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Ukraine PEFA 2015

Public Financial Management Performance Report

Kyiv, 2016

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PEFA assessment report Ukraine, 2015

The quality assurance process followed in the production of this report satisfies all the requirements of the PEFA Secretariat and hence receives the 'PEFA CHECK'.

PEFA Secretariat,
May 31, 2016

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List of Abbreviations

AC	Accounting Chamber	PEFA	Public Expenditure and Financial Accountability
CMU	Cabinet of Minister of Ukraine	PFM	Public Financial Management
CPA	Central Public Authorities	PI	Performance Indicator
CPI	Consumer Price Index	PIM	Public Investment Management
EBO	Extra-budgetary operations	PIP	Public Investment Project
EBU	Extra-budgetary units	PPP	Public Private Partnership
EFF	Extended Fund Facility	SFI	State Financial Inspection
EU	European Union	SFS	State Fiscal Service
GDP	Gross Domestic Product	SNA	System of National Accounts
GFS	Government Finance Statistics	SNG	Subnational Government
GIZ	German Cooperation Agency	SOE	State Owned Enterprise
IMF	International Monetary Fund	SPF	State Property Fund
MOF	Ministry of Finance	TSA	Treasury Single Account
OECD	Organization of Economic Cooperation and Development	VAT	Value Added Tax
PAM	Public Asset Management	USAID	United States Agency for International Development

CURRENCY EQUIVALENTS

(Exchange Rate Effective May 24, 2016)

Currency Unit = UAH

UAH 25.13 = USD 1

FISCAL YEAR

January 1 – December 31

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Executive Summary

The objective of the 2015 PEFA assessment is to provide the Government of Ukraine with an up-to-date diagnostic of public financial management performance based on internationally recognized PEFA methodology and taken into account recent upgrade of the PEFA methodology. The PEFA Assessment is carried out jointly by a group of partners - USAID, EU, GIZ, and the World Bank. The joint assessment should help streamline policy dialogue and align messages to the Government across development partners.

The PEFA assessment is an evaluation of PFM system performance in 2015, with the last completed fiscal year taken into account for the purposes of assessment being 2014. The coverage of the assessment is central government where possible, with some indicators focusing on budgetary central government due to omissions in reporting as indicated in the indicator PI-6.

The period since the 2011 PEFA assessment was marked by persistent macro-economic crisis, civil unrest of 2013-2014 and conflict in the East of Ukraine. In the face of substantial fiscal pressures, fiscal management was dominated by short term consolidation needs. While the government succeeded in maintaining fiscal discipline, short term crisis management has crowded out more long term institutional reforms to strengthen public financial management.

Budget outturns in 2012-2014 show Ukraine's ability to contain fiscal deficit with support of the IMF program. Despite revenue shortfalls, the strong treasury function and control structure effectively contained expenditures and expenditure arrears have been minimal. That said considerable fiscal risks materialized – the large Naftogaz deficit, recapitalization of failed banks and Deposit Insurance Fund – weakening the overall fiscal position. Weak governance of SOEs and fragmented asset management further exacerbate fiscal risks.

The PFM system in Ukraine hampers efficient service delivery. The budget process does not have a strong policy or strategic focus. There is no medium-term fiscal strategy to guide the budget process. The Government has managed to contain the fiscal deficit during recent crises. But this has come at the cost of budget predictability as expenditures have been cut through extensive reallocations during budget execution. Performance information is included in program budgets but tends to focus on outputs rather than outcomes and results. Weak links between sector plans and budget allocations and weaknesses in public investment management both at selection and implementation stages are not conducive to efficient targeting of resources to strategic policy priorities.

Ukraine's PFM system is control oriented and rigid. The control environment is burdensome and obliges those responsible for the delivery of public services to focus their efforts on compliance rather than improving performance and the effectiveness of service delivery. Cash rationing practices have helped curtail the deficit during the fiscal crisis, but will add further rigidity budget system once the fiscal situation normalizes. Ongoing efforts to improve internal audit and external audit and focus on performance auditing are only likely to have an impact on the performance orientation of the PFM system over the longer-term.

In terms of performance change, the Ukrainian PFM system was characterized in the 2011 PEFA as highly centralized with a focus on input controls. The structure of controls was found to be heavy and not conducive to improvements in resource allocation and operational efficiency. This did not change. Since 2011 notable progress has been made with the adoption of amendments to the Tax Code changes related to data disclosure and transfer pricing controls, amendments to the Budget Code established a multi-year budgeting framework, revamped intergovernmental transfers, and changes to procurement law allowed for implementation of e-procurement and reduced number of exemptions. There was also notable progress on budget transparency. However, in several important areas, such as medium term budgeting and internal control, implementation of the new legal provisions has been slow.

The Government embarked on reforms to address poor governance after it took office in March 2014. PFM is a key component of many of the needed changes: transparency and efficiency of public expenditure allocations, strengthening external oversight of public funds are essential pre-requisites of improved accountability and public service delivery. However, the National PFM Strategy and Action Plan focuses on legislative initiatives and less on implementation. The Strategy does not provide a framework that can guide and monitor PFM reform going forward. Progress in implementation will require improvements in the mobilization of human resources, purchase of equipment and information systems, regulatory and administrative provisions, and institutional coordination mechanisms.

SUMMARY OF 2016 PEFA ASSESSMENT RATINGS

A		B AND B+		C AND C+		D AND D+	
Budget reliability	Transparency of public finances	Management of assets and liabilities	Policy-based fiscal strategy and budgeting	Predictability in control in budget execution	Accounting and reporting	External scrutiny and audit	
Aggregate expenditures outturn	Budget classification	Fiscal risk reporting	Macroeconomic and fiscal forecasting	Revenue administration	Financial data integrity	External audit	
Expenditure composition outturn	Budget documentation	Public investment management	Fiscal strategy	Accounting for revenue	In-year budget reports	Legislative scrutiny of audit reports	
Revenue outturn	Central government operations outside financial reports	Public asset management	Medium term perspective in expenditure budgeting	Predictability of in-year resource allocation	Annual financial reports		
	Transfers to subnational governments	Debt management	Budget preparation process	Expenditure arrears			
	Performance information for service delivery		Legislative scrutiny of the budget	Payroll controls			
	Public access to fiscal information			Procurement management			
				Internal controls on non-salary expenditure			
				Internal audit			

1. Introduction

1.1. Rationale for and purpose of the assessment

The main objective of the 2015 PEFA assessment is to provide the Government of Ukraine with an up-to-date diagnostic of public financial management performance based on internationally recognized PEFA methodology. The results of the assessment are expected to inform the PFM reform agenda of the Government. More specifically, this report: (i) provides an updated overview of PFM performance using the upgraded PEFA Performance Measurement Framework; (ii) establishes and explains changes in performance compared to the results found during the previous assessment; (iii) reviews Ukraine's PFM performance relative to internationally accepted good practice and (iv) assesses the impact of the findings and their implications for the ongoing reform program of the Government. The assessment focuses mainly on central government and is limited to State Budget of Ukraine except for indicators related to local budgets, or assessment of fiscal risk, etc. The State Budget is about 38 percent of consolidated budget of Ukraine as of 2014.

This assessment will be the third PEFA assessment for Ukraine. The first assessment carried out in 2006 reflected relatively robust public financial management performance in comparison to regional peers and countries at a similar level of per capita income. Ukraine performed well in terms of the discipline of the budget process and centralized controls over the use of public funds. The assessment highlighted weaknesses including lack of multi-year perspective in budgeting, underdeveloped debt and cash management, tax administration, weak procurement practices, absence of internal and external audit functions in their modern sense.

The 2011 repeat PEFA Assessment showed that overall progress in implementing PFM reforms and improving performance had slowed. Progress in some areas was offset by deterioration in performance elsewhere. A consistent driver of performance improvement has been expansion in the use of the Treasury system, supporting improvements in the availability of funds, in the management of cash balances, debt and commitments, and in the quality and timeliness of financial reporting. At the same time, budget credibility, policy based budgeting, procurement, revenue administration and external scrutiny remained weak. The Ukrainian PFM system was characterized in the 2011 PEFA as highly centralized with a focus on input controls. The structure of controls was found to be heavy and not conducive to improvements in resource allocation and operational efficiency.

The Government embarked on reforms to address poor governance after it took office in March 2014. PFM is a key component of many of the needed changes: transparency and efficiency of public expenditure allocations, strengthening external oversight of public funds are essential pre-requisites of improved accountability and public service delivery. The Ministry of Finance is key agency in charge of the PFM reform agenda. The current PEFA Assessment is undertaken as a first step towards refining the reform program based on the priorities of the new Government and taking into account developments since 2011.

The Government of Ukraine approved the PFM Reform Strategy on August 1, 2013, focusing on the areas of medium term budgeting, results based budgeting, liquidity and debt management, procurement, public investment management, internal and external financial control as well as budget transparency. The implementation of the reforms was stalled as a result of the civil protests in late 2013-2014 and following conflict in the eastern part of Ukraine. Recent amendments to the Budget Code (Law 79-19 of December 28, 2014) focused on intergovernmental fiscal relations and local budget reform, established a Regional Development Fund to finance investments at the local level, and established a sectoral subvention system. The recent amendments to the Budget Code (Law 288-VIII of April 7, 2015) established a procedure for the appraisal of public investment projects. Multiple donors are involved in supporting PFM reforms, including the EU, IMF, World Bank, GIZ, USAID and others.

1.2. Assessment management and quality assurance

The PEFA Assessment was carried out jointly by a group of partners - USAID, EU, GIZ, and the World Bank. The joint assessment should help streamline policy dialogue and align messages to the Government across development partners. As a lead donor, the World Bank coordinated the assessment process and consolidated inputs from other partners. UK AID financed the World Bank's support to this PEFA Assessment.

The Government was closely involved in the PEFA assessment. The PEFA Assessment was discussed with the Government early on. The Ministry of Finance was the main counterpart coordinating involvement of other Government agencies within the PFM system. Other key stakeholders included the State Fiscal Service, Ministry of Economic Development, State Financial Inspection, Accounting Chamber, Treasury Service and the Parliament.

The assessment process took place in stages. The initial discussion on the approach to the assessment happened in December 2014 with the Ministry of Finance and at potential assessment partners. Following the agreement in principle to proceed with the assessment, the World Bank team discussed with the MoF the detailed approach that was reflected in the concept note. The concept was subject to the quality assurance review in line with the PEFA Check requirements. This review took place in March 2015. In parallel, the Bank team undertook a review of background documentation and data provided by the MoF. The first mission took place in May-June 2015 and included an initiation workshop. A representative of the PEFA Secretariat also joined the mission. Based on the results of the mission, a draft set of indicators that were first reviewed by all partners and then shared with the Government. Missions were undertaken in fall 2015 by partners to finalize indicators write up. During December 2015 mission of the World Bank, the comprehensive set of Government comments was discussed with the Government representatives led by the MoF.

The World Bank was responsible for quality assurance of the assessment report using the standard procedures for Bank funded analytical work. In addition, the report follows the PEFA CHECK quality assurance procedures including peer review of the concept note and the final draft report by the Government.

PEFA assessment management organization

- Oversight Team – Representatives of the World Bank, USAID, EU, GIZ
- Assessment Manager: Oleksii Balabushko, World Bank
- Assessment Team Leader and Team Members: Oleksii Balabushko (World Bank), Iryna Shcherbyna (World Bank), Irina Shmeliova (World Bank), Irina Babich (World Bank), Jason Wynnycky (USAID), Tatyana Skripka (USAID), Iryna Galenko (USAID), Natalia Starostenko (EU), Nadia Rozhko (GIZ), David Goldsworthy (UK National Audit Office), Ian Rogers (UK National Audit Office), Christian Doering (GIZ), Jan van Tuinen (GIZ), Ruslana Rudnitska (GIZ).

Review of concept note and/or terms of reference

- Date of reviewed draft concept note: April 23, 2015
- Invited reviewers: William Dorotinsky (World Bank), Holy Tiana Rame (PEFA Secretariat), Brian Olden (IMF) and Clinton White (USAID), the Ministry of Finance of Ukraine
- Reviewers who provided comments: William Dorotinsky (World Bank), Holy Tiana Rame (PEFA Secretariat), Brian Olden (IMF) and Clinton White (USAID)
- Date(s) of final concept note and/or terms of reference: May 11, 2015

Review of the assessment report

- Date of reviewed draft report: April 5, 2016
- Invited reviewers: Andrew Mackie (World Bank), Simon Knott (EU), and Julia Dhimitri (PEFA Secretariat)
- Reviewers who provided comments: Andrew Mackie (World Bank), Simon Knott (EU), and Julia Dhimitri (PEFA Secretariat)
- The Ministry of Finance of Ukraine also provided combined comments on the Government side.

1.3. Assessment methodology

The PFM Performance Report was prepared by a joint team of World Bank, EU, GIZ, and USAID. The assessment team leaders was Oleksii Balabushko (World Bank). Team members comprised Iryna Shcherbyna, Irina Shmeliova, Irina Babich, Jason Wynnycky, Tatyana Skripka, Iryna Galenko, Natalia Starostenko, Nadia Rozhko, Ian Rogers, David Goldworthy, Christian Doering, Jan van Tuinen, Ruslana Rudnitska. Field work was carried out between April and December 2015, with fact finding missions by non-Ukraine based team members in May-June 2015 and October-November 2015.

The analysis for the 2015 performance report is based on processes and data reported for the year 2014 where the indicator required full fiscal year data (the last year for which complete information was available at the time the assessment was prepared in 2015) or as of December 2015 for the indicators that assess situation at the time of assessment.

The PEFA assessment was using a draft upgraded PFM Performance Measurement Framework (<http://pefa.org/sites/pefa.org/files/PMF%20Upgrade%20-%20Testing%20Version%2026-01-15.pdf>). The report was revisited to incorporate changes introduced in a final upgraded framework of February 2016 (<http://pefa.org/sites/pefa.org/files/PEFA%202016%20FINAL%2016-01-29.pdf>). For each indicator an attempt was made to compare with 2011 assessment unless the issue covered indicator did not exist in the previous framework. In order to provide a complete and up-to date picture as at the time of report preparation, the assessment also describes significant developments that took place in 2015 but did not lead to changes in PFM practice and thus was not reflected in scoring of PEFA indicators. The approach followed in preparing the PEFA assessment was as follows:

- Collect and review existing primary information sources, including relevant laws, administrative procedures and financial and other performance data;
- Collect additional information and conduct interviews with officials during the course of various project missions and specific meetings to complete the initial assessment;
- Consult with government agencies and other donors to confirm the team's understanding of the performance information and discuss the PEFA ratings;

Many team members drew on knowledge gained through ongoing involvement in supporting projects and providing advisory support to Government on public finance management issues. These projects include the Public Finance Management Reform Project, the State Tax Service Modernization Project and a trust fund on capital budgeting.

Detailed consultations were held with other donors during the development of both the concept note for the assessment and preparation of the report itself. Consultations were held with civil society and private sector representatives on issues pertaining to revenue administration, budget transparency and procurement.

The PEFA repeat assessment took account of recent analytical work on PFM, including World Bank's Public Investment Management Assessment (2013), IMF TA reports (2014-2015), OECD/SIGMA Public Finance Assessment (2011), an OECD Budget Review (2011). These reports tend to analyze the progress made in key areas of public financial management as part of ongoing efforts and suggest a menu of policy reforms. In contrast, the PEFA assessment applies a comprehensive, standardized and indicator driven methodology that focuses on measuring the aggregate outcome of PFM systems performance.

2. Country Background Information

2.1. Country economic situation

Ukraine is an Eastern European country with a population of approximately 46 million. While transition from the socialist regime started in the early 1990s and much has been done in shifting to a market economy, there are many remnants of the social institutions and culture even after twenty years of transition. Currently, the economic and fiscal situation are severely affected by the conflict in eastern Ukraine.

A weak external environment, delayed structural reforms, poor macroeconomic management combined with the conflict in the East have led to economic stagnation. During 2001-2008, real GDP growth averaged 7.5 percent. After a deep contraction in 2009 precipitated by the global economic crisis, Ukraine experienced a modest recovery in 2010-2011 followed by economic stagnation during the past two years due to economic mismanagement, declining investment and weak external demand. In 2013, real GDP fell below its 2007 level. In 2014, real GDP fell by 7.5 percent. A contraction in domestic demand, due to tighter macroeconomic policies, contributed to the decline. At the same time, the conflict in Donetsk and Luhansk (industrialized areas with 16 percent share in GDP on average) negatively affects all sectors. Public finances were severely affected by the macro-economic turmoil and increased security-related spending. To contain the budget deficit during 2014, the Government adopted a package of fiscal measures in March to bolster revenues while curtailing expenditures. Nevertheless, revenue performance deteriorated further due to sharper economic contraction and difficulty in collecting taxes in the east.

The risks facing Ukraine are substantial and cannot be fully mitigated. A prolonged confrontation in the east could negatively affect growth further. Lower levels of bank liquidity, especially in the context of significant risks in the banking sector and monetary tightening, could constrain credit supply, in turn delaying the pickup of domestic investment while foreign investment may remain subdued due to heightened political uncertainty. Meanwhile, the recovery in consumption could be undermined by the combined effect of fiscal adjustment and depreciation.

The outlook for the medium term dictates the need to supplement strict fiscal discipline with stronger emphasis on allocative and operational efficiency of public spending during the coming years. The magnitude of recent fiscal adjustments makes improving efficiency of public spending and developing instruments for strategic reallocation of resources critically important. The Government realizes that this requires changes in the way it manages public finances and is considering scenarios for public finance management (PFM) reform.

TABLE 1. KEY MACROECONOMIC INDICATORS

	2011	2012	2013	2014e	2015f	2016f	2017f
Real economy							
Nominal GDP, UAH billion	1302.1	1411.2	1454.9	1525.5	1820.0	2053.2	2337.6
Real GDP, percent change	5.2	0.3	0	-6.8	-6.5	2.0	3.5
Per Capita GDP, US\$ Atlas Method	3140	3640	3960				
<i>Consumption, percent volume change</i>	11.1	9.6	5.6	-13.2	-8.3	-1.4	1.1
<i>Investment, percent volume change</i>	7.1	0.9	-6.6	-45.1	-12.6	27.5	24.2
Exports, percent volume change	4.3	-7.7	-8.8	-19.3	-6.6	5.8	6.4
Imports, percent volume change	17.3	1.9	-5.9	-27.8	-11.6	4.9	7.8
Unemployment rate (ILO definition), percent	7.9	7.5	7.2	10.5	11.5	11.0	9.6
GDP deflator, percent change	14.3	8.1	4.1	12.5	27.6	10.6	10.0
CPI (pa), percent change	8.00	0.6	-0.3	12.1	33.5	10.5	8.0
CPI (eop), percent change	4.6	-0.2	0.5	24.9	26.7	8.7	7.2

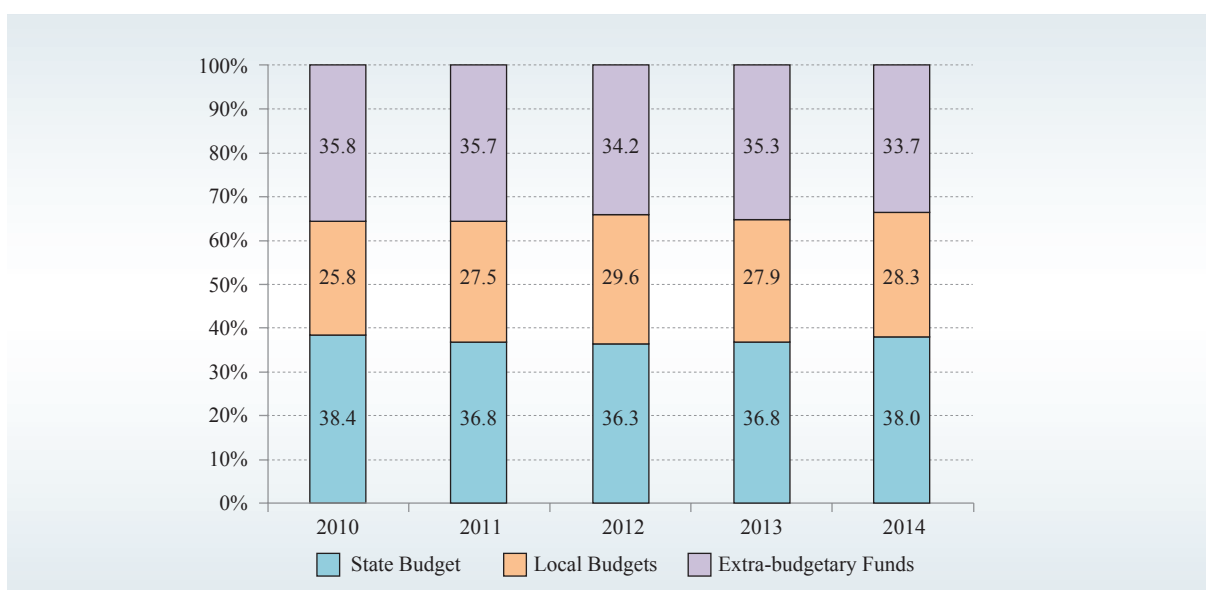
	2011	2012	2013	2014e	2015f	2016f	2017f
Fiscal Accounts							
Expenditures, percent GDP	45.7	48.9	48.1	46.3	47.1	43.9	43.8
Revenues, percent GDP	42.9	44.5	43.3	41.7	42.8	40.3	40.7
General Government Balance, percent GDP	-2.8	-4.4	-4.8	-4.6	-4.2	-3.7	-3.1
General Government and Naftogaz Balance, percent GDP	-4.4	-5.4	-6.7	-10.3	-7.4	-3.9	-3.1
PPG debt (eop), percent GDP	36.3	36.6	40.6	72.7	94.1	92.6	88.9
Selected Monetary Accounts							
Base Money, percent change	6.3	6.4	20.3	8.5	27.3	11.3	11
Credit to non-government, percent change	9.5	2.2	11.8	12.4	13	11.8	9.2
including exchange rate effect, percent change			9.5	-15.6	-0.6	10.9	8.8
Interbank overnight rate (annual average), percent	5.8	10.8	3.8	11.5			
Balance of Payments							
Current Account Balance, percent GDP	-6.3	-8.1	-9.2	-4.8	-1.4	-1.3	-1.1
Foreign Direct Investment, percent GDP	4.3	3.8	1.8	0.3	1.4	1.9	2.1
Gross Reserves, billion US\$, eop	31.8	24.5	20.4	7.5	18.3	22.3	28.5
In months of next year's imports	3.7	2.9	3.3	1.5	3.3	3.7	4.5
Percent of short-term external debt	55.4	38.1	33.2	17.4	43.7	57.4	69.0
External Debt, percent GDP	77.6	76.6	78.6	108.9	147.8	140.7	129.3
Terms of Trade, percent change	7.2	5.7	-1.1	-2.8	0.4	-0.7	0.0
Exchange Rate, UAH/US\$ (average)	8.0	8.0	8.2	12.0			

Sources: National Authorities, World Bank Staff estimates

2.2. Fiscal and budgetary trends

In 2010-2014, the expenditures of the state budget were equal to about 37.2 percent of the total consolidated budget expenditures and expenditures of the extra-budgetary funds, while local budgets accounted for about 27.9 percent and the State Social Insurance Fund 34.9 percent of the expenditures. In 2010-2014, the portion of expenditures of the abovementioned funds did not change greatly, with their lowest level in 2014 at 33.7 percent (See Fig. 1). The share of local budgets in expenditures increased a slightly reaching 28.3 percent in 2014 as compared with 25.8 percent in 2010.

