8	13,536.2	98.7	98.7	0.7%
Taxes on goods and services	1,173.9	2,364.4	1,716.0	648.4	648.4	37.8%
Other taxes	29.0	21.2	42.4	-21.2	21.2	50.1%
Other revenue						
Property income	140.9	192.2	206.0	-13.8	13.8	6.7%
Sales of goods and services	804.6	1,080.7	1,176.2	-95.5	95.5	8.1%
Fines, penalties and forfeits	6.0	34.4	8.8	25.6	25.6	291.9%
Sum of rest	55.9	265.3	81.7	183.5	183.5	224.6%
Total revenue	<u>25,969.7</u>	<u>37,962.2</u>	37,962.2	0.0	1,912.5	
overall variance						146.2%
composition variance						5.0%

Table 3

Data for year = 2017						
Revenue types	budget	actual	adjusted budget	deviation	absolute deviation	percent
Tax revenues						
Taxes on income, profit and capital gains	2,199.9	2,438.2	3,384.3	-946.0	946.0	28.0%
Taxes on payroll and workforce	20,460.1	28,617.7	31,475.3	-2,857.6	2,857.6	9.1%
Taxes on property	12,335.3	16,738.1	18,976.3	-2,238.2	2,238.2	11.8%
Taxes on goods and services	2,479.5	2,739.6	3,814.4	-1,074.8	1,074.8	28.2%
Other taxes	33.5	184.2	51.5	132.7	132.7	257.5%
Other revenue						
Property income	163.8	239.3	252.0	-12.7	12.7	5.0%
Sales of goods and services	1,443.3	1,634.8	2,220.3	-585.5	585.5	26.4%
Fines, penalties and forfeits	8.6	102.9	13.2	89.6	89.6	677.4%
Sum of rest	60.6	7,585.6	93.2	7,492.4	7,492.4	8036.9%
Total revenue	<u>39,184.6</u>	<u>60,280.6</u>	60,280.6	0.0	15,429.5	
overall variance						153.8%
composition variance						25.6%

Table 1.3B: Analysis of revenue outturn - PI-3 Fiscal Year 2017

Table 4

Data for year = 2018						
Revenue types	budget	actual	adjusted budget	deviation	absolute deviation	percent
Tax revenues						
Taxes on income, profit and capital gains	2,747.7	3,253.1	3,219.2	34.0	34.0	1.1%
Taxes on payroll and workforce	30,830.0	37,156.3	36,119.8	1,036.5	1,036.5	2.9%
Taxes on property	18,322.6	20,190.3	21,466.4	-1,276.1	1,276.1	5.9%
Taxes on goods and services	2,603.0	2,508.7	3,049.6	-540.9	540.9	17.7%
Other taxes	28.1	92.2	32.9	59.3	59.3	180.0%
Other revenue						
Property income	216.1	750.4	253.2	497.2	497.2	196.4%
Sales of goods and services	1,837.9	2,092.3	2,153.2	-60.9	60.9	2.8%
Fines, penalties and forfeits	16.4	153.8	19.2	134.6	134.6	700.4%
Sum of rest	62.4	189.6	73.1	116.5	116.5	159.3%
Total revenue	56,664.2	66,386.7	66,386.7	0.0	3,755.9	
overall variance						117.2%
composition variance						5.7%

Table 1.3C: Analysis of revenue outturn - PI-3 Fiscal Year 2018

Table 5 - Results Matrix

year	total revenue deviation	composition variance
2016	146.2%	5.0%
2017	153.8%	25.6%
2018	117.2%	5.7%