FIGURE 1. STRUCTURE OF CONSOLIDATED BUDGET, 2010-2014



Source: information of the public authorities of Ukraine, the World Bank staff assessment.

The State Social Insurance Funds include the Pension Fund of Ukraine, the Unemployment Fund, the Short-Term Disability Insurance Fund and the Social Security Disability Fund. Fiscal indicators of the state budget are shown in the Table 2 demonstrate significant participation of the state in the national economy.

TABLE 2. STATE BUDGET (PERCENT OF GDP)

	2011	2012	2013	2014
Total revenues	24,2	24,6	23,2	22,8
— tax revenue	20,1	19,6	17,9	17,9
— capital income and grants, revenue other than tax revenue	4,1	5,1	5,2	4,9
Total expenditures	25,7	28,2	27,5	27,5
— noninterest expenditures	23,8	26,3	25,2	24,2
— interest expenditures	1,9	1,8	2,3	3,3
Combined deficit (including grants)	1,4	3,5	4,4	4,7
Primary deficit	-0,4	1,7	2,0	1,4

Source: Treasury budget performance reports.

The structure of resource allocation has changed significantly in recent years. Particularly noteworthy is the growth of in the share of debt servicing and defense expenditure and the reduction of expenditures on economic activity in total expenditures. State investments decreased from 9.4 percent to 1.7 percent of total state expenditures over the period 2011-2014. The following Tables 3 and 4 represent the state budget expenditures structure.

TABLE 3. EXPENDITURES BREAKDOWN FOR THE STATE BUDGET OF UKRAINE IN 2011-2014 BY FUNCTIONAL CLASSIFICATION (PERCENT)

Expenditures by functional classification	2011	2012	2013	2014
General state functions	12.0	11.1	12.4	15.3
Defense	4.0	3.7	3.7	6.4
Public order, security and judicial power	9.7	9.2	9.7	10.4
Natural environment protection	0.9	1.0	1.1	0.6
Housing and utilities infrastructure	0.1	0.1	0.02	0.03
Health protection	3.1	2.9	3.2	2.5
Intellectual and physical development	1.1	1.4	1.3	1.1
Education	8.2	7.6	7.7	6.7
Social protection and social security, <i>including:</i>	19.1	19.0	21.9	18.7
<i>retiree social protection</i>	17.5	16.3	20.6	17.6
Economic activity, <i>including:</i>	13.4	12.5	10.2	8.0
<i>agriculture, forestry hunting, fish industry</i>	2.2	1.9	1.9	1.3
<i>fuel-power complex</i>	3.3	4.4	3.8	2.2
<i>transport</i>	4.4	3.2	3.5	3.4
<i>other economic activity expenditures</i>	3.5	3.0	1.0	1.1
Inter-budget transfers	28.5	31.5	28.7	30.4
Total	100.0	100.0	100.0	100.0

Source: Treasury budget performance reports.

TABLE 4. EXPENDITURES BREAKDOWN FOR THE STATE BUDGET OF UKRAINE IN 2011-2014 BY ECONOMIC CLASSIFICATION (PERCENT)

Expenditures by economic classification	2011	2012	2013	2014
Current expenditures	90.6	92.5	95.6	98.3
Direct and indirect labor charges	16.3	15.1	15.9	16.1
Disposition of goods and services	17.0	16.6	15.2	15.2
Debt service	7.4	6.5	8.5	11.9
Current transfers	30.9	35.6	32.9	34.1
Social security	18.9	18.8	21.9	18.9
Capital expenditures	9.4	7.5	4.4	1.7
Capital transfers	7.0	5.0	2.7	0.7
Total expenditures (including inter-budget transfers)	100.0	100.0	100.0	100.0

Source: Treasury budget performance reports.

2.3. Legal and regulatory arrangements for PFM

Roles and functions in the PFM field in Ukraine are defined and distributed clearly according to the legislation including:

- the Constitution of Ukraine (defining roles and functions of executive, legislative and judicial branches in the process of budget formation and consideration);
- the Budgetary Code (regulating every phase of budget process, such as planning, adoption, execution and audit phases);
- the Tax Code (regulating items related to taxation and tax administration sphere policy);
- the Customs Code (regulating items related to customs sphere policy and customs fees administration);
- the Law of Ukraine on the Accounting Chamber of Ukraine (defining functions and processes of external audit);
- the Law of Ukraine on Public Internal Financial Control (regulating internal audit and control items, as well as roles of the State Financial Inspection and other authorities in this process);
- the Law of Ukraine on Public Procurement (regulating public procurement process and roles and functions of various participants of the process, such as institutions effecting procurement, responsible governmental body in this sphere and the dispute body).

The above legal acts are supplemented by regulatory documents establishing statutes of government agencies.

The internal control framework is regulated by:

- Budget Code, sets the overall regulatory frame for managerial accountability, internal control and internal audit in budget spending entities
- Law on Internal Financial Control, regulating the inspection (including some audit) tasks and powers of the State Financial Inspection

- The Laws and rules concerning the State Treasury (complete ex- ante commitment and payment controls)
- The Cabinet of Ministers Resolution No. 1001 of 28 September 2011 for the introduction of the internal audit function
- Law on Accounting and Financial Reporting empowering the accountant departments role in the field of internal control
- Standards for Internal Audit of 04 October 2011 (Order N 1247 Minister of Finance)
- Methodological recommendations for Internal Control (Order Minister of Finance of 14.09.2012, No. 995, based on article 111 Budget Code of Ukraine)

The articles 20, 21, 22, 26, 28, 46, 48, 49, 56, 58, 60, 111 and 113 of the Budget Code of 2010 specify the key principles of organizing and conducting financial management and control, internal audit, accountability and responsibility of executives of public sector institutions and control over these institutions. Budget Code art 26: Control and Audit for budget processes together with Resolution No. 1001 define the regulatory framework for the internal control and internal audit responsibilities of the line ministries and other central organs of the executive (and their territorial organs and budget institutions).

Today, the PFM regulatory framework is in evolution. A number of legal and political initiatives have been adopted, are in the process of preparing and waiting for approval. At the end of 2014, after years of discussions and consultations, substantial amendments to the Budget Code concerning the inter-budget relations reform were adopted. Legislative changes extended the powers of the Accounting Chamber to audit the state budget revenues (it covered no more than expenditures before). Budget Code amendments were adopted in respect of the possibility to implement PIM in the PPP framework. A tax reform is in preparation (causing delays in the budget 2016 process).

2.4. Institutional arrangements for PFM

Structure of the public sector in Ukraine is summarized in the tables below.

TABLE 5. STRUCTURE OF UKRAINE PUBLIC SECTOR, 2015

	Government subsector	Social Security Funds	Public Sector Corporations	Public Sector Financial Corporations
Central	17 ministries; 53 central government bodies; overall 14,117 budget spending units	4 funds	Estimated 3,500	2 state banks, and 5 banks with state equity
Subnational	42, 029 budget spending units	-		-

Budget process in Ukraine is distributed between the executive power preparing and executing the state budget, and the legislative power body responsible for the budget adoption, amending and adding, as well as for the state budget execution control through the Accounting Chamber of Ukraine. The list of key budget process participants and their major functions are summarized in Table 5.

TABLE 6. PFM RESPONSIBLE INSTITUTIONS AT THE CENTRAL LEVEL IN UKRAINE

Institutions	Major functions
Ministry of Finance	Budget preparation and execution Debt management Revenues policy
State Financial Inspection	Internal inspection service
State Treasury Service	Treasury services for the expenditures and revenues of the budget and extra-budgetary funds
State Fiscal Service	Taxes collection
State Customs Service	Customs legislation performance and customs fees
Ministry of Economy	Macroeconomic forecasting State economic policy Long-term planning Preparation of information on public investment project (PIM) compliance with the selection criteria for the Interagency committee Procurement (monitoring and regulation) Public-private partnership
Accounting Chamber	External audit

Other institutions playing a roles in the PFM system include: the State Statistics Committee responsible for collecting and distributing of fiscal data; the State Property Fund responsible for the supervision control of non-unitary public enterprises; and the Antimonopoly Committee which controls compliance with public procurement legislation.

The line ministries play a critical role in the PFM system, but less attention was paid to development of a legal and institutional framework to ensure their effective financial management. Line ministries responsibilities include strategic and long-term planning, budgets preparation, developing projects of capital expenditures and their management, public procurement, budget management, shares management, supervision of public enterprises and internal control.

Recently, a substantial step was taken in coordination of activities of different ministries in Public Investment Management. On April 7, 2015, the Ukrainian Parliament adopted amendments to the Budget Code of Ukraine which require coordination of activities of the Ministry of Economy and the Ministry of Finance in the field of capital budgeting.

The local government structure is important to understand intergovernmental fiscal relations. Ukraine currently (prior to 2015) had three tiers of subnational government. The top tier consisted of 24 oblasts, the Autonomous Republic of Crimea, and two cities with special status: Kyiv and Sevastopol. The second tier consisted of 490 districts (raions) and 182 cities of oblast subordination. (Kiev has the status of both an oblast and a city.) The third tier consists of 278 cities of raion subordination and roughly 11,000 villages. According to Article 118 of the Constitution, ‘the executive power in oblasts, raions and in the cities of Kyiv and Sevastopol is exercised by local state administrations’. Executives at these levels are appointed by the President upon the recommendation of the Cabinet and are accountable to him. In this respect, subnational governments at the oblast and raion level operate as deconcentrated agencies of the central government, rather than as governments accountable to local constituencies. Unlike the case of oblasts and raions, executives of cities of oblast subordination are directly elected. Villages and towns (cities of raion subordination) also have directly elected ‘heads’ who lead the executive body of the council and preside at its meetings.

3. Assessment of PFM performance

PI-1. Aggregate expenditure outturn compared to original approved budget.

PURPOSE OF INDICATOR

Implementing the budget as approved is an important aspect of the government's ability to deliver public services for the year as expressed in fiscal/budgetary policy documents, output commitments and work plans. This indicator reflects this by measuring the actual budget outturns in terms of the major aggregate compared to the originally budgeted expenditures (as defined in annual budget approved prior to fiscal year).

Indicator PI-1	Score 2015	Score 2010	Score 2005	Justification
Aggregate expenditure outturn compared to original approved budget	B	B	B	Expenditure outturns deviation was below 10 percent in 2 out of 3 years despite difficult external environment and conflict in the East.

CURRENT PERFORMANCE

Ukraine actual expenditures remained below the planned figures as a result of difficult economic situation amplified by civil unrest at the end of 2013-early 2014 and conflict in the east of the country¹. The need to for downward adjustment of planned spending is related to delayed structural reforms and poor external environment of the recent years. In 2014 the authorities started a macroeconomic adjustment and structural reform program; the currency depreciated by more than 70 percent in 2014 which together with utility tariff increases pushed 12-month consumer price inflation to 24.9 percent in 2014. The overall fiscal deficit, including Naftogaz, widened to an estimated 10.3 percent of GDP in 2014 (Figure 2). The combination of persistent fiscal imbalances, GDP contraction and currency depreciation pushed up the public debt-to-GDP ratio from 40.6 percent in 2013 to an estimated 70.3 percent in 2014. This extremely difficult environment caused significant fiscal pressures.

Measures undertaken by the Government combined with IMF program together with budget support from other development partners such as World Bank and EU helped sustain the budget. To contain rising fiscal imbalances, the Government tightened fiscal policy through a combination of revenue and expenditure measures. Fiscal adjustment measures, adopted in March 2014 add up to 1.2 percent of GDP increase on the revenue side and 2.0 percent of GDP reduction on the expenditure side (compared to the originally adopted 2014 Budget). In April 2014 the IMF Board of Executive Directors approved a 2-year SBA, in the amount of SDR 10.976 billion (or US\$ 17.1 billion equivalent). The IMF also approved an Extended Fund Facility (EFF) Arrangement in March 2015. The World Bank Board of Executive Directors approved USD 500 million Development Policy Operation in May 2015. As a result, the expenditure deviation from planned expenditures stood at 10.5 percent in 2014 and below 10 percent in previous years.

¹ The conflict in the East is complicates stabilization and recovery. The conflict is responsible for 2.5-3 percentage points of the overall GDP decline in 2014 – and the relatively modest impact reflects the fact that those conflicts began at midyear. The two regions directly affected by the conflict -Luhansk and Donetsk- account for about 16 percent of GDP, a quarter of industrial production and merchandize exports and over 20 percent of general government revenue. Production facilities and economic infrastructure have been destroyed or severely damaged and about 800,000 jobs have been lost. A growing number of internally displaced people (estimated at 980,000, including from Crimea) require social support. Meanwhile, conflict induced uncertainty weighs on business and consumer confidence throughout the country which is particularly harmful given the already very fragile macroeconomic environment.

TABLE 1.1. EXPENDITURE DEVIATION, 2012-2014

Year	Total expenditure deviation from originally approved budget
2012	10.5%
2013	-2.1%
2014	-6.9%

Source: Annual Budget Execution Reports, PEFA Team estimates

CHANGE IN PERFORMANCE SINCE 2011

There is no change performance since 2011 PEFA. During both periods under consideration (2008-2010 and 2012-2014), Ukraine faced considerable fiscal challenges. During 2009, Ukraine had an unprecedented contraction of the economy of about 15 percent as a result of financial and economic crisis of 2008. Conflict in the East and loss of Crimea in 2014 created another large shock for the economy and fiscal situation.

CURRENT DEVELOPMENT AND ONGOING REFORM EFFORTS

The authorities have taken initial steps to stabilize the economy, including a switch to a flexible exchange rate regime and fiscal consolidation, anchored in the EFF with the IMF. The current program of macroeconomic stabilization is expected to be successful in addressing external financing needs and in reducing external and internal imbalances accumulated over recent years. The July 2015 IMF end of mission press release under EFF Arrangement confirmed that the Government is implementing the triggers under the program.

PI-2. Composition of expenditure outturn compared to original approved budget.

PURPOSE OF INDICATOR

Where the sub-aggregate composition of expenditure varies considerably from the original budget, it is unlikely that the budget will be a useful statement of policy intent. This indicator requires an assessment based on the measurement of expenditure outturns against the original budget at a sub-aggregate compositional level.

Indicator PI-2	Score 2015	Score 2010	Score 2005	Justification
Extent of variance in expenditure composition during the last three years	C	D	-	Variance was below 15 percent in all three years
Extent of variance in expenditure composition by economic classification during the last three years	C	-	-	Variance was below 15 percent in all three years
Average amount of expenditure charged to a contingency vote over the last three years	A	A	-	The average amount of expenditure charged to contingency fund did not exceed 1 percent of original budget
Overall	C+	D+	B	

Note: there is a change in methodology in both 2010 and 2015 assessment, so scores are not fully comparable.

CURRENT PERFORMANCE

i. Extent of variance in expenditure composition during the last three years

The shocks to the economy in 2013-14, civil unrest and consequent changes in the Government as well as conflict in the east had serious implications for changes in expenditure composition. The average annual variations across categories were 11.1 percent in 2012, 5.6 percent in 2013, and 11.3 percent in 2014. The functional breakdown was used to calculate the variance in budget composition.

TABLE 2.1. COMPOSITION EXPENDITURE VARIANCE, 2012-2014

Year	Variance
2012	11.1%
2013	5.6%
2014	11.3%

Source: Annual Budget Execution Reports, PEFA Team estimates

ii. Extent of variance in expenditure composition by economic classification during the last three years

Deviation of expenditure outturn by economic classification was above 10 percent for all three years under consideration. Capital expenditures took most of the burden of adjustment of the fiscal correction in 2014. In 2012 the highest difference was observed in current transfers which were channeled to population on the verge of 2012 parliamentary elections.

TABLE 2.2. COMPOSITION EXPENDITURE VARIANCE BY ECONOMIC CLASSIFICATION, 2012-2014

Year	Variance
2012	13.3%
2013	10.9%
2014	10.6%

iii. Average amount of expenditure charged to a contingency vote over the last three years

The contingency reserve fund typically accounts for less than 1 percent of overall expenditures and is subject to statutory limits, established in the Budget Code. Allocations of resources from the reserve fund are made by decisions of the Government. Allocations to the reserve fund did not exceed 1 percent of total expenditure in any of the three years.

CHANGE IN PERFORMANCE SINCE 2011

While there is a slight improvement in the score however the issue with large variations in budget outturns continues to persist. The high degree of aggregate central government expenditure credibility masks larger variation in the composition of expenditure between the budget and actual spending both by function and by economic classification. That said considerable external shocks explain most of the variance, as capital expenditures are frequently cut first during fiscal crisis, and spike in defense related expenditures is rooted in the conflict in the east of Ukraine.

PI-3. Aggregate revenue outturn compared to original approved budget.

PURPOSE OF INDICATOR

Accurate revenue forecasts are a key input to the preparation of a credible budget. Revenues allow the government to finance expenditures and deliver services to its citizens. Optimistic revenue forecasts can lead to unjustifiably large expenditure allocations that will eventually require either an in-year and potentially disruptive reduction in spending or an unplanned increase in borrowing to sustain the spending level. On the other hand, pessimism in the forecast can result in the proceeds of an over-realization of revenue being used for spending that has not been subjected to the scrutiny of the budget process. As the consequences of revenue under-realization may be more severe, especially in the short term, the criteria used to score this indicator allow comparatively more flexibility when assessing an over-realization.

Indicator PI-3	Score 2015	Score 2010	Score 2005	Justification
(i) Aggregate revenue outturn compared to original approved budget	C	B	A	The deviation in 2012 was 4 percent, while in 2013 and 2014 it was 7 and 10 percent below forecast respectively
(ii) Extent of variance in revenue composition during the last three years	C	-	-	Over the past two years (2014, 2013), revenue composition variance was under 15 percent.
Overall	C			

CURRENT PERFORMANCE

i. Aggregate revenue outturn compared to original approved budget

The revenue collection in Ukraine was lower than forecasted in 2013 and 2014. The deviation in 2012 was 4 percent, while in 2013 and 2014 it was 7 and 10 percent below forecast respectively. This is further complicated by large corporate tax advance payments (accounting for about 6 percent of overall tax collection as of end of 2014) and VAT refund arrears.

TABLE 3.1. REVENUE DEVIATION, 2012-2014

	Plan	Actual	Deviation
2012	332,821.3	346,054.0	4%
2013	362,830.1	339,226.9	-7%
2014	395,304.3	357,084.2	-10%

At the same time, there is a larger variation in the composition of revenue between the budget and actual revenues. Tax revenues have been consistently below the plan for all three years, while nontax revenues have been underestimated in all the years. Value added tax and corporate tax show the highest deviation. VAT deviation has reached negative 21.5 percent in 2014. VAT refunds have been continuously underestimated and VAT collection overestimated.

TABLE 3.2. VAT REFUND AS A SHARE OF GROSS VAT COLLECTION, 2012-2014

	Plan	Actual
2012	24%	25%
2013	27%	29%
2014	23%	27%

Source: Annual Budget reports, PEFA Team estimates

ii. Extent of variance in revenue composition during the last three years

Revenue composition variance over the reporting period, though significant in 2012, was less than 15 percent in 2012-2014. See detail in the following charts.

TABLE 3.3. VARIANCE IN REVENUE COMPOSITION OF THE STATE BUDGET OF UKRAINE IN 2012-2014

year	total revenue deviation	composition variance
2012	104.0%	13.9%
2013	93.5%	12.7%
2014	87.6%	11.2%

CHANGE IN PERFORMANCE SINCE 2011

The indicator score deteriorated since 2011 due to overly optimistic revenue forecast in all the years. Forecasting has been undermined by the sharp economic decline caused by both external and internal factors discussed above. The 2015 revenue outturns outperformed plans largely due to inflation, however 2015 fiscal year is not included into the assessment.

PI-4. Budget classification.

PURPOSE OF INDICATOR

A robust classification system allows transactions to be tracked throughout the budget formulation, execution and reporting cycle, according to administrative unit, economic category, function/sub-function or program. The budget should be presented in a format that reflects the most important classifications and this classification should be embedded in the government's chart of accounts (the accounting classification) to ensure that all transactions can be reported in accordance with any of the classifications used. The budget and accounting classifications should be reliable and consistently applied, providing users with confidence that information recorded against one will be reflected in reports under the other classification.

Indicator PI-4	Score 2015	Score 2010	Score 2005	Justification
Classification of budget	A	A	A	Budget formulation, execution, and reporting are based on every level of administrative, economic, and functional classification and are GFS/COFOG compliant. Program classification is used as well.

CURRENT PERFORMANCE

A national budget classification is approved by the Ministry of Finance of Ukraine according to the article 8 of Budget Code of Ukraine. National budget classification consists of

- revenue classification (divided into tax and non-tax revenue, receipts from capital operations, transfers);
- functional classification;
- administrative classification;
- economic classification of expenditure;
- program classification;

- budget lending/borrowing classification;
- financing by creditor type;
- financing by type of debt instruments;
- debt classification by creditor type;
- debt classification by debt instrument.

Budget classification approaches the standards of the Government Finance Statistics Manual 2001 (IMF) according to Summary Methodology Statement under SDDS of the IMF. Previously the budget classification was consistent with GFS1986. While the process to shift to GFS2001 started, the accrual IPSAS compliant standards are not yet fully introduced.

Extrabudgetary social security funds: (Social Insurance Fund against Occupation Accident and Diseases of Ukraine, Social Insurance Fund against Temporary Loss of Working Capacity, Unemployment Social Insurance Fund, Pension Fund of Ukraine) are not included in Central Government data but are available as a memorandum item.

Data definitions, coverage and classifications are presented in the Budget Code of Ukraine, in the MoF order №11 of 14.01.2011 «Budget Classification» (as amended). Social security funds data definition, coverage and classifications presented in regulation acts issued by relevant extra-budgetary funds and the Ministry of Finance orders.

CHANGE IN PERFORMANCE SINCE 2011

The indicator score has remained unchanged since 2011. No major changes were observed.

PI-5. Comprehensiveness of information included in budget documentation.

PURPOSE OF INDICATOR

Annual budget documentation (the executive's budget proposals for the next fiscal year with supporting documents), as submitted to the legislature for scrutiny and approval, should allow a complete picture of central government fiscal forecasts, budget proposals and out-turn of the current and previous years. This indicator assesses the comprehensiveness of the information provided in the annual budget documentation.

Indicator PI-5	Score 2015	Score 2010	Score 2005	Justification
Comprehensiveness of information included in budget documentation	B	A	A	All four basic and four additional elements are available for the public (deficit financing, macro-economic assumptions, debt stock and financial assets).

CURRENT PERFORMANCE

The annual executive budget proposal and enacted budget provide a comprehensive picture of central government fiscal forecasts and out-turn of the current and previous years². Examples of such submissions can be found on the Parliament web-site (http://w1.c1.rada.gov.ua/pls/zweb2/webproc4_1?pf3511=52941)

² The following terminology is used: Current year (T) is the fiscal year in which the budget proposals are being prepared and usually presented. Next year (T+1) is the budget year or fiscal year for which the annual budget proposals are made. Previous year (T-1) is the last fiscal year completed. Outer years (T+2, T+3 etc.) are the fiscal years beyond the year for which the annual budget proposals are made. Outer years are relevant for the medium-term budget perspective in PI-14, PI-15 and PI-16.

The Budget Code (articles 38 and 39) lists the basic elements to be included in both budget proposal and enacted budget:

1. Forecast of the fiscal deficit;
2. Previous year's budget outturn, presented in the same format as the budget proposal;
3. Current year's 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.

All these elements were included in budget proposals and enacted budgets during 2011-2015. According to requirements of the Constitution of Ukraine and the Budget Code, budget proposals and enacted budgets must be published on the web-site of the Parliament (an example of enacted budget 2015 <http://zakon4.rada.gov.ua/laws/show/80-19>).

The following additional elements are available:

- Deficit financing, describing its anticipated composition, is included in the executive budget proposal and in the enacted budget as an annex according to the Budget code (article 38).
- Macro-economic assumptions, including estimates of GDP growth, inflation, interest rates, and the exchange rate are prepared by the Ministry of Economic Development and Trade, consolidated into the Budget Resolution by the Ministry of Finance by 30/04 (four months before the executive budget proposal is submitted to the Parliament). The draft resolution is publicly available and discussed with expert community before approval.
- Debt stock, including details at least for the beginning of the current year is recorded in the executive budget proposal and an enacted budget according to the Budget code (article 38) and the order of the Ministry of Finance of Ukraine # 42 dated 28.01.2004. According to Special Data Dissemination Standards (as provided to the IMF by the Ukrainian Government³), data on the state debt and the debt guaranteed by the state are classified by: creditor type, maturity, debt instruments (loans and securities).
- Data on the state debt and the debt guaranteed by the state are compiled on a gross basis according to the Ukrainian legislation and international standards. Debt stock is presented in annexes of the executive budget proposal and the enacted budget "Financing of the state budget" and "Loans from Governments, banks and international organizations". The maximum amount of the state debt is defined in the enacted budget (article 5 of the law "On the state budget").⁴ The State Treasury of Ukraine reports debt stock (domestic and external debt) on monthly, quarterly and annual basis. <http://www.treasury.gov.ua/main/uk/doccatalog/list?currDir=278790>.
- Financial Assets. Economic and financial data correspond to the data described on the International Monetary Fund's Dissemination Standards Bulletin Board (<http://www.ukrstat.gov.ua/imf/Pokaze.html>).

The following additional elements are not available:

- Summary information of fiscal risks (including contingent liabilities such as guarantees, and contingent obligations embedded in PPP contracts, etc.) is not presented in the budget documentation. Since PPP is a developing tool in Ukraine, there is no established system of monitoring the obligations under PPP contracts. State guarantees are calculated in the debt stock (see point 7).

³ <http://dsbb.imf.org/Pages/SDDS/DOAFBase.aspx?ctycode=UKR&catcode=CGD00>

⁴ For example, see the law "On the State Budget 2015" (<http://zakon4.rada.gov.ua/laws/show/80-19>)

- 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 is not available.
- Documentation on the medium-term framework is not available, as this system is being established in Ukraine. See PI 14 and PI 16 for more detailed information.
- Reports on quantification of tax expenditures are prepared by the Ministry of Finance, but are not published.

CHANGE IN PERFORMANCE SINCE 2011

There was no major change in performance. The PEFA Upgrade includes additional elements reflecting evolved good practice, which resulted in score deteriorating to B.

PI-6. Central government operations outside financial reports.

PURPOSE OF INDICATOR

While having a large number of extra-budgetary or off-budget funds should be discouraged, there can be a case for the selective use of these funds, depending on the institutional and governance arrangements in the country. The use of off-budget funds should be accompanied by mechanisms that promote accountability and efficiency, in particular they should be included in regular reports to the legislature. Without such controls, extra-budgetary funds can end up serving corrupt interests, weaken good governance and macro-fiscal stability.

Indicator PI-6	Score 2015	Score 2010	Score 2005	Justification
Expenditure outside financial reports	D	-	-	The reporting of EBOs is only done to the Executive and not to the Parliament. There are also slippages in disclosure of reports. The share of EBOs in central government expenditures is over 38 percent in 2014.
Revenue outside financial reports	D	-	-	EBO revenues are above 50 percent of budgetary central government
Financial reports of extra-budgetary units	A			Data on all major EBOs is included into ex-post report and detailed at least at the level of GFS economic classification or equivalent
Overall	D+	D	D	

CURRENT PERFORMANCE

Extra-budgetary operations include the activities of four obligatory state social and pension insurance funds: the Pension Fund, the Temporary Disability Social Insurance Fund, the Industrial Accident and Occupation Disease Social Insurance Fund, and the Unemployment Social Insurance Fund (hereinafter referred to as the “Funds”). The Funds’ accounts are held by the State Treasury. Starting from 2015, two funds (the Temporary Disability Social Insurance Fund of Ukraine and the Industrial Accident and Occupation Disease Social Insurance Fund) were merged into a single Ukraine Social Insurance Fund.

i. Expenditure outside of financial reports

The ratio of EBOs expenditures to central government expenditures (combined central budget and EBOs) declined from 40.9 percent in 2010 to 38.2 percent in 2014.

TABLE 6.1. EBOs EXPENDITURES, 2010-2014

UAH million

	2010	2011	2012	2013	2014
State budget expenditures	303,588.7	333,459.5	395,681.5	403,456.1	430,217.8
Expenditures of EBOs	210,511.4	231,055.2	255,645.2	276,190.7	265,464.4
<i>including:</i>					
Pension Fund	191,472.7	210,714.4	233,695.9	250,350.0	243,477.9
Industrial Accident and Occupation Disease Social Insurance Fund of Ukraine	4,048.4	4,638.5	5,731.0	7,266.9	5,921.9
Temporary Disability Social Insurance Fund of Ukraine	8,191.1	7,559.2	9,283.1	10,625.7	9,180.9
Unemployment Social Insurance Fund	6,799.2	8,143.1	6,935.2	7,948.1	6,883.7
<i>EBO's expenditures to State Budget expenditures</i>	<i>69.3</i>	<i>69.3</i>	<i>64.6</i>	<i>68.5</i>	<i>61.7</i>
<i>EBO's expenditures to Central Government expenditures</i>	<i>40.9</i>	<i>40.9</i>	<i>39.2</i>	<i>40.6</i>	<i>38.2</i>

The EBOs reporting system is fragmented. EBOs are not accountable to the legislature. Each fund prepares an annual budget to be approved by the Cabinet of Ministers. Funds compile quarterly and annual reports and submit them to the Ministry of Finance together with balance sheets. Their annual reports are only submitted to the Cabinet of Ministers. Funds may publish annual reports on their official web sites. However, only the Pension Fund and the Industrial Accident and Occupation Disease Social Insurance Fund usually do so. In order to improve the discipline as regards the publication of reports by Funds, legislation was amended in 2014 to require the Unemployment Social Insurance Fund and the Industrial Accident and Occupation Disease Social Insurance Fund to publish their budgets and execution reports within 5 business days of their approval on their official web sites, and then to publish them in official bulletins of the Verkhovna Rada of Ukraine and the Cabinet of Ministers of Ukraine within two weeks.

ii. Revenue outside of financial reports

Similarly to the dimension (i) the total revenues of four funds stood at UAH 188 billion, which is considerably higher than 10 percent of budgetary central government revenues of below UAH 350 billion in 2014. The revenue data is not included into the annual financial report of the Government.

iii. Financial reports of extra-budgetary units

According to an Order of the Ministry of Finance⁵, Funds must compile execution reports in respect to budget funds in line with the economic expenditure classification which is in line with international standards (only the Pension Fund receives funds from the budget). This requirement was approved in 2012 and substantially unified the work to be done to generate public finance statistics. The requirement is complied with in practice.

The rest of Funds' spending (expenditures related to social benefits and social support in line with powers of the Funds) is reported in the form allowing the Ministry of Finance to convert reports into GFSM classification, within three months of the end of the year. Funds provide a description of transactions and institutions involved, while developing their annual statements.

⁵ has been established with Order No. 44 of the Ministry of Finance of January 24, 2012, "On Approval of the Procedure of the Compilation of Financial, Budget, and Other Reports by Spending Units and Budget Fund Recipients" that the Funds should submit the following quarterly and annual reports: financial statements in the form of a balance sheet; separate budget reports on proceeds and spending of resources of the general and special funds; reports on debt related to budget funds; reports on the implementation of budget estimates of the Funds.

The quality of the data suffers as a result of varying accounting practices. Funds use their own charts of accounts and accrual accounting methods. State and local budgets use cash accounting.⁶

The Budget Code of Ukraine does not define general government sector⁷, but the data of public finance statistics and the System of National Accounts (SNA) include the consolidated budget of Ukraine and budgets of Funds. These data are disclosed in Ukraine's Budget statistics digests published by the Ministry of Finance;⁸ they are published on web sites of the Ministry of Finance, the NBU, and the Statistics Service of Ukraine, as well as in IMF's General Government Finance publication within the scope of the IMF Special Data Dissemination Standards.

Data on all major EBOs is included into ex-post reports, which are however detailed detailed at least at the level of GFS economic classification or equivalent.

CHANGE IN PERFORMANCE SINCE 2011

The indicator score has improved since 2011 mainly due to improved reporting of EBOs. The methodology has changed and overall score is not fully comparable.

CURRENT DEVELOPMENT AND ONGOING REFORM EFFORTS

In order to unify accounting and financial statements (also in Funds), a Chart of Accounts for Public Sector Accounting and National Public Sector Accounting Policy Standard 101 "Presentation of Financial Statements" have been approved; they will come into effect from January 1, 2016. According to this standard, the Funds will compile the same financial statements as all other spending units, which would improve score further.

PI-7. Transparency of inter-governmental fiscal relations.

PURPOSE OF INDICATOR

Service delivery in many countries is carried out through decentralized arrangements where local governments are responsible for delivering services to citizens. Decentralized governance arrangements give rise to a set of intergovernmental financial relations between levels of government including key issues related to the transfer and distribution of funds from central government to sub national governments (SNG), the timeliness and accuracy of information on funds to be transferred, the requirements for reporting from SNG to central government and the risk exposure of central government to SNG operations.

Indicator PI-7	Score 2015	Score 2010	Score 2005	Justification
Transparent and rules based System for allocating transfers	B	A	B	Less than 90.0 percent of the total amount of transfers was allocated on the basis of transparent rules in 2014
Timeliness of information on transfers	C	B	B	Substantial delays in 2013 and 2014 did not allow the local government to timely incorporate information into their budget planning processes.
Extent to which consolidated fiscal data is collected and reported for general government	-	A	A	Consolidated fiscal data is generated by the Treasury
Overall	C+	A	B+	

⁶ Resolution of the Cabinet of Ministers of Ukraine No. 34 of January 16, 2007, as amended.

⁷ The general government sector includes the Funds, but excludes the deficit of NAG Naftogaz.

⁸ The 2013 digest is available on the web site of the Ministry of Finance.

CURRENT PERFORMANCE

Ukraine has a four-tier government structure in which each tier of subnational governments supervises the tier below. However, the logic of the administrative hierarchy does not apply to the entire system of intergovernmental fiscal transfers. Rayon-level governments (474) and cities of oblast significance (170) receive their fiscal transfers from the Ministry of Finance directly (669 budgets, including oblasts receive resources directly from state budget). Cities of rayon significance⁹ (269 pcs.), villages and towns¹⁰ (10,032) still receive their transfers from rayon budgets¹⁰.

i. System for allocating transfers

Local budgets receive equalization transfers based on a formula. There are additional criteria-based subventions from the state budget as well as subventions based on political decision. In 2012-2014, the equalization transfer allocation formula determined difference between projected revenues and expenses of local budgets taking into account factors, such as the population, number of consumers of relevant services.

The annual average percentage of formula-based transfers and criteria-based transfers (subventions) amounted in 2011-2014 to about 88.7 percent of the total value of transfers (Table 7.1). The subventions, which were “negotiated” (as a subject to a political decision), accounted for 11.3 percent of transfers. Transparency in the allocation of transfers deteriorated in 2011-2014 due to the inclusion of a subvention for the coverage of the arrears related to differences in heating and water supply tariff rates which was not rule-based.

TABLE 7.1. STRUCTURE OF STATE BUDGET TRANSFERS TO SUBNATIONAL GOVERNMENTS, 2010 - 2015

	2010	2011	2012	2013	2014	2015, plan
Transfers, TOTAL, UAH billion	77.8	94.9	124.5	115.8	130.6	153.0
Ratio of formula-based and criteria-based transfers to total transfers; percent	95.4	89.0	81.5	95.9	88.5	99.4
Ratio of negotiated transfers (<i>based on political decisions</i>) to total transfers; percent	4.6	11.0	18.5	4.1	11.5	0.6

ii. Timeliness of reliable information for budget planning to SNGs on their allocations from central government for the coming year

According to the budget calendar, the first projections of planned transfers are communicated by the Ministry of Finance to local governments in the beginning of the budgeting process (more than 6 weeks prior to the budget planning deadline). Based on the Budget Code planned transfers should be established during the second reading of Budget Law by the Parliament (mid-November). However, significant delays in approval of budget laws in 2013 and 2014 meant that lower-level governments did not get information on planned transfers in time to incorporate the data for their budget approval. The notice of final allocation of funds should be provided within one week of the approval of the Law on the state budget by the Parliament (before December 1 according to the budget calendar). Annexes 6 and 7 to this law specify the allocation of transfers among local budgets.

⁹ Administrative territorial units with the population under 50,000 people and a small network of budget-funded institutions.

¹⁰ The numbers for local budgets do not include budget of Autonomous Republic of Crimea and City of Sebastopol

CHANGE IN PERFORMANCE SINCE 2011

There has been slight deterioration in performance mainly due to transfers to cover utility tariff adjustments that are not rule based and slippages in the budget calendar in 2013 and 2014. The deterioration is also partially attributed to dropping third dimension of the indicator, related to local budget reporting, which scored A before.

CURRENT DEVELOPMENT AND ONGOING REFORM EFFORTS

On December 28, 2014, the Budget Code was amended in order to implement a reform of inter-budgetary relations based on new models of financial support to local budgets and inter-budgetary relations. These amendments may affect future scores after implementation. Amendments provide for merged municipalities (towns of rayon significance, villages, and towns) to maintain direct inter-budgetary relations with the state budget. The amendments also change the equalization transfer system moving away from equalizing expenditures and revenues to a focus on revenues. Additional subventions for health and education expenditures¹¹ were introduced. These are calculated under formulas similar to the one used earlier to calculate equalization transfers.

The Budget Code amendments also allowed for local councils to move development budgets (investment part of local budgets) outside of the Treasury system into public sector commercial banks. Development budgets and own proceeds of local governments stood at 9.5 percent of overall local budgets in 2010-2014 and in the first quarter of 2015, their share was 12 percent of the total income of local budgets. This poses a risk that reporting will be performed manually and with delays.

PI-8. Performance information for service delivery.

PURPOSE OF INDICATOR

The purpose of this indicator is to assess the quality of the annual performance information at different stages of the budget cycle (specifically in the executive's budget proposal or its supporting documentation, in the year-end report, and in audit reports or performance evaluation reports). It focuses on annual information on public service delivery, and the extent to which the nature and coverage of such information is likely to promote greater operational efficiency in service delivery.

Indicator PI-8	2015	Justification
(i) Performance plans for service delivery	B	All key spending units include information about key performance indicators and targets to their budget proposals. Most of indicators are output indicators. This information is published.
(ii) Performance achieved for service delivery	C	In 2014, 58.6 percent of key spending units presented and published information on key performance indicators at the level of programs.
(iii) Resources received by service delivery units	A	The strong centralized Treasury system monitors resources received by delivery units, but monitoring of the use of resources is lacking.
(iv) Performance evaluation for service delivery	D	Though efficiency assessments of budgetary funds are outlined in the legal framework, in practice they are not performed.
Overall	C+	Information published and disseminated on the use of budget funds, as well as the efficiency and effectiveness of budget programs, are often incomplete and submitted in a form difficult to understand, though improvements are ongoing.

¹¹ For the running maintenance of general secondary education establishments and all healthcare establishments within the scope of delegated responsibilities.

CURRENT PERFORMANCE

i. Performance plans for service delivery

According to the Budget Code, Article 38, all key spending units provide information about the purpose, objectives and expected results that each key spending unit envisages to achieve in the budget program in the form specified by the Ministry of Finance of Ukraine (<http://zakon3.rada.gov.ua/laws/show/z1057-12/print1444119964775244>). The Ministry of Finance submits this information to the Budget Committee of the Parliament of Ukraine together with the budget requests. Most of budget program indicators are output indicators and do not measure outcomes. The budget program passports specifying this information are approved by ministerial orders and thus published for all spending agencies. The Treasury only carries out payments once budget program passport is approved.

ii. Performance achieved for service delivery

In 2014, the ratio of key spending units that carry out public presentations, publish budget information by the budget programs and indicators and publish information on performance indicators of budget programs reached 58.6 percent. This information is available at the following sites:

- Ministry of Finance of Ukraine (the report): http://www.minfin.gov.ua/control/publish/article/system?art_id=411109&cat_id=411108
- State Fiscal Service of Ukraine (the report): <http://sfs.gov.ua/pro-sfs-ukraini/struktura-apat/05-departament-finansovo-ekonomichnoi-povidomlen/povidomlennya/186755.html>

iii. Resources received by service delivery units

Service delivery units (e.g., schools, hospitals, social assistance units) do not operate their own bank accounts. All revenues, including payments and other non-budgetary revenues collected through community contributions (such as, parent fundraising) are managed and controlled by the State Treasury through its Territorial offices. Revenues and payments collected by service delivery units are credited to the State Budget's Special Fund (not the General Fund) and these funds are in turn generally made available to service delivery units which had received/collected the revenue. If the collected revenues/payments are not predetermined, then the State Treasury will authorize utilization of the resources within approved budget parameters. If the revenues are deposited but have a pre-determined use (e.g., to replace school furniture), then the State Treasury records this in its records and verifies that the funds had been used for the intended purposes. The Territorial Treasury offices generate quarterly reports which are reconciled against the quarterly reports produced by the municipal departments.

iv. Performance evaluation for service delivery

According to the requirements Budget Code (Article 20) at all stages of the budget process participants assess the efficiency of budget programs providing measures to monitor, analyze and control over the targeted and efficient use of public funds. Organizational and methodological principles for evaluating the effectiveness of budget programs are determined by the central executive body that ensures the formation of state budget policy. The order of MOFs 17.05.2011, № 608 approved the Guidelines for measuring the effectiveness of budget programs. Application of this order is recommended but is not mandatory. The results of this assessment are not public and are not controlled.

The independent audit efficiency of budgetary resources is not performed because this requires additional funds. The main regulatory bodies that carry out financial control and evaluation of the budget funds are the State Financial Inspection of Ukraine and the Accounting Chamber of Ukraine. The Accounting

Chamber publishes reports on budget execution, which provide a description and assessment of the implementation of the budget (<http://www.ac-rada.gov.ua/control/main/uk/publish/category/412>).

SFI placed on a permanent basis statements of operations Derzhfininspektsiyi and its territorial bodies. This information includes data on the number of inspections, the volume of violations and take action on the results of checks (<http://www.dkrs.gov.ua/kru/uk/publish/category/108789>).

CHANGE IN PERFORMANCE SINCE 2011

This is a new indicator. There have been no substantial changes in access to fiscal information during 2012-2014. Over this period, publication of executive proposals and enacted budgets was somewhat chaotic owing to the political and economic crisis.

CURRENT DEVELOPMENT AND ONGOING REFORM EFFORTS

February 11, 2015 the Verkhovna Rada adopted the Law of Ukraine “On the open use of public funds» № 183-VIII according to which envisaged the creation of a single web portal using public funds (<http://zakon4.rada.gov.ua/laws/show/183-19>). The law obliges the managers of state and local budgets, public entities and municipal property, funds of obligatory state insurance agencies and pension funds to disclose quarterly special single web portal of information on planned and actual use of public funds, including the volume budget allocations and expenditures conducted, the conclusion and implementation of contracts, expenditure on business trips. This site has become an official state information resource on the Internet, which is publicly available information regarding the use of public funds. The information published on a single web portal of the use of public funds will be in free access. The Law came into force on September 12, 2015.

A method of comparative analysis of the efficiency of budget programs performed administrators of local budgets has been developed (Letter of the Ministry of Finance of Ukraine from 09.19.2013, the № 31-05110-14-5 / 27486). This involves the same criteria for determining the degree of efficiency for all budget programs, allows to unify the valuation metrics for all spending units and uses a single algorithm calculation based on formula approach.

PI-9. Public access to fiscal information.

PURPOSE OF INDICATOR

Budget transparency is a key element of accountable government and allows civil society to participate in the budgeting process providing feedback to policymakers. Transparency depends on whether information on fiscal plans, positions and performance of the government is easily accessible to the general public.

Indicator PI-9	Score 2015	Justification
Public access to fiscal information	B	The government discloses all basic elements and two additional elements. The scores are not directly comparable due to change in methodology

CURRENT PERFORMANCE

The Parliament and the Ministry of Finance publish a comprehensive package of budget information on their web-sites and in the press, including budget proposal and approved budget, in-year and annual budget execution reports, budget monitoring information. Publication of this information is required by the Budget Code and Rules of Procedures of the Parliament.

This information is suitable legislature and executive bodies as well as expert community. However, a clear, simple summary of the Executive's Budget Proposal and the Enacted Budget accessible to the non-budget experts was not available during 2011- 2014.

Moreover, during that period comprehensiveness of published information was partially offset by a very short lag between publication and approval of the budget that prevented the holding of public consultations and gave very limited opportunity to take into account recommendations of the Accounting Chamber of Ukraine.

The table below summarizes the disclosure status of budget information. All four basic and two additional elements are available for the public.

TABLE 9.1. BUDGET INFORMATION DISCLOSURE

Basic elements	
<p>Annual Executive Budget Proposal documentation: A comprehensive set of executive budget proposal documents (as assessed in PI-5) is published on the web-site of the Parliament (www.rada.gov.ua) after official submission by the Cabinet of Ministers. It includes draft budget law with annexes, presented in separate documents. Analytical paper for budget proposal published together with a draft budget law is a comprehensive document that includes key macroeconomic indicators, forecast of revenues and expenditures for the next fiscal year, intergovernmental transfers, state debt and budget deficit, etc.</p> <p>During 2012-2014 the key problem with public access to a budget proposal was timing of its publication. It is required by the Budget code (article 37) and the Constitution (article 96) to submit the proposal to the Parliament by September 15. This deadline provides enough time for public consultations and supreme audit institution recommendations before adoption of the law. In 2013 a budget proposal was not publicly disclosed until submission to the Parliament on December 19, 2013. Main reasons for delay were, according to the Ministry of Finance, awaiting for results of the Vilnius summit with EU. In 2014 the government failed to submit to the Parliament by September 15 the draft of the 2015 budget law, which was published on its web-site for the first time on December 19. The only improvement versus 2013 was increase of public access to information, as the draft law on state budget 2014 was published on December 19 and signed by the President on January 18, 2014.</p> <p>Public consultations with the public, civil society, organizations, and think tanks were not conducted. As a result, during 2012-2014 civil society could not provide substantive recommendations to the draft law and discuss them with the Parliament.</p>	Met
<p>Enacted Budget: The annual budget law approved by the Parliament is publicized on its web-site (www.rada.gov.ua) within two weeks of passage of the law, and in the official press once the Budget Law has been signed by the President.</p>	Met
<p>In-year budget execution reports: Monthly and quarterly reports are routinely made available to the public on web sites of the Ministry of Finance (www.minfin.gov.ua, section 'state budget', sub-section 'execution of the consolidated budget and the state budget') and the State Treasury of Ukraine (www.treasury.gov.ua, section 'execution of budgets') within two weeks of their issuance. Mid – year reports available for the public within 1-2 months of end of period.</p>	Met
<p>Annual budget execution report: The year-end financial reports on execution of the state budget are made available to the public by 1st April of the following year (article 28 of the Budget code), prior to audit by the Accounting Chamber.</p> <p>In 2014 the Ministry of Finance organized public presentation of the state budget execution report and published on its web-site (www.minfin.gov.ua) a comprehensive annual report with iconographic. The report on execution of the budget was submitted by the Cabinet of Ministers to the Parliament by 01/04/2013.</p> <p>The report was presented to the Parliament by the Minister of Finance, the head of the Parliamentary Budget committee and the head of the ACU. Summary of audit findings was published on the web-site of the Accounting Chamber (www.ac-rada.gov.ua) while full findings were presented to the Parliament.</p>	Met
<p>Audited annual financial report, incorporating or accompanied by the external auditor's report: An annual summary of audit findings alongside the annual financial report is posted on the Accounting Chamber web-site (http://www.ac-rada.gov.ua) while full audit findings are presented to the Parliament. The conclusion on the execution of the Annual State budget within two weeks of the submission by the Ministry of Finance of the national accounts; and an annual report about the ACU activities within nine months of receipt of the financial reports of government, which makes it within 12 months of the end of fiscal year</p>	Met

Additional elements	
Pre-Budget Statement: According to the Budget Code (article 33) and Rules of Procedures of the Parliament (article 152) the Parliament reviews the pre-budget Statement (Budget Resolution) that should be approved by the Cabinet of Ministers by the 1 April (five months before the executive budget proposal is submitted to the Parliament). In 2014 the Ministry of Finance published the draft statement on its web-site before submission to the Parliament. The Statement is approved by the Parliament and published on its web-site. It defines parameters for the executive budget proposal regarding key macroeconomic indicators underpinning the budget, planned budget deficit and debt and guarantees ceilings).	Met
Other external audit reports: Non-confidential reports on central government consolidated operations are made available to the public within six months of submission to the Parliament.	Met
Summary of the Budget Proposal: Preparation of a clear, simple summary of the Executive's Budget Proposal and/or the Enacted Budget accessible to the non-budget experts (often referred to as a 'citizens' budget') was not required by Ukrainian legislation and therefore was not done.	Not Met
Medium Term Budget Outlook: (as assessed in PI-16) doesn't exist as a system though some elements are in place. Therefore, we can't state that medium term budget outlook is available for public	Not Met

CHANGE IN PERFORMANCE SINCE 2011

There have been no substantial changes in access to fiscal information during 2012-2014. Delays in the publication of executive proposals and enacted budgets can be attributed in part to the political and economic crisis.

CURRENT DEVELOPMENT AND ONGOING REFORM EFFORTS

Public access to information was improved in February 2015 when the Budget Code was amended requiring the Ministry of Finance to publish the budget proposal not only in press, but also on its web site. It is also obliged the Ministry to publish enacted budget and its summary within a month after approval of the state budget law. Moreover, access to fiscal information was improved by creation of E-Data web-portal (spending.gov.ua) where information on state expenditures is presented. As a result, in 2015 Global Open Data Index for Ukraine rose to 54 out of 100. The next step is for the authorities to publish a summary is prepared in a clear and reader friendly format suitable for the general public.

PI-10. Fiscal risk reporting.

PURPOSE OF INDICATOR

Central government will usually have a formal oversight role in relation to other public sector entities and should be aware of, monitor, and manage fiscal risks at a consolidated level. In addition, central government may also be obliged (for political reasons) to assume responsibility for a financial default of other entities (such as the banking sector) even when no formal oversight role exists, hence adequate procedures to monitor those risks at the level of the whole of public sector should be in place.

Indicator PI-10	Score 2015	Justification
Monitoring of public corporations	C	SOE oversight is weak and fragmented, however most of the SOEs submit financial reports to the respective ministries and agencies overseeing them. Not all reports are audited.
Monitoring of SNGs	A	Sub-national governments operate through the Treasury and cannot expend more than their budget. Local debt is authorized and monitored by the MoF.
Contingent liabilities and other fiscal risks	D	Contingent liabilities are not monitored except for sovereign guarantees to SOEs and local governments.
Overall	C+	

CURRENT PERFORMANCE

i. Monitoring of public corporations

At the end of 2014 Ukraine had over 1,800 operating SOEs (out of 3,350 registered SOEs) with the total assets amounting to more than UAH 870 billion and employing over 1 million people in all regions of Ukraine (about 25 percent of the general government staff). According to the Ministry of Finance, subsidies directed to SOEs in 2014 amounted to around 2 percent of GDP, while indirect subsidies not accounted in the budget were as high as 6 percent of GDP, mostly reflecting government support for the loss-making energy company Naftogaz.

SOE oversight is weak and fragmented. In accordance with Commercial Code of Ukraine (CCU), all state-owned entities are governed by the Cabinet of Ministers of Ukraine (CoM) which in turn may delegate its powers and functions to central or local government bodies (within the executive branch). Article 5 of the Law of Ukraine “On Management of State Assets” defines a broad range of CoM responsibilities in governing the SOE sector, including policy development, drafting of legislation, selection of governing bodies and delegation (to them) of the functions in SOE management, monitoring and evaluation, as well as oversight. The CoM delegates its functions of SOE oversight to the line ministries and agencies as governing bodies (ownership entities) for those enterprises not deemed to be of high national interest or of national security. The MoF does not perform an active or have a direct oversight function. While the MoF monitors the implementation of financial plans, it does not evaluate individual SOEs with regard to performance nor does it review the finances of SOEs. The MoF does not approve the SOE debt unless it has sovereign guarantees or maturity longer than a year. State Financial Inspection also carried out ex-post inspections of SOE. According to the CMU Resolution #214 of June 25, 2014, the State Financial Inspection undertakes ex-ante control of transactions entailing procurement of goods in the amount above UAH 100 thousand and works in the amount above UAH 1 million. Such controls apply to major 37 companies out of 1,246 SOEs.¹² The Accounting Chamber does not audit SOEs as its oversight role is limited to reviewing the utilization of budgetary resources. The SOEs, which are not joint stock companies do not have to undertake audit of their financial statements.

Naftogaz, the state-owned monopolist in gas sector, poses a considerable fiscal cost on the budget, which finances its deficit every year. According to the Public Finance Review carried out in 2010 under SIGMA program, “the presentation of quasi-fiscal transactions of state-owned enterprises and the finances of enterprises, in which the Government holds a controlling interest, in the state budget is ambiguous”. Naftogaz’s deficit stood at 6.8 percent of GDP in 2014 as compared to 1.7 percent in 2010¹³.

NAK Naftogaz’s deficit is not disclosed in its financial reports. According to its Charter, NAK Naftogaz keeps operating records and accounts of its business performance in accordance with legislation and submits quarterly and annual consolidated financial statements to the Ministry of Energy and Coal Industry. Annual consolidated IFRS financial statements of the Company are published on its official web site. However, these statements disclose only the loss incurred by the Company, rather than its deficit. In 2014, the loss amounted to UAH 85.0 billion, while the cash deficit is deemed to amount to UAH 106.6 billion. Annual reports of NAK Naftogas are not submitted to the Parliament with the annual budget outturn report.

Recently, the Ministry of Economic Development and Trade has undertaken a fiscal risk assessment of largest SOEs. However, there is no institutionalized risk assessment framework. There are initiatives taken by the Ministry of Economic Development and Trade to increase transparency of SOEs. It published a comprehensive report on SOE performance in 2014 and a new law now requires large SOEs to appoint independent auditors.

¹² <http://kiev.ukrstat.gov.ua/p.php3?c=2925&lang=1>

¹³ <http://www.naftogaz.com/www/3/nakweb.nsf/0/73F35D5DCDB1C5F8C2257E3700618F50>

ii. Monitoring of SNGs

Sub-national governments operate through the Treasury and cannot expend more than their budget. Thus, the local budgets are part of the regular Treasury reporting. Only municipalities of certain size (over 500,000 inhabitants) can issue debt but the Budget Code sets clear thresholds on the level of debt and debt service, and Ministry of Finance has to approve all debt issuance by subnational governments. Annual financial reports are consolidated national and sub-national reports.

Revenues and expenditures of all public units at all levels pass through the Treasury system and are reported in accordance with the same GFS/COFOG classification, so providing for full consolidation of all general government expenditure on a sectoral basis.

Cabinet of Ministers submits annual reports by April 1 of the next year at the latest (3 months after the end of the reporting period) and publishes them on the official web site. The Treasury submits monthly (by the 25th day of the next month) and quarterly (within 55 days of the quarter end) reports. Quarterly reports are published on the Treasury's official web site.

iii. Contingent liabilities and other fiscal risks

There is no framework in place to quantify and monitor contingent liabilities from central government programs/projects including PPPs beyond sovereign guarantees. The annual Budget Laws specify the maximum amount of guarantees to be granted as well as list of investment programs for which the state guarantees could be granted. The Cabinet of Ministers defines the procedures for granting such guarantees.

CHANGE IN PERFORMANCE SINCE 2011

There is no change in performance.

CURRENT DEVELOPMENT AND ONGOING REFORM EFFORTS

The Ministry of Economic Development and Trade is working on development of the SOE Reform Concept which aims at strengthening of the SOE governance and fiscal risk oversight. SOE Oversight Council will also be established. The contingent liabilities monitoring may be improved once IPSAS compliant accounting standards are fully implemented.

PI-11. Public investment management.**PURPOSE OF INDICATOR**

Public investments are viewed as a key prerequisite to achieve and sustain economic growth, achieve strategic policy objectives and address national service delivery needs. During periods of economic contraction, countries need to strive to protect and find fiscal space for addressing investment needs, while during periods of expansion countries are typically challenged to prioritize among many worthwhile investments.

Indicator PI-11	Score 2015	Score 2010	Score 2005	Justification
Economic analysis of investment proposals	D	-	-	No independent economic appraisal undertaken
Investment project selection	D	-	-	No prioritization undertaken
Investment project costing	C	-	-	Maintenance costs are not considered at the project preparation stage, however capital cost estimates are provided.
Investment project monitoring	D	-	-	No systematic monitoring is undertaken
Overall	D+	-	-	

CURRENT PERFORMANCE

i. Economic analysis of investment proposals

There is a problem with definition of an investment project as only less than 10 percent of investment expenditure was identified as investment projects/programs in annual budget law. For example, the current legal framework allows financing construction of school or hospital, without treating it as investment project. No independent economic appraisal is carried out even for investments defined as investment projects. Spending units appraisal is usually limited to technical appraisal and does not include economic appraisal. The Ministry of Economic Development and Trade undertook appraisal of some PIPs (as regards the economic efficiency), but only those related to providing of state guarantees or state support to private sector companies. The economic appraisal of even major investment project was not undertaken at the time of assessment.

TABLE 11.1. CENTRAL GOVERNMENT BUDGET INVESTMENT EXPENDITURES, 2012-2015

UAH million

	2012	2013	2014	2015, target
Capital expenditure (total)	29.4	17.9	6.2	10.4
Budget programs identified as investments in the budget	10.2	3.3	x	0.5
Ratio of identified budget investments programs, percent	34.7	18.4	0.0	4.8

ii. Investment project selection

There is no formal methodology to prioritize investment projects from the pool of appraised projects.

iii. Investment project costing

The full impact of the whole life cost of ownership of an investment project is not always considered during the selection process. Information supplied in project proposals usually relates to labor costs for construction only and some consideration of utility costs. Future maintenance costs, sufficient to maintain the asset in a basic condition are not considered at this stage. The information capital cost for the next three years is provided.

iv. Investment project monitoring

The PIPs have not been monitored systemically. Article 12-1 of the Law of Ukraine “On Investment Activities” provides that the Ministry of Economic Development and Trade must monitor and analyze the efficiency of the state support to investment activities in accordance with a procedure specified by the Ministry itself. However, there is no such procedure and no monitoring and analysis are carried out as a result, and no project progress reports (as a result of monitoring) are compiled and published.

CHANGE IN PERFORMANCE SINCE 2011

This indicator was not evaluated in 2010. Ukraine’s public investment management system was evaluated by the World Bank in 2012 Public Investment Management Assessment (PIMA) and scored C, because the evaluation covered a broad range of indicators and evaluation parameters. If the evaluation results are analyzed on the basis of parameters correlated with the evaluation at hand, they will score D on the average.

Scoring Parameters	2012 PIMA Score
PIM-12. Formal project costing	D+
PIM-13. Independent costing analysis	D
PIM-12.5. Quality of the project costing	D
PIM-15.3. Long-lasting project databases	C
PIM-21. Project adjustment	D+

CURRENT DEVELOPMENT AND ONGOING REFORM EFFORTS

On April 7, 2015, the Verkhovna Rada of Ukraine adopted amendments to the Budget Code of Ukraine to substantially improve the public investment management system. These amendments require:

- Mandatory appraisal of all public investment projects (PIPs);
- Selection of PIPs by an interagency commission consisting of members of the Cabinet of Ministers of Ukraine and the Budget Committee of the Verkhovna Rada of Ukraine;
- Financing of PIPs (at least 70 percent of the total amount of public investments must be spent on the PIPs already initiated).

The new system will become operational starting from the development of the draft 2016 state budget. In order to implement the above amendments to the Budget Code, the Government is developing a regulation to specify the relevant procedures at the moment. However, the amendments to the Budget Code apply only to the management of state public investment projects, they do not apply to investments by local governments.

PI-12. Public asset management.

PURPOSE OF INDICATOR

Assets are resources controlled by a government entity as a result of past events from which future economic benefits are expected to flow. Assets are classified under GFS 2014 as either financial or non-financial. Recognizing non-financial asset values and economic potential is important for a variety of Public Financial Management processes, including assessing the financial position of government, determining the requirement for future capital investment, maximizing the return on investments and ensuring efficient utilization of resources.

Indicator PI-12	Score 2015	Score 2010	Score 2005	Justification
Financial asset monitoring	C	-	-	Up to date and substantially complete financial asset registers exist, although with some omissions. The performance of financial assets is monitored and reported annually.
Non-financial asset monitoring	C	-	-	Fixed asset registers exist.
Transparency of assets disposal	B	-	-	The procedures for the competitive and transparent sale, transfer or disposal of non-financial assets and asset usage rights are established in the legislation and are respected in the majority of cases.
Overall	C+	-	-	

i. Financial asset monitoring

The financial assets comprise cash, securities, loans and receivables owned by the government, foreign reserves, equity in state owned and private sector institutions. The State Treasury of Ukraine monitors and reports on cash balances, loans and receivables according to the national accounting standards as assessed in PI-28. Foreign reserves are managed and monitored by the National Bank of Ukraine. Equity in state owned and private sector institutions is the responsibility of the State Property Fund (SPF) of Ukraine. In line with Ukraine's Commercial Code, enterprises fall into two broad categories: state and communal unitary enterprises; and economic enterprises (such as joint-stock companies). The SPF is only in charge of joint stock companies while the monitoring and oversight of the unitary SOEs is fragmented, spread across different government agencies¹⁴. As a result, unitary SOEs are not monitored comprehensively even though they represent a considerable share of equity of the government.

¹⁴ Ukraine System of Financial Oversight and Governance of SOEs, Report 59950-UA, World Bank 2011

Substantially complete financial asset registers exist with some omissions related to SOE. The performance of financial assets is monitored and reported annually.

ii. Non-financial asset monitoring

The State Property Fund maintains a register of the state owned fixed assets¹⁵. The register is an online system, which integrates over one hundred government agencies and about one million fixed assets (e.g. buildings, equipment, vehicles) in the register. The register includes information on location of the asset, ownership, value, age and other characteristics. The partial information on usage is collected. The registry also includes leased assets and assets in concession. Government agencies report to the registry on a quarterly basis. The State Property Fund consolidates the data and monitors changes in ownership, transfers, and sales. The register only includes land plots where there are other fixed assets such as buildings. Empty land plots are not included in the register of fixed assets. They are only registered to the land cadaster. The SPF checks the validity of the register by comparing and ensuring consistency with reports from government agencies from previous reporting periods. SPF does not reconcile the data in the register against other sources. Annual report is published on the web-site of the State Property Fund.

iii. Transparency of assets disposal

The procedures for the competitive and transparent sale, transfer or disposal of non-financial assets and asset usage rights are established in the legislation and are respected in the majority of cases. The State Property Fund is a single government agency in charge of selling corporate rights, unfinished construction and fixed assets according to the law on privatization. SPF also forms the public policy on assets rental currently having about 24,000 rental agreements. The privatization and rentals is guided by the annual budget law, which specifies both privatization proceeds and rental income. While the procedures are established, according to the Accounting Chamber 2013 Annual report the violations and remedial actions are not properly monitored. Information on transfers and disposals is included into the financial reports of each agency.

CHANGE IN PERFORMANCE SINCE 2011

This is a new indicator for 2015.

PI-13. Debt management.

PURPOSE OF INDICATOR

Governments that fail to monitor the financial liabilities that arise from domestic and foreign borrowing may create unnecessarily high debt service costs and are unlikely to be able to deliver planned services. For the purpose of this indicator debt refers to all central government debt – both domestic and external.

Indicator PI-13	Score 2015	Justification
Reporting of debt and guarantees	A	Domestic and foreign debt records are complete, accurate, updated and reconciled on a monthly basis with data considered to be of high integrity. Comprehensive management and statistical reports (covering debt service, stock and operations) are produced at least quarterly.
Approval of debt and guarantees	A	As per the Budget Code of Ukraine, central government's contracting of loans and issuance of guarantees are made within limits for total debt and total guarantees, and always approved by a single responsible government entity
Debt management strategy	C	The medium term strategy is produced, but does not set target levels for indicators of interest-rate, refinancing and exchange rate risk based. There is no reporting on performance against debt management objectives to legislature.
Overall	B+	

¹⁵ http://www.spfu.gov.ua/_layouts/SPFUSiteDefinition/PresentationRegister.aspx

CURRENT PERFORMANCE

i. Reporting of debt and guarantees

The quality of debt data recording and reporting arrangements is good. Ukraine is a regular member of SDDS system of the IMF and complies with the reporting of key fiscal data. The State Debt Department, part of the Ministry of Finance of Ukraine, maintains a database recording all state debt and sovereign guarantees. State Treasury Service of Ukraine's information system records all the debt related transactions. Internal borrowing data is entered based on the central bank information on debt placements. External borrowing data is drawn from the agreements signed and data on funds received in Treasury accounts. The IFI Division of the MoF provides data on IFI loans which is then crosschecked with the IFIs. Published debt information is satisfactory and includes debt service, stock and operations. The reports are published on a monthly basis. Comprehensive reconciliation of the debt records takes place quarterly. Treasury and the Ministry of Finance reconcile debt records in real time between.

ii. Approval of debt and guarantees

Ministry of Finance approves all state borrowing and guarantees. Limits for both state debt and state guaranteed debt are set annually by the Budget Law. The Budget Code sets a cap on local debt service at 10 percent of general fund expenditures for municipalities with population of over half a million. The Budget Code includes general principles for granting state guarantees (Article 17). The annual Budget Laws specify the maximum amount of guarantees to be granted as well as list of investment programs for which the state guarantees could be granted. The Cabinet of Ministers defines procedures for granting such guarantees.

Local borrowing is monitored closely, as only municipalities of "oblast significance, Kyiv, Sebastopol and Crimea" can issue debt. The Budget Code sets clear thresholds on the level of debt and debt service, and Ministry of Finance has to approve all debt issuance by subnational governments.

iii. Debt management strategy

Ukraine has prepared a medium term debt management strategy since 2011. The most recent approved strategy is for the period of 2013-2015 as approved by the Cabinet of Ministers on April 29, 2013, resolution # 320-2013. However, the strategy for 2013-2015 is brief and does not set target levels for interest-rates, refinancing and exchange rate risk based on thorough sustainability analysis. The strategy does mention expected maturity, share of debt in GDP, share of debt with fixed interest rate. The strategy indicates preference for lower interest rates, refinancing, and decomposition of domestic and foreign debt. 2016-2018 Strategy is not yet approved and its draft was not submitted with the draft budget for 2016 as envisaged in the item 7 of part 1 of the Article 28 of the Budget Code of Ukraine. There is no reporting on performance against debt management objectives to legislature.

CHANGE IN PERFORMANCE SINCE 2011

N/A. This is a new indicator for 2015.

PI-14. Macroeconomic and fiscal forecasting.

PURPOSE OF INDICATOR

Macroeconomic and fiscal forecasting should support the achievement of the government's fiscal policy objectives including achievement of planned central government fiscal balances. Comprehensive, stable, and transparent medium-term fiscal objectives, against which the government can be held accountable, provide a stable anchor for present and future policy decisions and raise the costs of deviating from the consolidation path. This indicator provides an analysis of overall fiscal management.

Indicator PI-14	Score 2015	Justification
Macroeconomic forecasts	B	Indicative major macro-economic indicators are used to project the two budget periods following the planned one, but exclude relevant economic aggregates, macroeconomic environmental risks to the fiscal variables (including revenue, expenditure and debt), and optimistic and pessimistic macroeconomic scenarios.
Fiscal forecasts	B	The government prepares forecasts of the main fiscal indicators, including revenues (by type), aggregate expenditure, and the budget balance, for the budget year and two following fiscal years. These forecasts, together with the underlying assumptions, are included in budget documentation submitted to the legislature.
Macro-fiscal sensitivity analysis	A	The government prepares a range of fiscal forecast scenarios based on alternative macroeconomic assumptions, and these scenarios are published, together with its central forecast.
Overall	B+	

CURRENT PERFORMANCE

i. Preparation and use of macro-economic forecasts as a basis for annual and medium term budgets

According to Article 21 of the Budget Code, the State Budget of Ukraine should include indicative major macro-indicators of economic and social development of Ukraine for the two budget periods following the planned one. These indicators include nominal and real GDP, consumer price indices and producer price indices, exchange-rate policy indicators supplied by the National Bank of Ukraine, as well as other indicators used in the development of draft budget. Key spending units draw plans of its activities for the medium term based on these indicators. On 29 June 2011, the Decree of the Cabinet of Ministers of Ukraine of 26 April 2003 No. 621 was amended so that major macro-indicators for the two budget periods following the planned one, together with the short-term forecast of economic and social development of Ukraine, are approved by the Decree of the Cabinet of Ministers of Ukraine.

Throughout the reporting period, macro-economic projections were developed to support the annual budget. The Ministry of Economy prepares projections that include GDP, consumer price index (CPI) and producer's price index. These macro-economic forecasts are provided to the Ministry of Finance, which in turn are approved by the Cabinet of Ministers for budget planning before 15 June. In practice, forecasts have been prepared late and have not always covered the planning period: the volatile economic situation and changes in external and internal conditions for economic performance necessitated adjustment macroeconomic indicators during the budget preparation process. Where necessary a draft macro-forecast has been prepared the Ministry of Economic Development and Trade before its official approval by the Cabinet of Ministers of Ukraine, so budget indicators were developed based on the current macroeconomic assumptions. The forecasts for 2011 the 2012 forecast were approved in August and then in November 2011 the forecast was amended and supplemented with 2013/14 forecast; in 2012, the forecast for 2013 was approved in November without forecasts for 2014 and 2015; in 2013 only the forecast for 2014 was approved in December; in 2014 the forecast was approved for the three year planning period 2015-2017 in August 2015. These forecasts were then adjusted in December 2014 and February 2015¹⁶.

The 2014 budget calendar was disrupted due to disagreements on projected macro-economic indicators. Also in 2014, Ukraine agreed to amend the budget to target a deficit of UAH 78 billion. This was necessary to reflect the updated macroeconomic framework, in particular the lower growth and the sharply depreciated exchange rate as well as to accommodate higher social spending arising from the steep increase in energy prices, net of the partial offset provided by the increased tax revenues from the domestic gas production subsidiary.

¹⁶ The Decree of the Cabinet of Ministers of Ukraine of 28 November 2011 No. 1216 amended the forecast of economic and social development of Ukraine for 2012 and approved major macroeconomic indicators of economic and social development of Ukraine for 2013 and 2014. In 2014, the macroeconomic forecast was approved for the three years (2015–2017) (Decree of the Cabinet of Ministers of Ukraine of 27 August 2014 No. 404 as amended by the Decrees of 22 December 2014 No. 709 and of 14 February 2015 No. 76), in 2015 — for the four years (2016–2019) (Decree of the Cabinet of Ministers of Ukraine of 05 August 2015 No. 558).

ii. Fiscal forecasts

Existing system of fiscal forecasts is set by the Decrees of the Cabinet of Ministers of Ukraine Nos. 375, 459, 621 and Article 32 of the Budget Code, which establish coordination procedures between MoF and MoED and their respective functions. The State Budget Planning Office of the MoF is in charge of medium term budget forecasting, making use of the macro-economic forecasts of the Ministry of Economic Development and Trade.¹⁷ In accordance with these Procedures, the MoED submits to the MoF the preliminary macro-forecasts of economic and social development of Ukraine before March 1. By April 1, the preliminary macroeconomic forecasts of economic and social developments for the forthcoming budget year are completed, typically resulting in a one-page document listing key parameters. It is developed by the MoE jointly with the MoF, with input from the National Bank, Central Public Authorities (CPAs), and other relevant ministries. The Revenue Department calculates tax and fee revenue forecasts using the preliminary macroeconomic forecasts, the prevailing tax legislation and the data from other relevant ministries or agencies. By April 15, the Revenue Department and other responsible MoF divisions prepare and submit to the State Budget Department of the MoF the following estimations for the upcoming budget year and two outer years: revenue forecast of the State and local budgets; debt interest payments and repayments from the budget; reimbursement of loans; and forecasts of deficit financing and interest. By September 1, final revenue forecasts are submitted to the State Budget Department.

The Ministry of Economic Development and Trade may update its macroeconomic assumptions up to three times between March and August, even after submission of the budget to the Verkhovna Rada. Consequently, macroeconomic forecasts may change between the first and the second readings of the budget bill in Rada, as well as during budget execution. If the macroeconomic situation changes substantially during the budget year, the macroeconomic estimations for the budget year are adjusted by a resolution of the Cabinet of Ministers. If it has impact on the revenues and expenditures, the budget law is subsequently amended.¹⁸

The two outer-year estimates for the State Budget are submitted to the Verkhovna Rada as part of the Budget Bill. These estimates are adjusted to align with the adopted version of the State budget and approved by the Cabinet of Ministers (Draft Resolution) within one month after the Law on the State Budget is published. This sets a target indicator for line-ministries over the medium-term. The following table outlines medium-term revenue forecasts for the reporting period for the State Budget of Ukraine.

TABLE 14.1. REVENUE FORECAST, 2012-2014^{19,20}

Forecasted Revenues	2012	2013	2014
Adopted Law on the Budget	346.1	351.2	395.3
Medium-Term Forecast (2012-2013)	300.9	343.1	396.9
Difference	45.2	8.1	-
Variance	13.1%	2.3%	-
Medium-term Forecast (2013-2014)	-	384.7	396.9
Difference	-	(33.5)	(1.6)
Variance	-	(9.5%)	(<1%)

¹⁷ In Ukraine, the Ministry of Economic Development and Trade plays a key role in preparing and coordinating of macroeconomic forecasts underling the budget. Forecasting procedures are established in the Decree No. 621 of the Cabinet of Ministers on Drawing Forecast and Program Documents of Economic and Social Development of 26 April 2003.

¹⁸ Article 52, Budget Code of Ukraine (2011)

¹⁹ Постанова Кабінету Міністрів України « Про схвалення прогнозу державного бюджету України на 2012 і 2013 роки» від 03.04.2012 № 257

²⁰ Постанова Кабінету Міністрів України « Про схвалення прогнозу державного бюджету України на 2013 і 2014 роки» від 05.04.2012 № 318

iii. Macroeconomic sensitivity analysis

The government prepares a range of fiscal forecast scenarios based on alternative macroeconomic assumptions for internal use. The budget documents include discussion of forecast sensitivities. The macroeconomic forecast includes at least two scenarios which are published on the Ministry of Economic Development and Trade web-site. In addition materials of consensus forecast are also available online (www.me.gov.ua).

CHANGE IN PERFORMANCE SINCE 2011

N/A. This is a new indicator for 2015.

CURRENT DEVELOPMENT AND ONGOING REFORM EFFORTS

Article 21 of the 2011 revised Budget Code outlines the comprehensive process for medium-term fiscal forecasting, including revenues, for the State budget for the two years following the upcoming budget year. This process would include explanation of deviations. This process has not been implemented during the 2012-2014 PEFA reporting period. A fully integrated medium-term fiscal forecasting function, inclusive of revenues, is expected to be fully operational by 2018 in line with agreements between the IMF and Ukraine reflected in the Extended Fund Facility (EFF) Arrangement.

PI-15. Fiscal strategy**PURPOSE OF INDICATOR**

A fiscal strategy enables government to clearly articulate to central government units, the legislature, and the public its fiscal policy objectives, including specific quantitative and qualitative fiscal targets and constraints. It provides a framework against which the fiscal impact of revenue and expenditure policy proposals can be assessed during the annual budget preparation process. This ensures that budget policy decisions align with fiscal targets.

Indicator PI-15	Score 2015	Justification
Fiscal impacts of policy proposals	C	The Ministry of Finance undertakes assessment of impact of draft laws on budget, however impact on the budget is only assessed for one budget year.
Fiscal strategy adoption	D	For the reporting period, though a process was legislated in 2010, it has been inconsistently applied and not formalized.
Reporting on fiscal outcomes	NA	As there is no fiscal strategy in place, the reporting dimension is not applicable.
Overall	D+	

CURRENT PERFORMANCE

i. Fiscal strategy adoption

Throughout the 2012-2014 PEFA reporting period, the Government did not consistently issue or implement a fiscal strategy document or describing the Government's medium term fiscal objectives for the central government as defined in GFS.

The 2010 Budget Code introduced a forecast of the State budget for the two years following the upcoming budget year and a requirement for a participatory process between key spending units for medium-term budget forecasting for the upcoming and two out years for the State Budget. These forecasts, along with the Draft Budget Law for the upcoming budget year, should be submitted to the Verkhovna Rada. Within one month after publication of the State Budget Law, the Cabinet of Ministers must approve the State Budget forecast for the following two years. However, these forecasts only cover the central government budget and were only prepared once since approval of the Budget Code amendments in 2010 (See PI-16).

ii. Assessment of the fiscal impact of proposed policy changes

Procedures of the Verkhovna Rada stipulate that every draft law should be supported by an financial-economic justification in case there is an impact on the budget, including revenue side. If revenues are expected to change, a draft law should suggest possible expenditure cut or revenue increase measures to ensure balanced impact on budget. Verkhovna Rada should submit to the Cabinet of Ministers every registered draft law for assessment of impact on the budget within five days from its registration. The Cabinet of Ministers sends an expert opinion prepared by the Ministry of Finance back to the Verkhovna Rada within two weeks. In practice, the proposed policy changes that are most significant to government revenue are supported by well-evidenced forecasts of the fiscal impact. However, the impact on the budget is only assessed for one budget year. The recent amendments to the Tax Code for example included detailed estimated of fiscal impact of policy changes.

CHANGE IN PERFORMANCE SINCE 2011

N/A. This is a new indicator for 2015.

PI-16. Medium-term perspective in expenditure budgeting**PURPOSE OF INDICATOR**

Expenditure policy decisions have multi-year implications and should be aligned with the availability of resources in the medium-term perspective. The resulting medium-term expenditure estimates at sector level need to be reconciled with the fiscal aggregates determined through a fiscal strategy (ref. PI-14) and with the preparation of annual budget proposals (ref. PI-17). They should be updated annually through a process that is transparent and predictable.

Indicator PI-16	Score 2015	Justification
Medium-term expenditure estimates	D	The forecast for budget programs only included expenditures under budget programs which are implemented out of credits (loans) raised by the government from international financial institutions. The structure did not fully correspond to annual budget structure. The State Budget Forecast was developed only once, was not detailed enough to provide key spending units with information required for preparation of their draft budgets and action plans and was not realistic and therefore was not used in drafting the state budget for 2013.
Medium-term expenditure ceilings	D	The Government does not approve expenditure ceilings for budget units before budget circular is issued.
Alignment of strategic plans and medium-term budgets	D	Limited application of informal sector strategies or sector plans were used only to inform annual budgeting process.
Consistency of budgets with previous year estimates	D	Links between the medium-term framework's second year estimates and setting of the annual budget for following fiscal year is not clear, differences are not explained.
Overall	D	

CURRENT PERFORMANCE

New Budget Code of 2010 introduced medium-term forecasting of the State budget for the two years following the upcoming budget year. Article 21 of the Budget Code states that the Ministry of Finance of Ukraine with participation of the Ministry of Economic Development and Trade of Ukraine, the National Bank of Ukraine and key spending units of the State budget draw the forecast of the State budget of Ukraine for the next two budget periods following the planned one based on the Program of the Cabinet of Ministers of Ukraine, forecast and program documents of economic and social development, national target programs. The forecasts should include consideration of the following indicators in the development of draft budgets:

- Major macro-indicators of economic and social development of Ukraine (identifying indicators of nominal and real amount of GDP, consumer price indices and producer price indices, exchange-rate policy indicators supplied by the National Bank of Ukraine, enterprises' profits, payroll, unemployment level, exports and imports of goods and services, as well as other indicators);
- Consolidated budget of Ukraine by major types of revenues, financing, expenditures, and lending;
- State budget by major types of revenues, financing, expenditures, and lending;
- Public debt and State-guaranteed debt, which are determined with due account for the strategy of public debt management. Such a strategy shall be approved by the Cabinet of Ministers of Ukraine and shall include definitions of priority objectives and tasks in managing the public debt for the medium- and long-term, and the means of their implementation;
- According to budget programs ensuring implementation of investment programs (projects) for several years, including government from foreign countries, banks, and international financial institutions. Such budget programs are included into the projected State Budget of Ukraine for the two budget periods following the planned one for the entire term of their implementation in line with the requirements of this Code;
- Relations between the state budget and local budgets. Current development and ongoing reform efforts.

i. Medium-term expenditure estimates

At the beginning of the budget period, the Ministry of Finance requests from key budget spending units their proposals on the structure and content of budget programs for three years (structural changes). However, while shaping such structural changes, neither the Ministry of Finance or key budget spending units have to explain changes from the mid-term projection from previous years. Structural changes are shown only in comparison with year when the budget is drafted and the projection is calculated. The Ministry of Finance does not prepare medium-term budget framework as a comprehensive document which could be a guide for calculations of draft budgets in the next years.

Under part 1 of Article 21 of the Budget Code of Ukraine, the Government of Ukraine approves the Forecast of the State Budget of Ukraine for two budget periods following the planned one. However, the Government has approved such forecasts only once (in 2012) to cover 2013-2014. This forecast consolidated the state budgets' revenues, financing, expenditure, credits, debt and intergovernmental transfers. However, the forecasts differed substantially from those approved in the 2013 budget, as shown in Table 16.1. Furthermore, the forecast for budget programs only included expenditures under budget programs which are implemented out of credits (loans) raised by the government from international financial institutions. Moreover, the structure did not fully correspond to annual budget structure.

TABLE 16.1. COMPARISON OF TENTATIVE PROJECTED INDICATORS OF THE STATE BUDGET FOR 2013-2014 WITH INDICATORS APPROVED FOR THESE YEARS

	2013			2014		
	Projection, billion UAH	Approved, billion UAH	Deviation: approved vs projected, %	Projection, billion UAH	Approved, billion UAH	Deviation: approved vs projected, %
Revenues	388.8	362.8	93.3	404.7	395.3	97.7
Expenditures	399.7	412.1	103.1	420.6	462.2	109.9
Borrowing	3.0	1.3	43.3	4.1	4.7	114.6
Granting of credits	6.9	13.4	190.0	8.0	9.1	113.8
Debt repayment	3.9	12.1	310.0	3.9	4.4	112.8
Deficit	13.9	50.5	360.0	20.0	71.6	190.0

The State Budget Forecast was developed only once, was not detailed enough to provide key spending units with information required for preparation of their draft budgets and action plans and was not realistic and therefore was not used in drafting the state budget for 2013.

ii. Medium-term expenditure ceilings

Aggregate expenditure ceilings for the budget year and the two following fiscal years are not approved by the Government, but shared with budget units by the Ministry of Finance based on the medium term budget of consolidated and state budgets' revenues, financing, expenditure, credits, debt and intergovernmental transfer.

iii. Alignment of strategic plans and medium-term budgets

The Law of Ukraine No. 1602 of 23 March 2000 "On State Forecasting and Development of Ukraine's Economic and Social Development Programs" requires the preparation of strategic documents including medium-term projections for specific sectors. Sector strategies are represented by the so-called "targeted programs". In accordance with the procedure for preparation of national targeted programs, as approved by Resolution of the Cabinet of Ministers of Ukraine No. 106, the programs should include assessment of financial, material, technical and labor resources required for its implementation. In practice, many of these do not present a coherent strategy for social and economic development but are instead focused on a specific issue. Nor do they clearly link the sector development strategy to budgetary resources in the following years. As a result, resources required for implementation of targeted programs are not reconciled with budget constraints and many are under-financed.

Under part 2 of Article 21 of the Budget Code of Ukraine, all key budget spending units should prepare action plans for three years. These plans should be aligned with the state budget forecast. This forecast was approved only once in 2012 for 2013-2014 and this forecast did not contain the detailed information required for preparation of sector action plans. In the few cases where sector action plans have been prepared, the action plans were limited to a particular agency. This exclude a large part of expenditures by, for instance, other levels of Government that contribute to the achievement of sector development objectives. In the health sector, for example, the Ministry of Health of Ukraine was responsible for just sixty percent of total healthcare expenditure in 2014.

iv. Consistency of budgets with previous year estimates

Each year, the Ministry of Finance sets budget ceilings for the planned budget period and two following ones and budgetary units allocate them across budget programs. The Ministry of Finance bases its multi-year ceilings on forecast indicators for the current year, expected structural changes compared to the planned one such as minimum wage. The Ministry of Finance does not explain deviations from the forecasted indicators from the previous year shared with the government or with the Parliament. Nor does the Ministry of Finance explain deviations between the previous year's forward estimates of resource allocations and the allocations actually used in the budget year and there is no guarantee that forward estimates will actually be delivered in future budgets. This undermines the credibility and the value of the forward estimates as a planning tool for budget entities.

CHANGE IN PERFORMANCE SINCE 2011

The indicator has substantially changed not allowing for direct comparison. There was no material improvement in medium-term budgeting practice since 2011.

CURRENT DEVELOPMENT AND ONGOING REFORM EFFORTS

In 2015, the MoF issued orders providing for a change in approach to the development of the budget request and a budget program passport. They require alignment of budget allocations with the strategic public objectives in the relevant area as well as the demonstration of the efficiency of public service

(Orders of the Ministry of Finance of Ukraine of 15 June 2015 No. 553 “On approval of amendments to the Order of the Ministry of Finance of Ukraine of 10 December 2010 No. 1536” and of 15 June 2015 No. 554 “On introducing amendments to the Instruction for the preparation of budget requests”). At the same time, there were strengthened the requirements to the justification of expenditures by key spending units and indicative projections among budget programs. Scoring of this indicator will be improved if introduction of mid-term budget planning starts from 2018 as currently envisioned under the IMF Extended Finance Facility.

PI-17. Orderliness in Budget Process

PURPOSE OF INDICATOR

While the Ministry of Finance (MOF) is usually responsible for the annual budget formulation process, effective participation in the budget formulation process by other ministries, departments and agencies (budgetary units) as well as the political leadership (the leadership of the executive, such as the cabinet or an equivalent body), impacts the extent to which the budget will reflect macro-economic, fiscal and sector policies. Full participation requires an integrated top-down and bottom-up budgeting process, engaging all parties in an orderly and timely manner, in accordance with a pre-determined budget formulation calendar. The scope of participation of the legislature in the budgeting process – as representatives of the citizens - is assessed in PI-18.

Indicator PI-17	Score 2015	Justification
Budget calendar	B	A clear annual budget calendar exists and is largely adhered to, though minor delays have been experienced, notably in 2014. The calendar allows budgetary units reasonable time (at least four weeks from receipt of the budget circular) so that most of them are able to meaningfully complete their detailed estimates on time.
Guidance on budget preparation	C	A single, comprehensive, and clear budget circular, covering all budget expenditure for the full fiscal year, is issued to budgetary units, which reflects ceilings approved by Cabinet (or equivalent). This approval takes place after the circular distribution to budgetary units, but before budgetary units have completed their submission.
Budget submission to the legislature	A	The executive has consistently submitted the annual Budget Proposal to The Verkhovna Rada in accordance with the budget calendar
Overall	B	

CURRENT PERFORMANCE

i. Budget Calendar

As defined in the Budget Code of Ukraine (2010), a budget calendar has been in place and was generally adhered to, though some delays were noted, throughout the reporting 2012-2014 PEFA period. In 2014, Ukraine undertook a number of measures to cope with the deterioration of its macroeconomic framework and disagreements regarding projected macro-economic indicators disrupted the 2015 budget preparation calendar. Final passage of the 2014 budget by Verkhovna Rada was delayed into the following year.

The budget calendar is outlined as follows:

- 1 March – MoE submits to the MoF indicative major macro-indicators of economic and social development of Ukraine as required for the development of the draft Budget Declaration for the forthcoming budget year” (Art. 33 of the Budget Code of Ukraine and the Decree of the Cabinet of Ministers of Ukraine of 26 April 2003 No. 621).
- 15 March – National Bank of Ukraine submits to the Verkhovna Rada of Ukraine and the Cabinet of Ministers of Ukraine projected monetary indicators for the forthcoming year.

- 20 March – MoF prepares a draft Budget Declaration for the forthcoming budget year and submits it for consideration of the Cabinet of Ministers. Line ministries submit data (estimates) on structural changes that occurred within the ministry and respective budget reporting units over the previous year to the State Budget Department of the MoF and make preliminary requests for additional expenditures needed in the upcoming budget year due to new policy/legislation.
- 1 April – Cabinet of Ministers considers and approves the Budget Declaration and submits it to the Verkhovna Rada of Ukraine within a three day period.
- 15 June — the Cabinet of Ministers approves the short-term forecast of economic and social development of Ukraine and major macro-indicators of economic and social development of Ukraine for the two budget periods following the planned one (in practice, the deadline for approval of the macro-forecast may differ)” (Decree of the Cabinet of Ministers of Ukraine of 26 April 2003 No. 621).
- May-August – MoF fixes expenditure ceilings for current expenditures and capital expenditures included in priority programs for the upcoming budget year and the two outer-years for ministries. Line ministries submit budget requests electronically and in paper format with expenditure itemization by and within programs, and, as needed, submit requests for additional resources. The MoF receives and analyses budget requests and holds reconciliation meetings with line ministries. The Local Budgets Department of the MoF calculates and makes known to the local governments sub-national revenue forecasts, the amount of inter-budgetary transfers and the indicators used for defining the transfers. The Ministry of Finance prepares a forecast of the consolidated budget of Ukraine on key of revenue, expenditure, financing and debt parameters for a period of two years following the budget year for the approval of the Cabinet of Ministers (draft Resolution)
- August – September – MoF submits the draft Budget Law to the Cabinet for consideration.
- 15 September – Cabinet of Ministers approves the Budget bill and submits it along with relevant materials to the Verkhovna Rada and the President of Ukraine.²¹
- October-December – Verkhovna Rada approves the first reading of the budget, discusses and incorporates changes as submitted by the Cabinet of Ministers, and passes the final Budget Law.

ii. Guidance on budget preparation

Both the Cabinet of Ministers and Verkhovna Rada approve the annual budget resolution, which sets out the broad policy directions to be followed in budget development as well as consolidated levels of spending, revenue and deficit. This document does not contain budgetary units’ ceilings.

The Cabinet of Ministers of Ukraine does not approve a budget circular communicating the expenditure ceilings for spending units. Under the Budget Code, expenditure ceilings are set by the Ministry of Finance on its own. The Ministry of Finance communicates ceilings to key spending units, receives from them budget requests, holds alignment meetings with spending units and then drafts a budget. After budget indicators are agreed upon in details between the Ministry of Finance and key spending units and the Ministry of Finance has drafted the budget, the draft budget is submitted to the Cabinet of Ministers for review. Further adjustments are made to the budget after submission to the Cabinet of Ministers.

iii. Budget submission to the legislature

The Cabinet of Ministers has de jure consistently submitted the annual Budget Proposal to the Verkhovna Rada in accordance with the budget calendar, at least three months before the beginning of the fiscal year. The Verkhovna Rada tends to pass budget legislation very late in the calendar year. As a result of

²¹ Budget Code of Ukraine

internal procedures, the legislature review period is severely restricted with only minimal time provided to review changes from the draft originally submitted in September and subsequent changes between the first reading and subsequent reconciliation between the Rada and Cabinet of Ministers. For example, the 2015 Budget Law was passed on December 28, 2014 with numerous amendments to the budget revenue and expenditure codes. The reasons behind that September submissions in 2013 – 2015 were with a purpose to fulfill legislative requirement. Draft budgets were almost immediately withdrawn following its submission to be significantly revised and re-submitted only in December, thus leaving insufficient time for parliamentary debates (a concern reflected in the assessment for indicator PI-18 on legislative scrutiny of budget).

TABLE 17.1. BUDGET LAW SUBMISSIONS AND APPROVALS, 2012-2015

Year	Submitted by Cabinet of Ministers to the Verkhovna Rada and the President of Ukraine (due September 15)	Approved in the 1st reading	Submitted by Cabinet of Ministers to the Verkhovna Rada (revised budget)	Budget Committee summarizes the proposals and prepares a draft resolution (due December 24)	Execute Draft Budget by Verkhovna Rada (due December 1)
2012	September 15	October 20			December 22
2013	September 14		December 3		December 6
2014	September 14		December 18	December 19	January 16, 2014
2015	September 9				December 28

CHANGE IN PERFORMANCE SINCE 2011

Amendments to the Budget Code (2010) have improved the budget management process through new procedural rules and adjustments to the budget calendar, allowing more time for budget preparation by line ministries and other Central Public Authorities (CPAs). Outside of these enhancements, no significant changes were made to the annual budget process during the period under review. In 2014, the budget process was disrupted due to political disagreements on macro-economic indicators projections. As a result, there were delays in meeting milestones during the budgetary process, though the final budget was approved before the end of the calendar year.

CURRENT DEVELOPMENT AND ONGOING REFORM EFFORTS

The budgetary process can be segmented into two stakeholder phases: a governmental phase and a parliamentary phase. In this respect, the clarity, comprehensiveness and political involvement in the budget process is considered mostly transparent in the parliamentary phase, less so in the governmental phase. This can be attributed to the general openness of parliamentary debate of the budget process (though primarily only after the final draft budget has been presented). In contrast, the governmental phase is a closed process, with limited access and availability of budgetary information and data. In 2015, Verkhovna Rada passed a law on Accessibility of Budget Information that will be implemented in 2016.

In late 2014, Parliament enacted a series of amendments to the Budget Code which changed the system of subnational government finance. The former gap-filling formula has been replaced by five separate transfers. The two largest (based on data for 2015) are for specific sectors: education and health. These accounted for 43 percent and 45 percent of the total transfers, respectively. A third is earmarked for training public servants. This accounted for five percent of the total. The fourth is aimed at equalization, but on a much more limited basis than the former equalization transfer—as elaborated below, it is intended to reduce disparities in per capita revenues from the personal income tax, but is not adjusted to reflect differences in expenditure needs. This accounted for a surprisingly small share of the total—only per-

cent. The fifth transfer—termed the stabilization grant—is intended to partially compensate jurisdictions that will lose revenues under the new system. It is intended to be transitional and is to be phased out over three years. This accounted for two percent of the total. See Table 3.

PI-18. Legislative scrutiny of budget

PURPOSE OF INDICATOR

The authority to spend rests with the legislature and is exercised through the passing of the annual budget law. If the legislature does not rigorously examine and debate the law, that power is not being effectively exercised and will undermine the accountability of the government to the electorate. Assessing the legislative scrutiny and debate of the annual budget law will be informed by consideration of several factors, including the scope of the scrutiny, the internal procedures for scrutiny and debate as well as the time allowed for that process.

Indicator PI-18	Score 2015	Justification
(i) Scope of budget scrutiny.	B	Rada is fairly comprehensive in its scrutiny of the budget law, though its input is only after it has been proposed, not in its formulation.
(ii) Legislative procedures for budget scrutiny	D	The timeliness of review and approval of the budgetary process is generally reasonable, though there were delays in 2014 as a result of disagreements to certain macro-economic projections
(iii) Timing of budget approval.	A	Passed within the calendar year, though some questions as to adequate time for thorough review before passage.
(iv) Rules for budget adjustments by the executive.	B	The Budget Code allows for in-year amendments in certain situations. This occurred in 2014.
Overall	D+	

CURRENT PERFORMANCE

i. Scope of budget scrutiny

The Budget Code lays out the responsibilities of the Rada and its Budget Committee. The Budget Committee composition reflects the overall Parliament composition in terms of party and fractional proportions. The Budget Committee is supported by the Secretariat of the Budget Committee, a full-time staff of civil servants. Throughout the 2012-14 PEFA reporting period, Verkhovna Rada's review of the Budget Law and projections for respective revenues and expenditures were considered consistently thorough. The legislature's review covers fiscal policies and aggregates for the coming year, detailed estimates of expenditure and revenue, and macro-economic indicators developed by the Ministry of Economy in the Explanatory Note as attached to the Draft Budget.

Throughout the 2012-014 PEFA reporting period, the Verkhovna Rada has considered amendments to the Tax Code for implementation the following year alongside the State Budget Law: on December 22, 2011, changes to the Tax Code were introduced for implementation from 2012, on November 20, 2012 for implementation in 2013, and December 19, 2013 for implementation in 2014.

ii. Legislative procedures for budget scrutiny

The Budget Code of Ukraine establishes the principles and guidelines of the annual budget process, inter-budget relations, and the liability for violations of the budget legislation. Article 1 of the Code establishes the process for drafting, review, approval and execution of budgets, reporting on their execution, and controlling the adherence to the budget legislation, issues of liability for violating the budget legislation, as well as determines the legal principles for creating and repaying the state and local debt.

The Verkhovna Rada has its own rules for how the Budget Committee functions. The Budget Committee is responsible for detailed review of the budget. The respective sector committees may comment upon relevant sections of the budget and communicate this to the Budget Committee. According to the budget calendar, the Rada has approximately two months to review the budget proposal. The Government submits the budget to the Rada by September 15. No later than five days after the Cabinet of Ministers of Ukraine has submitted the draft law, by September 20, the Minister of Finance presents the law to the Verkhovna Rada. By October 20, first reading is conducted, with follow-up comments sent back to the Government for action. By November 3, the Government submits a revised Budget that is reviewed and approved before the end of the calendar year.

Under its Rules of Procedures, the Verkhovna Rada should consider and approve the annual state budget law in three readings. The procedures for presentation and review of the draft state budget law should be as follows:

- MPs and committees shape their proposals on the draft law on the State Budget of Ukraine and, no later than October 1, submit them to the Budgetary Committee;
- The Accounting Chamber conducts an expert review of the draft law on the State Budget of Ukraine and, by October 1, shares its findings with the Verkhovna Rada;
- No later than October 15, the Budgetary Committee prepares findings and proposals on the draft state budget;
- No later than October 20, the Verkhovna Rada considers the draft law on the State Budget of Ukraine for the following year in the first reading;
- The Cabinet of Ministers of Ukraine, with engagement of authorized representatives from the Budgetary Committee, prepares and, within 14 days, yet no later than on November 3, shares with the Verkhovna Rada the draft law on the State Budget of Ukraine drafted in accordance with the Budgetary Findings of the Verkhovna Rada;
- Review of the draft law on the State Budget of Ukraine in the second reading should be completed no later than November 20;⁵
- No later than November 25, the Budgetary Committee prepares the draft budget for the third reading;
- By December 1 of the year preceding the planned one, the law on the State Budget of Ukraine is adopted by the Verkhovna Rada.

In review and approval of the budgets for 2012-2015 procedures have not been complied with in full. During the 2012 budget approval process, the draft was passed in the first reading. In 2014 there were delays as a result of disagreements regarding certain macro-economic projections. As noted in PI-17, owing to delays in submission of the draft law the Verkhovna Rada has had time to consider the State Budget Law in three readings.

iii. Timing of budget approval

The Budget Laws for each of these respective periods were passed by the Rada before the start of the budget year. It should be noted that with the passage of respective Budget Laws, amendments to the Tax Code were also passed in each of the respective years.

iv. Rules for budget adjustments by the executive

The Verkhovna Rada's rules of procedure set narrow limits on legislative amendments to the budget. Increased expenditures require tie-in to specific revenue sources, while decreased revenues require alternate sources to cover planned expenditures. Changes to tax revenues forecasts are not allowed. Inter-Agency or inter-program reallocations may be initiated by the Ministry of Finance with approval of the Budget Committee. However, MoF retains a wide discretion to cut back allocations below the approved budget, without Parliamentary oversight.

The Budget Code allows amendments in-year amendments to the Budget Law in certain situations. Article 55 provides for protected items, allocation for which cannot be reduced in year. Protected items include salaries, pharmaceuticals, debt service, utility payments, transfers to population, and current transfers to local government. The Ministry of Finance may introduce changes to budget expenditure without Parliamentary approval, as long as these do not increase budget appropriations for labor and expenditure under budget programs associated with functioning of public authorities, in the following circumstances:

- underperformance of budget revenues - the Ministry of Finance has the right to reduce expenditure (except for protected items) to bring the budget to balance within the limit of the ceiling deficit (surplus);
- powers for making expenditure are transferred from one key spending unit to another budget appropriations are re-allocated following a decision by the Cabinet of Ministers of Ukraine which is cleared with the Parliamentary Budgetary Committee;
- within budget appropriations under a budget program, the Ministry of Finance of Ukraine, based on a justified request by the key spending unit, may re-allocate expenditure across economic classification codes (credits – across crediting classification codes); and
- re-allocation of expenditure (granting of credits) under budget programs of the key spending unit and also an increase in development expenditure at the cost of a decrease in other expenditure, and re-allocation of expenditure on centralized activities between administrative units performed following a decision by the Cabinet of Ministers of Ukraine which is cleared with the Parliamentary Budgetary Committee.

In other cases, in-year amendments to the Budget Law require Rada approval.

If projected/planned revenue targets deviate by fifteen percent or more based on results of the first three quarters, the Ministry of Finance can initiate amendments to the annual Budget law r (Art. 52 of the Budget Code of Ukraine).

PI-19. Revenue administration compliance

PURPOSE OF INDICATOR

A government's ability to collect revenues is an essential component of any PFM system. This is an area where there is direct interaction between individuals and enterprises on the one hand and the state on the other. Both parties have responsibilities: the government must provide those responsible for providing revenues with a clear understanding of their obligations and the procedures to be followed, while ensuring that mechanisms are in place to enforce compliance from those required to contribute the revenues due.

Indicator PI-19	Score 2015	Justification
(i) Rights and obligations for revenue measures	A	There is sufficient information provided on all procedures, obligations and rights
(ii) Revenue risk management	C	There is no comprehensive risk management system utilized by SFS, however some elements of risk management such as risk based selection of tax audits and customs inspections are in place.
(iii) Revenue audit and investigation	C	Ukraine utilizes a target driven approach to revenue collection, however audit and investigation activities are performed, and plans exist and are followed.
(iv) Revenue arrears monitoring	B	Stock of revenue arrears at the end of the last completed fiscal year is below 10 percent of the total revenue collection of the year and the revenue arrears older than 12 months are less than 50 percent of the total revenue arrears
Overall	B	

CURRENT PERFORMANCE

The vast majority of government revenues in Ukraine are administered by a single entity, State Fiscal Service (SFS), which combines both tax and customs administration and also collects social security payment financing Pension Fund and other social security funds. The share of revenues administered by the SFS is close to 80 percent of the total budget revenues (See Table 2). Recent years have seen notable improvements in tax administration as measured by the 2015 Doing Business ranking Ukraine improved from 157 to 108 place in paying taxes, but little progress in trading across the borders ranked 154 as opposed to 153 in 2014.

i. Rights and obligations for revenue measures

Ukraine unified its tax legislation into a single tax code in 2010. The new Tax Code replaced numerous tax laws with comprehensive and coherent tax legislation. The Tax Code came into force on January 1, 2011. It has not provided a stable legal basis for taxation. There have been multiple amendments to the Code: 17 in 2011, 22 in 2012, 9 in 2013, 23 in 2014 and 23 in the first half of 2015.

The new Customs Code of Ukraine was approved in 2012 and came into force on June 1, 2012. This strengthened the legal basis for customs valuation and introduced the concept of authorized economic operator. Ukraine will have to amend customs legislation in the coming years in line with its commitments under EU-Ukraine Association Agreement.

Both tax and customs legislation and sub-legal acts can be viewed in the Parliament or SFS web-site. The SFS conducts regular seminars and workshops providing taxpayers with updates on the Tax Code including those that are introduced for the particular sectors. In 2007 a Call Center was established which operates based on a unified informational platform: the Center provided on average over 1 million consultations per annum in 2012-2014. The tax appeals mechanism lacks efficiency. The number of unresolved tax disputes is around 75,000 with a value of around UAH 180 billion (for internal and judicial appeals)—and there is a significant disparity of outcome between appeals resolved through the internal administrative procedure and those decided by the judicial system. According to recent IMF report, internal appeals The SFS wins an overwhelming majority of internal appeals while success in the Courts is split about evenly between business and the SFS, though business wins more in money terms. Taxpayers can appeal to general jurisdiction courts.

ii. Revenue risk management

Risk based audit selection has been implemented since 2009 and all planned audits are now selected using risk criteria. Risk factors are determined based on analysis of macro indicators, market intelligence and third party information. However in 2013-14 almost two thirds of all audits were unplanned which undermines usefulness of the risk based audit selection. Investigation of tax evasion is dealt with by the tax militia based on intelligence and third party information.

There is no comprehensive risk management system utilized by SFS. Some elements of risk management such as risk based selection of tax audits and customs inspections are in place but are not used systematically.

iii. Revenue audit and investigation

Risk assessment approaches are fragmented and not centralized in the State Fiscal Service. Large taxpayer risk analysis is performed by the central office for large taxpayers. Finally, the central audit function strives to apply a continually updated range of risk criteria to select the highest risk cases for planned audits.

Risk based audit selection has existed in Ukraine for over five years with annual audit plan formed according to risk profile of tax payers. These audits and fraud investigations are carried out according to plan. However, coverage of the risk based audit system has been limited. Unplanned audits could be triggered both by risk factors and by statutory requirements. The excessive number of tax audits results in high burden on taxpayers, lowers efficiency of tax administration, and creates opportunities for corruption. This has contributed to negative external perceptions of Ukraine as a place to do business. The revenue target approach also undermines the compliance-driven risk-based methods of tax administration. Recognizing the problem, Government started gradual move away from target driven approach by revoking in 2014 the indicators of additional tax collections from each tax audit carried out from the Order of the Ministry of Revenue and Duties on Criteria of Effectiveness of Tax inspections and Audits. The results however will remain to be seen.

iv. Revenue arrears monitoring

The stock of tax arrears in Ukraine as of January 1, 2015 stood at UAH 18 billion. The tax collections in 2014 were at UAH 382 billion, which suggests that the stock of revenue arrears at the end of the last completed fiscal year is below 10 percent of the total revenue collection of the year and the revenue arrears older than 12 months are less than 50 percent of the total revenue (about UAH 8 billion).

CHANGE IN PERFORMANCE SINCE 2011

There are no major changes in performance. Target driven approach to revenue collection continues to prevail. Most improvements in scores could be attributed to changes in the methodology.

PI-20. Accounting for revenues

PURPOSE OF INDICATOR

There is always a need for information on revenue collection to be consolidated and analyzed, to ensure that revenue collection is on track and that cash management of the government is effective

Indicator PI-20	Score 2015	Score 2011	Justification
(i) Information on revenue collection	A	-	Data on over 90% of revenue is available to the Ministry of Finance in real time.
(ii) Transfer of revenue collections	A	A	All tax and customs payments are paid to the account of the respective agency in the State Treasury and thus transfer is immediate
(iii) Revenue accounts reconciliation	A	B	The SFS reconciles revenue data with the Treasury. Reconciliation happens on the fourth day of the month following the reporting one.
Overall	A	B+	

CURRENT PERFORMANCE

i. Information on Revenue Collection

The Ministry of Finance receives data from SFS through the Treasury on a monthly basis. Treasury of Ukraine prepares a consolidated monthly budget execution reports. The other revenues are available from Treasury (<http://www.treasury.gov.ua/main/uk/doccatalog/list?currDir=264515>), by type of revenue.

As most of the revenues other than grants from foreign Government and Central Bank transfers, this information is available to the Ministry of Finance in real time. Consolidated tax revenues, grants and Central Bank Transfers constitute over 90% of overall budget revenues (see Annex 4).

ii. Transfer of Revenue Collections

All tax and customs payments are paid to the account of the respective agency in the State Treasury and so transfer is immediate. Information on payment is then submitted to the State Fiscal Service by the Treasury.

iii. Revenue accounts reconciliation

Following Ministry of Finance Order#760/1031 of December 4, 2013, SFS reconciles revenue data with the Treasury of Ukraine on the 1st day of the month following the reporting one. The treasury accounts for revenues on a cash basis and thus does not capture tax assessments. Tax assessment are however captured within 10 days by the SFS accounting system. Full reconciliation happens within 10 days after receiving the register of payments from the Treasury. Reconciliation is done at the regional level and then consolidated in the center. On a monthly basis, not later than on the 4th day of the following month, the STA conducts full reconciliation of the taxes by codes of budget classification based on the data from taxpayer accounts. Other revenues are reconciled as part of the regular treasury reconciliation process.

PERFORMANCE CHANGE SINCE 2011

No changes in performance

PI-21. Predictability of in-year resource allocation

PURPOSE OF INDICATOR

Effective service delivery and execution of the budget in accordance with the work plans, requires that spending ministries, departments and agencies (budgetary units) receive reliable information on the availability of funds so that they can control commitments and make payments for non-financial assets, goods and services. This indicator assesses the extent to which the central finance agency is able to forecast commitment and cash requirements and provide reliable information on the availability of funds to budgetary units for service delivery.

Indicator PI-21	Score 2015	Score 2011	Justification
(i) Consolidation of cash balances	A	-	Treasury consolidates cash balances daily
(ii) Cash forecasting and monitoring	A	A	The Treasury forecasts the annual cash flow broken down by month and updates its annual forecast on a monthly basis.
(iii) Information on commitment ceilings	A	A	The budgetary units can commit funds within their annual budget allocations and make payments within monthly limits.
(iv) Significance of in-year budget adjustments	C	C	Significant in-year budget adjustments are frequent, but undertaken with some transparency.
Overall	B+	C+	

CURRENT PERFORMANCE

i. Consolidation of cash balances

The Treasury Single Account (TSA) consolidates funds of state and local budgets, extra budgetary funds. TSA is open at the National Bank of Ukraine. For central government, nearly all expenditure and revenue transactions are executed through the STA and the Treasury performs daily reconciliations of flows and balances. Some of the donor funds used through designated accounts system are reconciled monthly, but the amounts are negligible. This is regulated by the Joint Order of the MoF and Treasury #449 of November 30, 2010.

ii. Cash forecasting and monitoring

Following Resolution of the CMU #215 of April 15, 2015 the Treasury monitors and manages funds consolidated in the TSA. The Treasury forecasts the annual cash flow broken down by month and updates its annual forecast on a monthly basis. The Treasury submits its forecast to the Ministry of Finance, which is then shared with the MoF Debt Department. The Treasury does not automatically receive information from annual procurement plans of spending units and does not have centralized payroll system, so the forecast is based on MoF allocations and forecasts of State Fiscal Service, special funds and central bank. Cash planning forecasts are also based on historical data.

iii. Information on commitment ceilings

Following approval of the State Budget, the Ministry of Finance approves budget apportionment by month based on the inputs from the line ministries. Based on the revenue projections, budget apportionments and historical treasury data, the Ministry of Finance estimates monthly limits on apportionments for expenditures and credits from the general fund for main spending units. Based on these apportionments, main spending units prepare monthly breakdown by program and economic classification, send the breakdown to the MoF.

Spending units are aware of their monthly limits within one month after budget approval. Treasury controls spending according to plans and apportionments. The commitment module of the Treasury system ensures that all commitments are controlled within budget allocations. Spending units can commit funds up to the value of their annual budget allocations and make payments up to the value of their monthly apportionment limits. In the beginning of the month the Treasury allocates protected budget categories (such as wages and utility payments,), which represent about eighty percent of the budget. All other expenditures are allocated based on proposals of the Treasury approved by the MoF and taking into account available and forecasted TSA fund flows.

iv. Significance of in-year budget adjustments

There are multiple changes to annual budget. In 2013 there 19 changes and in 2014 11 changes. While changes are made transparently, they are frequent. The revisions to the annual budget amounted to over 18 percent in 2012, 4 percent in 2013 and around 3 percent in 2014. However, the revisions are specified for overall expenditure, while reallocation also took place. PI-2(i) scores C on the compositional variance of the budget.

CHANGE IN PERFORMANCE SINCE 2011

No changes in performance are observed.

PI-22. Expenditure arrears

PURPOSE OF INDICATOR

This indicator measures the extent to which there is a stock of arrears, and the extent to which a systemic problem in this regard is being addressed and brought under control.

Indicator PI-22	Score 2015	Score 2011	Justification
Stock of expenditure arrears	B	A	This data demonstrates that the stock of arrears is no more than 10 percent of total expenditure.
Monitoring of expenditure arrears	B	B	Data on the stock of arrears is generated annually, but may not be complete for a few identified expenditure categories or specified budget institutions.
Overall	B	B+	

CURRENT PERFORMANCE

i. Stock of expenditure arrears

While the level of arrears in Ukraine has grown as a result of the deteriorating fiscal situation it remains at a low level. Expenditure arrears stood at about 0.6 percent of State Budget expenditures in 2014 compared to 0.1 percent in 2010. Information on arrears exists at the level of line ministries which maintain an accrual accounting system. The Treasury reconciles their cash accounting with the spending units' accrual accounting. Arrears on VAT refunds were estimated at over UAH 7 billion as of July 1, 2015 according to the IMF EFF review.

TABLE 22.1. STOCK OF EXPENDITURE ARREARS AT THE END OF EACH OF THE LAST THREE FINANCIAL YEARS, 2012-2014

UAH bln

	2012	2013	2014
Total Expenditure arrears	1.2	3.4	2.8

ii. Monitoring of expenditure arrears

Line Ministries maintain information on arrears on the basis of a modified accrual accounting system. The Treasury reconciles their cash accounting with the spending units' accrual accounting. At the same time, there is an uneven quality of accounting in different spending units.

CHANGE IN PERFORMANCE SINCE 2011

No changes in performance are observed. The generation of considerable VAT refund arrears in 2013-2014 explains deterioration of the score.

PI-23. Payroll controls

PURPOSE OF INDICATOR

The wage bill is usually one of the biggest items of government expenditure and may be susceptible to weak controls and corruption. This indicator is concerned with the payroll for public servants only.

Indicator PI-23	Score 2015	Score 2011	Justification
(i) Integration of payroll and personnel records	D	D	With personnel, payroll and payment information in many separate systems, some automated and some manual, the level of integration is low and reconciliation is difficult.
(ii) Management of payroll changes	C	C	Previous analysis indicated that it takes up to three months to update payroll to reflect changes in personnel information to update payroll, with the result that there are frequent retrospective adjustments to the payroll. However, the decentralized nature of payroll management means there could be considerable variations in performance across ministries and it was not possible to assess performance across the whole of government in this aspect
(iii) Internal control of payroll	A	A	Internal rules and procedures of government entities, which govern changes to personnel and payroll information are detailed and clear and establish a clear audit trail.
(iv) Payroll audit	A	A	Payroll is regularly audited by the SFI, as part of routine financial audits. These are conducted on average every 18 months – as part of the comprehensive audits.
Overall	D+	D+	

CURRENT PERFORMANCE

i. Integration of payroll and personnel records

Each government entity is in charge of maintaining its own payroll system. In SFS, MoF, and Ministry of Social Policy payroll is a module of an integrated accounting package, which is likely a common practice. Personnel records are still largely manual. Treasury acts as a banker to the line ministries, making electronic payments to employees through the centralized automated Treasury system. With personnel, payroll and payment information in many separate systems, some automated and some manual, the level of integration is low and reconciliation is difficult. Information is transferred from a line Ministry as an electronic file, accompanied by a matching paper record. Each ministry is responsible for reconciliation of personnel and payroll data.

ii. Management of Payroll Changes

It takes up to three months to update payroll to reflect changes in personnel information to update payroll. Consequently there are frequent retrospective adjustments to the payroll. Moreover, the decentralized nature of payroll management means that there could be considerable variation in performance across ministries. It was not possible to assess performance across the whole of government in this aspect.

iii. Internal Control of Payroll

Internal rules and procedures of government entities, which govern changes to personnel and payroll information are detailed and clear and establish a clear audit trail. Changes to personnel records and the payroll are occurring at senior management level within each budget institution. Most budget institutions main all records in individual IT systems and all budget institutions maintain hardcopy records, which are auditable.

iv. Payroll Audit

Payroll is regularly audited by the SFI, as part of routine financial audits. These are conducted on average every 18 months as part of the comprehensive audits. This includes auditing personnel records and random payee verifications. Additionally Ministries own inspection units that may carry out compliance review of payroll transactions.

CHANGE IN PERFORMANCE SINCE 2011

No changes in performance are observed.

PI-24. Procurement

PURPOSE OF INDICATOR

Significant public spending takes place through the public procurement system. A well-functioning procurement system ensures that money is used effectively in acquiring inputs for and achieving value for money in the delivery of programs and services. Strategic management of public procurement adds value, it has outcomes in its own right such that it discovers the optimum solutions to the issues in terms that best match the national objectives and the optimum means of achieving these solutions.

Indicator PI-24	Score 2015	Justification
(i) Procurement monitoring	A	Databases (or records) are maintained for contracts representing at least 90 percent of value of procurement of goods, services and works, including information of what was procured, amount and contract award, but information on contract costs is only available on contract by contract basis.
(ii) Procurement methods	A	Single source contracting represents 11.6 percent of the total value of all public contracts concluded in 2014.
(iii) Public access to procurement information.	A	Information is accessible and exceeds the criteria requirements
(iv) Procurement complaint management	A	The complaints resolution mechanism satisfies all criteria of the dimension.
Overall	A	

CURRENT PERFORMANCE

The first Public Procurement Law (PPL) was adopted in February 2000. It was based on UNCITRAL model law and generally was in line with the best international practices. The gradual development of the system was interrupted by several major amendments to the PPL introduced by Parliament in 2004-2005 which distorted the system through privatization of core state regulatory and oversight functions. Since then, public procurement has been the subject of constant attention by the civil society and mass media. By the end of 2007 the system was paralyzed by rent-seeking schemes introduced into the law. The PPL was then replaced with a temporary Cabinet of Ministers resolution in March 2008. This temporary framework, contested in courts as illegal, remained in place until June 2010 when a new PPL, broadly compliant with the best international practices and EU Directives was adopted. A separate law on “Specifics of public procurement in certain fields of economic activity” was adopted in May 2012 to regulate procurement made by utility companies and natural monopolists. The second generation PPL has been subject to frequent changes introduced without due consultations. A partnership of NGOs, journalists and civil society activists has now been established to fight for integrity in public procurement and broad disclosure of information on public contracts. These efforts led to changes which provide for broader publication and information disclosure requirements than the minimum commitments mandated by EU Directives. The current PPL was adopted in April 2014. This followed extensive public discussions on the draft law and consultations with International Organizations. The PPL is based mainly on the 2010 version of the law with certain improvements and broader requirements on disclosure of information. State Financial Inspection exercises control in public procurement according to the Article 7 of the Law on Public Procurement #1197-VII.

i. Procurement monitoring

Data on public procurement is available at web portal “Public Procurement” at <https://tender.me.gov.ua/>. Most of this information is presented as excel tables. In the last two years, the authorities have developed ProZorro system as a Business Intelligence module. This allows quick and comprehensive classification of information of the tenders done in the system (<https://bi.prozorro.org>). In addition, the State Statistics Committee (SSC) publishes data on performance of the public procurement system on quarterly and

annual basis (<http://www.ukrstat.gov.ua/>). Civil society has easy and unrestricted access to the above information. Representatives of mass media and civil society organizations have the right to attend the bid opening procedure and to conduct audio- and videotaping in accordance to the PPL provisions.

The SSC reports that, in 2014, eighty percent of procurement procedures resulted in a contract signing, which represents 63 percent of the planned amounts. The actual payments made represent 44 percent out of total value of the signed contracts. Information on actual completion cost of the contracts versus original contract value is available for each contract separately and can be compiled manually by checking each published report on contract completion.

ii. Procurement methods

MEDT reports that 48 percent of the total value of public contracts are below the threshold for application of the PPL (UAH 200 thousand for goods and services, and UAH 1,500 thousand for works), however use competitive reverse auctions for procurement. The piloting reverse auctions for contracts below the threshold of PPL application using ProZorro system showed that the estimated cost of procurements outside of ProZorro system was on average 15 percent higher than procurements using ProZorro. The price of contracts is usually equal to the value of the original estimates. 70.2 percent of contracts (in terms of value) have been awarded following competitive procedures. 29.8 percent of contracts have been awarded without competition (using a negotiations procedure), including 18.2 percent of contracts with Utilities (gas, water, electricity, heat). As a result, single source contracting represents 11.6 percent of the total value of all public contracts concluded in 2014.

iii. Public access to procurement information

Information on public procurement is freely accessible. Article 9 of the PPL provides for Civil Society Control in the Field of the Public Procurement This is exercised by means of the free access to the entire scope of information about the public procurement required to be published in accordance with the Law. Procuring entities and bidders and the Authorized Agency are required to facilitate the involvement of civil society in exercising control in the field of procurement according to the Laws of Ukraine “On Civil Society Associations”, “On Petitions of Citizens” and “On Information”. The following information is published:

- announcement of procurement procedure
- justification for the negotiated procurement procedure
- tender or qualification documents
- changes in the tender documents or in qualification documents, and clarifications if any;
- announcement with details about a concluded framework agreement
- protocol of the bid opening, quotations or qualification proposals opening procedure
- information about the rejection of bids, price quotations or qualification proposals, and grounds therefor in the form of a protocol
- notice of a bid or a quotation acceptance
- announcement of the result of procurement procedure
- report on the results of the procurement
- notice of amendments to the contract
- report on the completion of the contract
- data on resolution of procurement complaints
- bi-annual procurement statistics (by the State Statistics Service at ukrstat.gov.ua)

Representatives of the mass media and authorized representatives of civil society associations are entitled to be present at the bid opening procedure. Procuring entities are required to provide unrestricted access to the bid opening procedure for representatives of the mass media and civil society associations on their request and ensure the right to record the procedure with the use of technical means. Citizens, civil society organizations and their associations have no right to interfere in the activities of the Authorized Agency and in the procedure of the selection of successful bidder by the procuring entity.

iv. Procurement complaints management

The Anti-monopoly Committee (AMC) hosts the independent complaint body which reviews all complaints about public procurement which:

- is not involved in any capacity in procurement transactions or in the process leading to contract award decisions. The members of complaint resolution Board are not involved into procurement transactions or award decisions.
- does not charge fees that prohibit access by concerned parties. The fee charged for filing complaint is not too big to discourage the bidders (\$250 for goods and services and \$750 for works procedures).
- follows processes for submission and resolution of complaints that are clearly defined and publicly available. The procedure is defined in the PPL and additionally AMC has developed the Manual on complaints resolution which is posted on the web-site and provides details for the process of complaints resolution.
- exercises the authority to suspend the procurement process. The PPL prohibits contract conclusion during the period of 10 days when the complaint should be submitted. The complaints on the Bidding Document should be submitted before the deadline for bids submission. The Board has the right to suspend procurement process on its own initiative or on the request of complainant and until the decision on complaint is taken.
- issues decisions within the timeframe specified in the rules/regulations. The complaint is reviewed within 30 days from the date of submission.
- issues decisions that are binding on all parties (without precluding subsequent access to an external higher authority). The decisions made by the Board are binding on all parties without precluding access to higher authority (Kiev administrative Court).

In addition there are a number of civil society organizations that engaged over the recent years into monitoring of public procurement.

CHANGE IN PERFORMANCE SINCE 2011

The methodology for this PEFA indicator was substantially revised and so is not comparable. That said, there are clearly positive development in the use of competitive procedures since 2011. The share of non-competitive selection in the value of procurement has decreased threefold during the period. This could be partially attributed to a considerable reduction in the number of exemptions from public procurement introduced to the legislation in 2014.

CURRENT DEVELOPMENT AND ONGOING REFORM EFFORTS

The Ministry of Economic Development and Trade (MEDT), which is the Authorized Agency in public procurement, started reorganization of public procurement system to make it more efficient and effective through implementation of e-procurement system. In second half of 2014 the Public Procurement Department of MEDT supported development and piloting of reverse auctions module of a new electronic system “ProZorro” for procedures below the threshold for application of the PPL.

The new PPL was adopted by the Parliament on December 25, 2015 and came into force on February 18, 2016. The PPL introduces e-procurement based on the electronic procurement system ProZorro, which was developed and tested last year (some modules are still under elaboration). The new PPL provides

for 3 methods of procurement (1) open tender (2) competitive dialog and (3) negotiations procedure. It has been applied to central government bodies and utility companies and from April 1 2016 will be applied to the rest of procuring entities.

PI-25. Internal controls on non-salary expenditure

PURPOSE OF INDICATOR

This indicator focuses on non-salary expenditure and covers a wide range of processes and types of payment across central government including segregation of duties, commitment controls and payment controls.

Indicator PI-25	Score 2015	Justification
(i) Segregation of duties	C	Narrow segregation of duties with possibilities over override of controls
(ii) Effectiveness of expenditure commitment controls	A	The Treasury system, applied across government at all levels, includes a module whereby commitments should be registered before orders are placed or contracts concluded, and will only be accepted if they are within the budgetary provision of the spending unit. Under this system commitments cannot extend beyond the current budget year, and if not already provided for would require virement authorization or new appropriations
(iii) Compliance with payment controls	B	Payment irregularities are not a major issue because of connection between records of commitments and payments.
Overall	B	

CURRENT PERFORMANCE

i. Segregation of duties

In matters of commitments and payments the segregation of duties between the State Treasury and the spending entities is comprehensive, relevant and understood. Inside the spending entities the situation is less clear because of a lack of sufficient information. The evidence from one visited budget entity (a line ministry) points to the dominance of the Head of the entity, the accounting department and the law department, too narrow segregation of duties between departments with possibilities over override of controls. This experience cannot be generalized, although the State Financial Inspection (and the State Treasury) confirm the impression of a weak segregation of duties at the end agency level.

ii. Effectiveness of expenditure commitment controls

Any commitment or payment of a budget spending entity needs the prior approval of the State Treasury. The Treasury checks the entities' availability of budget under the monthly apportionment ceilings. Requests for commitments and payments have to be sent with documentation showing the compliance of the requests with plans, rules and procedures, including procurement procedures.

The ex-ante expenditure commitment controls of the State Treasury prevent spending units taking commitments beyond the in-year spending limits and beyond the budget year. Irregularities within the spending units, if any, will be in due time corrected by the Treasury control and/or corrected within the limited timeframes by the spending units themselves. The SFI and STU confirm this view.

iii. Compliance with systems of control for making payments

The payment control system of the State Treasury prevents spending units from spending beyond the in-year spending limits and beyond the budget year. Payment irregularities will be even more difficult to hide than commitment irregularities, because of the connection between the records of commitments

and payments. The SFI and the STU confirm this view. The State Financial Inspection checks ex post the regularity and lawfulness of financial transactions using a large sample. These checks are only partially risk-based. SFI data provided in the report 2014 show the total value of illegal or inappropriate expenditure identified in 2014 is UAH 7.58 billion, with an impact on the budget of UAH of 3.16²². More than 50 percent of illegal or inappropriate transactions arise at SOEs rather than in budget spending units. The total amount of infringements of rules not involving losses of public funds was 4.42 billion UAH. Most payments are compliant with regular payment procedures as even 7.58 billion, of which only half is related to budget units constitute less than 5% of budget expenditures.

PERFORMANCE CHANGE SINCE 2011

The methodology for this PEFA indicator is slightly different to the previous PEFA assessment. Although the assessors have found no evidence that the effectiveness of the internal controls overall for non-salary expenditures has changed since 2010, based on the revised dimensions the overall assessment score changed from C+ to B.

PI-26. Effectiveness of Internal Audit

PURPOSE OF INDICATOR

Regular and adequate feedback to management is required on the performance of the internal control systems, through an internal audit function (or equivalent systems monitoring function). Such a function should bring a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes. In the public sector, the function is primarily focused on the provision of assurance over the adequacy and effectiveness of internal controls: the reliability and integrity of financial and operational information; the effectiveness and efficiency of operations and programs; the safeguarding of assets; and compliance with laws, regulations, and contracts.

Indicator PI-26	Score 2015	Score 2011	Justification
Coverage of the internal audit	D*	D	The Internal Audit function is implemented in 100 percent of central executive authorities (which are not under liquidation or reorganization). There is no general information available on total planned expenditure/revenue collection covered by annual audit activities. Most audit work is focused on checking financial transactions and compliance of activities.
Nature of audits and standards applied	C	-	The Internal audit function still has no systematic or diagnostic nature, assessing the effectiveness of internal control and management processes in the public organization. The practical introduction of IAU's is described by the Ukrainian Internal Audit Standards which are based on IIA Standards. In practice internal auditors face a lack of support and are confronted by misinterpretation of their function by their top managers.
Internal audit activity and reporting	B	C	In 2014 - 76 percent of audit plans have been implemented. Internal Auditors submit their reports only to the Minister or Head of the public entity. IA reports are not transmitted to the State Financial Inspection or SAI, but might be transferred upon request.
Response to internal audits	B	B	According to the CHU report - 87 percent of the recommendations have been reported as being implemented by management.
Overall	D+	D+	

CURRENT PERFORMANCE

Based on the 2007 White Paper on Public Internal Financial Control till 2017 (PIFC), Internal Audit Units (IAU) were established from January, 1st, 2012 at the central level and one year later at the regional level. The Budget Code 2010, art. 26; Cabinet Decree No. 1001, National Internal Audit Standards and Code of Ethics provide the regulatory framework upon which IAU's have been established.

²² <http://www.dkrs.gov.ua/kru/uk/publish/article/106505>

The scope of the internal audit function in Ukraine, according to the National Internal Audit Standards encompasses three types of audit: effectiveness (“performance”), financial and compliance. Effectiveness can comprise many types of audits: system and operational audits, performance audits and also financial audits. This broad scope implies extensive work to be covered by limited amounts of personnel. The majority of internal audit activities are focused on compliance and financial operations checks.

The IAU’s plan their activities semi-annual as prescribed by the National Internal Audit Standards. In principle, the semi-annual plans are formed on the basis of risk assessment of the institution’s activities. In practice, the IAU’s base their semi-annual plans on their previous experience, knowledge and to an extent personal view (professional judgment). Semi-annual plans need to be agreed by the Central Harmonization Unit at the State Financial Inspection and later approved by the Minister.

Ukraine has demonstrated some progress in the development of the system of internal audit in the public sector. According to the CHU 2014 annual report, for the 1st of January 2015, the Internal Audit function has been established in 51 from the 63 (80.1 percent, but remaining 12 agencies were either under liquidation or reorganization, making the ratio to be 100 percent) Central Executive Authorities and in 22 from 23 (96 percent) regional state authorities. However, CHU also identifies a number of problems:

- the high level of Internal Auditors staff turnover (approximately 22 percent per year) does not promote stable and consistent development of the IA function;
- 18 percent lack of staff both on central and regional levels indicates problems with personnel recruitment;
- newly established internal audit departments show that their activity is not organized properly and that the quality of internal audits in the corresponding central executive authorities is rather low, almost exclusively focusing on checking compliance and financial transitions;
- the mandate of about 19 percent of IA departments comprises non IA-types of work, some of which often contradict the professional regulatory framework, putting the independency and objectivity of the IA-function at big risks

i. Coverage of internal audit

The Internal Audit function is implemented in 51 existing central executive authorities. The 2014 CHU annual report shows that financial and compliance audits have covered 2,431 audit objects (17 percent) out of the total base of the audit objects at central level. In 86 percent of cases internal auditors have identified violations. There is no general information available on total planned expenditure/revenue collection covered by annual audit activities. Most audit work is focused on checking financial transactions and compliance of activities.

According to SFI data²³, 10 budgetary units did not conduct internal audit in course of 2014. The main reason behind that is that the staff positions created for internal auditors remained vacant as of January 1, 2015. The number of internal auditors has declined from 1,447 in 2012 to 1,291 in 2014.

ii. Nature of audits and standards applied

The practical implementation of internal audit in the line ministries and main public institutions of Ukraine is described by the Ukrainian Internal Audit Standards. Ukrainian IA Standards also prescribe the professional and functional independence of internal auditors. Ukrainian standards are based on the Institute of Internal Auditors (IIA), but differ in some respects. Methodological Guides based on general accepted good practices are in development.

²³ Report on Public Internal Financial Control in 2014

In practice internal auditors face a lack of support and are confronted by misinterpretation of their function by their top managers. The Internal Audit function at central level has in most cases become another type of control activity in Ukraine, raised out of the internal inspection function and primarily consists of ex-post reviews, which are focused on checking financial transaction and compliance. The Internal audit function still has no systematic or diagnostic nature, assessing the effectiveness of internal control and management processes in the public organization. The purpose of the coming Methodological Guides is to bring the practice of IA better in line with internationally accepted practices.

iii. Internal audit activity and reporting

There is no annual audit planning. The National Internal Audit Standards, require only semi-annual planning. There is little evidence that Internal Audit departments base their semi-annual plans on a proper risk assessment, as prescribed by the National Internal Audit Standards. According to the CHU Report 2014, out of 140 approved audit plans for central government units, only 102 (73 percent) have been implemented. Additionally, oblast state administrations fulfilled 80 percent of the plans bringing the average audit plan implementation to 76 percent,

According to the National IA Standards, Internal Auditors submit their reports only to the Minister or Head of the public entity. IA reports are not transmitted to the State Financial Inspection or SAI. At the same time these institutions may require relevant IA reports for their control activities conducted in the public institutions.

iv. Response to internal audits

CHU analysis of internal audit work in 2014 shows that in total 2,722 audits have been conducted within the reporting year. Based on these audit investigations, 2,705 conclusions and 18,525 recommendations have been issued. 87 percent (16,093) of the recommendations have been reported as being implemented by budgetary units within 12 months of reports being produced. Financial and non-financial violations have been identified during the audits. At the time of writing, 61 percent are reported to be in compliance with regulations and 24 percent reported to have accounting problems.

PERFORMANCE CHANGE SINCE 2011

In 2010 the Internal Audit function did not exist. Therefore, the work of the State Financial Inspection (“performance audits”) were reviewed and assessed instead. The 2014 assessment in contrast, is focused on the Internal Audit function. Consequently, the current level of internal audit development in Ukraine and cannot be really compared with the 2010 assessment. The PEFA Indicators are also slightly different, with an additional variable, related to the nature of the audits performed and adherence to professional standards. This variable helps to have a broader and more systematic overview of the Internal Audit Function Development.

CURRENT DEVELOPMENT AND ONGOING REFORM EFFORTS

At the end of 2015 the SFI was transformed into the State Audit Service with as purpose to change focus from inspection activities to financial/performance audit. However, this did not yet transform into any material changes in internal audit practices.

PI-27. Financial data integrity

PURPOSE OF INDICATOR

Reliable reporting of financial information requires constant checking and verification of the recording practices of accountants. This is an important part of internal control and a foundation for good quality information for management and for external reports.

Indicator PI-27	Score 2015	Score 2011	Justification
Bank accounts reconciliation	A	A	Accounts reconciliation happens daily
Suspense accounts	NA	NA	There are no suspense accounts in use in Ukraine
Advance accounts	A	A	The reconciliation of advance accounts takes place monthly.
Financial data integrity processes	B	-	Access and changes to records is restricted and recorded, and results in an audit trail, but there is no operational body in charge of verifying financial data integrity
Overall	A	A	

CURRENT PERFORMANCE

i. Bank account reconciliation

The State Treasury of Ukraine (STU) is responsible for managing the Treasury Single Account (TSA) as well as any other government bank accounts (which can be opened in the Central Bank or commercial banks but must be registered with the TSA). For Central Government, nearly all expenditure and revenue transactions are executed via the STA and the Treasury performs daily reconciliations of flows and balances. MoF Order #263 defines the frequency and content of managerial reports: daily reporting of accounts along budget classification classes 1-4; monthly and quarterly reporting of accounts along budget classification classes 1-9 as well as off-budget sheet accounts. STU Order #32 of February 13, 2012 requires reports on budget classification classes 1-9 to be produced 11 days of the close of the month and 25 days from the close of the quarter. The due date for the annual reports is specified in the MoF order, which is issued annually. The due dates are all complied with.

Local governments typically rely on regional branches of the STU to execute their expenditure and revenue transactions. The STU executes transfers and allocations and this is done only once authorization is granted to the local spending units. The regional treasury branches perform daily reconciliations of the local government accounts and balances. Therefore, since treasury executes virtually all transactions for central and local government, including decentralized spending units, the system of reconciliation generates an accurate report of payments and account balances.

ii. Suspense accounts

There are no suspense accounts in use in Ukraine.

iii. Advance accounts

Advances are authorized only for specific types of contracts (usually construction and/or large-scale infrastructure contracts) and the advances are limited to 30-40 percent of the total value of the contract, depending on contract terms. Once the advance payments are executed, spending units are required to submit documentation reporting on the use the advance (i.e., reporting on contract execution or management and physical progress) prior to requesting subsequent payments. This documentation is required to be submitted within one month of making the advance payment. If documentation is not provided by the spending unit, the STU withholds further payments against the contract and these contracts are noted in the monthly/quarterly reports. STU can also withhold all payments of the spending unit except for payments related to protected items. This is complied with in practice.

iv. Financial data integrity processes

The STU maintains its records in the automated accounting and reporting system Kazna, access to which is restricted by a rigid system of access passwords. Records cannot be created or modified without leaving an audit trail. Internal control unit is in charge of review and control over the data integrity.

However, the internal control function is not risk-based but rather procedural. Subsequently, the use of funds is verified by the State Financial Inspection and the Accounting Chamber of Ukraine.

PERFORMANCE CHANGE SINCE 2011

No major changes were introduced and the system continues to function efficiently.

PI-28. In-year Budget Reports

PURPOSE OF INDICATOR

Information on budget execution that includes revenue and expenditure data is required to facilitate performance monitoring and, where necessary, help identify actions to maintain or adjust planned budget outturns.

Indicator PI-28	Score 2015	Score 2011	Justification
(i) Coverage and comparability of reports	A	A	Coverage and classification of data allows direct comparison to the original budget. Information includes all items of budget estimates. Expenditures made from transfers to de-concentrated units within central government are included in the reports.
(ii) Timing of in-year budget reports	A	A	The STU prepares monthly and quarterly reports of central government (revenues, expenditures, debt, liabilities and external loans) within 15 days of the end of the month and 35 days of the end of the quarter. The local government data is added and consolidated reports following the same breakdown are prepared within 25 days of the end of the month
(iii) Accuracy of in-year budget reports	B	B	There is no major concerns over the quality of information. However expenditures are only captured at the payments stage.
Overall	B+	B+	

CURRENT PERFORMANCE

i. Coverage and comparability of reports

In year budget execution reports cover general government as a whole and are prepared according to program, functional, administrative and economic budget classifications. They are easily compared to the approved budget. Reports covering expenditures and revenues, as well as state debt, guarantees and obligations (liabilities and payables) are prepared monthly and quarterly. Quarterly debt reports include data on sovereign and sovereign guaranteed debt. Four extra-budgetary funds (Pensions, Social Insurance, Interim Disability and Employment Insurance) as well as State-Owned Enterprises are not included in treasury reports on budget execution. Although this is a serious omission, this does not concern the central government budget and so does not affect the PEFA rating.

ii. Timing of in-year budget reports

The Treasury submits monthly reports no later than 15 days upon completion of a month to the Ukrainian Parliament, President of Ukraine, Cabinet of Ministers of Ukraine, Accounting Chamber of Ukraine and Ministry of Finance. Quarterly reports are submitted no later than 35 days after completion of the quarter. A report on budget arrears is submitted no later than on the 1st day of the month following the reporting one.

iii. Accuracy of in-year budget reports

The single treasury account executes all budget transactions (revenues and expenditures) for all central government ministries and central spending units. Additionally, the regional treasury branches execute

budget transactions for local governments (including oblasts) and decentralized spending units. These arrangements enable a close and regular monitoring and reconciliation (including cross-checks) of financial information and flows

The Treasury reports include planned (the law with all revisions) and actual indicators but do not contain any information on budget liabilities. For expenditures and lending, reports are drawn up by budget program, functional and economic classifications and also classification of key state budget spending units (all the available types of classifications that are used in expenditures). For revenues, financing and debt, reports are prepared up according to the budget classification. Under clause 10 of part 2 of Article 60 of the Budget Code of Ukraine, the quarterly reports contain explanations on the status of the performance of the indicators of the State Budget of Ukraine. The reports present information only for the payment stage but not for the commitment stage.

PERFORMANCE CHANGE SINCE 2011

No major changes.

PI-29. Annual financial reports

PURPOSE OF INDICATOR

Annual central government financial are critical for accountability and transparency in the PFM system. While some countries have their own public sector financial reporting standards, set by government or another authorized body, in many cases, national accounting standards for the private sector, regional standards, or international standards such as IPSAS are applied. In any event, the outcome should be a set of financial reports that are both complete and consistent with generally accepted accounting principles and standards. For the purpose of this indicator, the annual financial statements, budget execution reports or financial reports produced by central government are used for scoring.

Indicator PI-29	Score 2015	Score 2011	Justification
(i) Completeness of the financial reports	B	C	Coverage and classification of data allows direct comparison to the original budget. Information includes all items of budget estimates. Expenditures made from transfers to de-concentrated units within central government are included in the reports.
(ii) Submission of reports for external audit	A	A	The government prepares its annual financial statements within three months after the end of the fiscal year
(iii) Accounting standards	C	C	There is no major concerns over the quality of information. However expenditures are only captured at the payments stage. There is limited disclosure of accounting policies/standards in the annual reports.
Overall	C+	C	

CURRENT PERFORMANCE

i. Completeness of Financial Reports

The Government prepares its annual financial statements within three months after the end of the fiscal year in accordance with the requirements of the Budget Code. Each year, an Order of the MoF defines the specific timeline and process for the STU to follow in the preparation and submission of the annual financial statements and these requirements have been met. Annual financial reports contain the comparison of actual figures with the latest version of the State budget (which includes all changes which had been made during a fiscal year, but not with the initially approved budget). The annual report covers financial assets but does not include data on non-financial assets. The annual report covers revenues,

expenditures, lending and financing of the budget. The reports also highlight the status of the sovereign and government-guaranteed debt, the financial condition (balance) of the state budget, financial results of budget performance and cash flow, accounts receivable and payable, data on Back-up Fund spending, on outstanding debts under loans raised with government guarantees, on payments under government guarantees and on issued guarantees, on sovereign debt management operations.

ii. Submission of Reports for External Audit

The Cabinet of Ministers submits the annual report to the Ukrainian Parliament, President of Ukraine and Accounting Chamber no later than April 1 of the year following the reporting one (under Article 61 of the Budget Code of Ukraine). Annually, an order of the Ministry of Finance defines a specific schedule and procedure for the Treasury with regard to preparation and submission of the annual financial reports, and, up to the time of writing, these requirements have been met.

iii. Accounting Standards

In the course of preparation of all the annual reports, Ukraine applies national accounting standards. National standards are mostly cash-based, expenditures are only captured at the payment stage, with elements of accrual accounting such as reporting on assets and liabilities and debt. These standards are not compliant or aligned with IPSAS, though the government is in the process of development and step-by-step adoption of the new public sector accrual accounting standards which aim to be IPSAS-accrual compliant. The national standards have been applied consistently over time and are well known within MoF and Treasury. There is limited disclosure of accounting policies/standards in the annual reports, however the accounting standards are disclosed separately.

PERFORMANCE CHANGE SINCE 2011

No major changes.

CURRENT DEVELOPMENT AND ONGOING REFORM EFFORTS

At the time of preparation of 2011 report, MoF and Treasury were in process of developing new public sector accounting standards, based on the IPSAS accrual standards. Nineteen standards have now been prepared and approved. Nine of these new standards came into effect in 2015, and the remaining ten standards will become effective starting 2017. The timing of the coming into effect of these standards is determined by the readiness of the STU to support their implementation. The unified chart of accounts will be implemented starting from 2017.

Adoption of IPSAS-compliant standards should bring about the consolidation of SOE assets, liabilities and operations into the financial statements of Government. At present, only transactions between government and SOEs appear in the budget and expenditure reports under the responsible line ministries. SOE operations are very significant and their inclusion in government financial reports will substantially improve transparency and completeness.

PI-30. External audit

PURPOSE OF INDICATOR

A high quality external audit is an essential requirement for ensuring accountability and creating transparency in the use of public funds.

Indicator PI-30	Score 2015	Score 2011	Justification
(i) Audit coverage and standards	C	D	The ACU undertakes an examination of the financial records (revenue and expenditure only) of all bodies funded by the State Budget. This is progress compared with the last PEFA when the ACU did not have the authority to audit revenue. In October 2015, the ACU approved a methodology for financial audit.
(ii) Submission of audit reports to the legislature	A	A	Under the Law (1996) on the Accounting Chamber the ACU was required to: (i) produce the conclusion on the execution of the Annual State Budget within two weeks of the submission by the Ministry of Finance of the national accounts; and (ii) by December of that year to produce an annual report about the ACU activities i.e. within 9 months of receipt of the financial reports of government. Over the last three financial years, the evidence shown to the assessment team indicates that the ACU met these deadlines. Under the new Law (2015) there are new requirements relating to the ACU providing reports to the VR.
(iii) External audit follow up	C	B	The ACU includes conclusions, suggestions and recommendations in its outputs / reports. However, in some outputs / reports the recommendations were very general in nature. There was evidence that the subject of the report (the public body) formally responds to the recommendations. However, there was limited evidence that the implementation of recommendations was followed-up by the ACU.
(iv) SAI independence	B	-	The Law (1996) on the Accounting Chamber does not specify that the ACU had the power to publish its audit findings as and when it was ready to do so. The budget of the ACU was separately identified in the State Budget. However, the ACU did not have the right to appeal budget decisions directly to the parliament. The new Law (2015) has strengthened the independence of the ACU in a range of areas. For example, it requires the ACU to publish all its reports and decisions, and the ACU has an option to apply to the Budget Committee for consideration of proposals on ACU funding in the State Budget in cases of disagreement with the Government.
Overall	C	D+	

CURRENT PERFORMANCE

A new Law (2015) on the Accounting Chamber of Ukraine (ACU), Ukraine's SAI, was passed by the Verkhovna Rada (VR) on 2 July 2015 and ratified by the President on 5 August 2015. The new Law superseded the Law of 1996 providing the ACU with a range of new or enhanced roles, responsibilities and powers. The new Law (2015) came into force on 9 August 2015. Work on the assessment covering PI-30 was undertaken some three months after the new Law came into force and the report reflects the status of implementation up to that point in time.

The Accounting Chamber of Ukraine (ACU) is an independent body which reports to the Verkhovna Rada (VR). Under the Law (1996) on the Accounting Chamber, the ACU had authority to undertake a range of 'control' activities which included: an analysis of the draft Budget Law; a review of the quarterly accounts of government; and the production of a final conclusion on the execution of the Annual State Budget which had to be laid before parliament, by the Cabinet of Ministers of Ukraine, two weeks after the Ministry of Finance produced its annual set of accounts. The ACU did not undertake a full financial audit of these accounts in line with international auditing standards, nor did it produce an annual opinion on these accounts. The ACU produced a variety of hybrid reports which were similar to performance audit reports produced by other Audit Offices. The ACU Law of 2015 introduces changes to ACU's scope of work to include revenues of the State Budget. It also adjusts ACU's internal policies, rules and practices to reflect the provisions in the new Law. Once all the changes have been introduced, the ACU should be operating in alignment with a modern Supreme Audit Institution (SAI).

Ukraine has a State Financial Inspection (SFI) which undertakes many 'control' activities which covered similar ground to the work undertaken by the ACU under the Law (1996) on the Accounting Chamber. However, the SFI reports to the Government, while the ACU reports to the Legislature. The functions of the ACU and SFI have some overlap, which suggests that there is scope for better co-ordination between the ACU and the SFI to avoid any duplication of effort.

i. Audit coverage and standards

Under the Law (1996) on the Accounting Chamber was not mandated to audit state revenues, funds raised directly by local bodies and the revenues and expenditures of State Owned Enterprises. ACU did not undertake its audits in full compliance with the ISSAIs and Ukraine did not have its own national auditing standards. The outputs / reports produced by the ACU fell short of what would be expected from a modern SAI, both in terms of alignment with international standards and in terms of being easy to interpret and understand.

Once the provisions in the new Law (2015) are fully implemented, the position will be much improved. The list of bodies which can be audited by the ACU has been expanded, and audits can be undertaken by the ACU if they are requested by the relevant body. The ACU will undertake financial audits for the first time. In preparation for this, in October 2015, the ACU approved a methodology for financial audit. Once the provisions of the new Law (2015) have been fully implemented, the score for Dimension (i) will likely increase from C in this assessment to a 'B'.

ii. Submission of audit reports to the legislature

Under the Law (1996) on the Accounting Chamber the ACU was required to produce: the conclusion on the execution of the Annual State budget within two weeks of the submission by the Ministry of Finance of the national accounts; and an annual report about the ACU activities within nine months of receipt of the financial reports of government.

Over the last three financial years, the evidence shown to the assessment team by the ACU and the Budget Committee indicates that the ACU met these deadlines. However, the reports produced by the ACU were an analysis of financial information and not full audits of the accounts. The Government did not prepare a proper set of accounts and so the ACU was unable to undertake full internationally compliant financial audits.

Under the new Law (2015), the ACU has obtained clear legal authority to conduct financial audits and compliance audits. In accordance with the new Law, ACU is required to prepare an annual report by May 1st, one month after receiving the Government's financial statements.

iii. External Audit Follow-up

The ACU reports include conclusions, suggestions and recommendations. They also record the decisions of the Legislature in relation to the reports. These provide useful evidence of the endorsement of the ACU's recommendations. However, reports do not document which recommendations have been translated into real changes by the Executive or audited body. Moreover, in some reports the recommendations were very general in nature and related to changes to laws and/or other statutory devices. It was often unclear what public servants were practically expected to do to rectify control weaknesses and what would be the expected benefits to the government and the public. In some cases, there is evidence that the subject of the report (the public body) formally responds to the recommendations. However, there was limited evidence that the implementation of recommendations was followed-up by the ACU.

iv. SAI independence

The Law (1996) on the Accounting Chamber provided the ACU with many of the characteristics of an independent SAI. ACU operated independently from the Executive. The Chair and Members of the Board were nominated by the Chair of Parliament and the appointments were confirmed by a simple majority vote. The Chair and Members were provided with a secure tenure of seven years and the process for dismissal was clearly spelt out. The ACU had unrestricted and timely access to records and information, although the Law was silent on the extent to which this included electronic data.

However, in practice, the ACU's independence was curtailed in a number of important ways. The Law (1996) did not specify the auditing standards which were to be used and it over-emphasized the functions of control, analysis and examination, rather than audit and the issuance of audit opinions. The Law did not spell out that the ACU had the power to publish its audit findings as and when it was ready to do so. The budget of the ACU was separately identified in the State Budget. However, the ACU did not have the right to appeal budget decisions directly to the parliament.

The new Law (2015) has strengthened the independence of the ACU in a range of areas and has provided the ACU with access to all the information it requires to undertake its work effectively. The new Law sets out the main activities the ACU's external control as: financial audit, performance audit, expert opinion, analysis. The new Law requires the ACU to publish all its reports and decisions. The ACU budget is defined as a separate item in the State Budget and the ACU has an option to apply to the Budget Committee (BC) for consideration of proposals on ACU funding in the State Budget in cases of disagreement with the government.

Under the new Law, the Members of the ACU Board were reduced to nine. Members are appointed for a term of six years and can be appointed for one further term of six years. The procedure for the appointment of the Members of the ACU Board was changed. The nine positions have to be advertised. The candidates who apply for the role of Member of the ACU Board are considered by the Budget Committee. The BC then submits details of the candidates to the VR who vote on the candidates. The nine candidates who receive the most votes are then appointed as the new Members of the ACU Board. One of the nine Members of the ACU Board is appointed as the Chairperson of the ACU. The VR Chairman proposes which ACU Member should be the ACU Chairperson.

PERFORMANCE CHANGE SINCE 2011

A key change since 2011 was the expansion of the ACU's mandate to include State Budget revenues, which is reflected in improved score. The 2014 budget execution report audit already includes audit of revenues.

CURRENT DEVELOPMENT AND ONGOING REFORM EFFORTS

The new Law (2015) provides the ACU with a range of new or enhanced roles, responsibilities and powers. This includes the expansion of the ACU's mandate to cover the audit of State Budget revenues. The ACU is making changes to reflect the provisions in the new Law (2015), including approval of a new methodology for financial audit, development of a new Code of Ethics for Auditors, and establishment of a Total Quality Management System. These activities should help to deliver improved performance and the ACU should operate in along the lines of a modern Supreme Audit Institution (SAI). A key change that needs to be implemented as soon as possible is the appointment of the new Board of the ACU.

PI-31. Legislative scrutiny of audit reports

PURPOSE OF INDICATOR

The legislature has a key role in exercising scrutiny over the execution of the budget that it approved. A common way in which this is done is through a legislative committee(s) or commission(s) that examines the external audit reports and questions responsible parties about the findings of the reports. A report on the results of review of the external audit report(s) by any mandated committee should be tabled (and ideally debated) in the full chamber of the legislature in order to constitute a completed scrutiny.

Indicator PI-31	Score 2015	Justification
Timing of audit reports scrutiny	B	The BC analyses the quarterly and the annual ACU conclusions within 1 month of receipt of the reports
Hearings on audit findings	C	The BC holds hearings at which the ACU's conclusions on quarterly and annual reports of the Government on the execution of the State Budget are examined. The BC seeks clarification / explanation from government bodies, including the Ministry of Finance. Representatives of the ACU also provide clarification / explanation at the hearings of the BC. The hearings may not take place for all audited entities.
Recommendations on audit by the legislature	C	The legislature issues recommendations on actions to be implemented by the executive, but follow up is limited
Transparency of the legislative scrutiny of audit reports	B	The BC puts a schedule of its future meetings, minutes of meetings, transcripts of meetings, and the results of questions reviewed in the meetings on the website. Meetings of the BC and the sub-Committees of the BC Committee were open to members of the public and the media.
Overall	C+	

CURRENT PERFORMANCE

A key role of the Budget Committee (BC) of the Verkhovna Rada (VR) is to monitor the execution of the State Budget. A sub-Committee of the Budget Committee has been delegated responsibility for undertaking the monitoring and preparation of relevant materials to the meetings of the BC. Article 22 of the Law of Ukraine “About Accounting Chamber” (1996), requires the Accounting Chamber of Ukraine (ACU) to submit to the VR conclusions on quarterly and annual reports of the Government on the execution of the State Budget. The BC uses these reports to monitor the execution of the State Budget.

The Law “About Accounting Chamber” (1996) also requires the ACU to inform the VR about the “results of checks and audits” (Articles 26 and 29). The ACU sends reports that focus on a specific government body or area of government activity to the Committee in the VR which covers the specific government department or area of government activity. The Committee can then use the ACU report to analyse and control the government department or activity.

- i. Timeliness of examination of audit reports by the legislature (for reports received within the last three years)

The ACU provides the conclusions on quarterly and annual reports of the Government on the execution of the State Budget to the Parliament in line with the timelines set in legislation. The BC analyses the quarterly and the annual ACU conclusions within 1 month of receipt of the reports. The review team could not obtain the evidence needed to assess whether the other ACU reports were scrutinised by the relevant Committees in a timely fashion. The score for Dimension (i) relates to the ACU conclusions on quarterly and annual reports of the Government on the execution of the State Budget. This also applies to Dimensions (ii), (iii) and (iv).

- ii. Extent of hearings on key findings undertaken by the legislature

The BC holds hearings at which the ACU's conclusions on quarterly and annual reports of the Government on the execution of the State Budget are examined. The BC seeks clarification and explanation from government bodies, including the Ministry of Finance. Representatives of the ACU also provide clarification and explanations at the hearings of the BC.

- iii. Issuance of recommended actions by the legislature and follow up of implementation

Following the BC hearings at which the quarterly reports and the annual reports of the Government on the execution of the State Budget and the ACU's conclusions are examined, the BC makes recommendations. These recommendations are discussed by the VR and, if they are approved by the VR (a vote), they are sent to the government for a response. In 2015, the recommendations were not approved,

which reduced their impact. However, the recommendations were still sent by the BC to the Council of Ministers.

iv. Transparency of the legislative scrutiny function

The BC puts a range of information about its activities on the VR website including a schedule of its future meetings, minutes of meetings, transcripts of meetings, and the results of questions reviewed in the meetings. The review team were informed that meetings of the BC and the sub-Committees of the BC Committee were open to members of the public and the media i.e. they were public meetings.

PERFORMANCE CHANGE SINCE 2011

There were no material changes in performance.

4. Conclusions of the analysis of PFM systems

4.1. Integrated assessment of PFM performance

The period since the 2011 PEFA assessment has been marked by persistent macro-economic crisis, civil unrest of 2013-2014 and conflict in the East of Ukraine. In the face of substantial fiscal pressures, fiscal management was dominated by short term consolidation needs. While the government succeeded in maintaining fiscal discipline, short term crisis management has to some extent crowded out more long term institutional reforms to strengthen the way the budget is managed.

BUDGET RELIABILITY

Macroeconomic instability undermined reliability of revenue and expenditure forecasts resulting in significant revenue and expenditure deviations compared to approved budgets. While the overall expenditure outturn was off by just 10.5, 2 and 7 percent in 2012, 2013 and 2014, compositional variance of expenditures was high. The functional variance was over 11 percent in two out of three years and economic classification variance was above 10 percent in all three years reflecting the capital expenditures taking the biggest cuts during fiscal consolidation. Aggregate revenue deviated substantially from the forecast. Revenue outturn was below planned by 7 percent in 2013 and 10 percent in 2014 despite of large corporate tax advance payments and accumulated VAT refund arrears during the period. Following the approval of the IMF program in 2014, the Government managed to cut expenditures and contain fiscal deficit of general government at 4.6 percent of GDP, down from 4.8 percent in 2013. However, bank recapitalization needs, Naftogaz deficit and devaluation resulted in a sharp increase of PPG debt to GDP ratio from over 40 percent in 2013 to over 70 percent in 2014, and 81.6 percent in 2015.

TRANSPARENCY OF PUBLIC FINANCES

Budget comprehensiveness is generally good and the budget classification system covers administrative, economic and program classifications. The classification is approaching GFS 2001 standards according to Summary Methodology Statement under SDDS of IMF. The information included in the budget document covers all the basic elements of PEFA, but lacks documents on fiscal risks and contingent liabilities, a medium term budget framework and assessment of the budgetary impact of new policies. Reports on tax expenditures are prepared but not published. Social funds are reported separately from the budget with some slippages in report disclosure. At the same time a recent open budget initiative, the Open Budget data portal (<http://edata.gov.ua> beta) of the Ministry of Finance in Ukraine, represents a step forward in transparency by providing access to all public expenditure transactions online based on FMIS database (including the pension fund and social insurance payments), as well as the TSA balances in each region. Overall access to fiscal information is good and while PI-9 scores B, the Government does publish everything that is available to the legislature.

Intergovernmental transfers are mainly rule-based with use of equalization formula as well as education and healthcare subsidies. The timeliness of information available to local budget has been problematic, but mainly relates to overall budget reliability arising from external factors discussed above.

SOE oversight is weak and fragmented. Lack of a comprehensive registry of all SOEs operating in Ukraine poses difficulties in obtaining data and oversight of SOE operations. Improvements in transparency and accountability of SOEs can be achieved by requiring publication of operating objectives, including noncommercial objectives, annual independent audit and revising performance measurement framework to incorporate standard measures and methodologies for the assessment of SOE performance.

MANAGEMENT OF ASSETS AND LIABILITIES

Public investment management in Ukraine misses a number of the key elements that would otherwise classify it as a good practice country in an international context: a strategic view on public investment priorities; clarity about the definition of what private company project proposals can be considered as public investments; a consistent legal framework for PPPs; and clear criteria for selection and capacity for effective management of traditional public investments and PPPs. The recent legislative improvement included in amendments to investment and budget legislation set the basis for project appraisal and selection. However, implementation is still at the early stage.

Asset management is comprehensive. Financial assets are monitored by the Treasury and Central bank as regards to cash, receivables, and foreign reserves. Equity in corporations is monitored by the State Property Fund but this excludes unitary enterprises. The register of non-financial assets is maintained by the State Property Fund but only covers fixed assets. Data reconciliation is weak.

Management and reporting of debt is adequate. Debt recording and monitoring for central government is well developed with comprehensive monthly reporting. The issuance of debt and guarantees for central government is clearly defined in the legislation; criteria exist for borrowing and issuing guarantees, and a single entity, the MoF, signs for debt and guarantees. The Debt Management Strategy is produced.

POLICY-BASED FISCAL STRATEGY AND BUDGETING

The multi-year perspective in fiscal planning and budgeting is limited. Slow progress in this area over the recent years is partially a consequence of unstable macroeconomic environment. Medium term fiscal forecasts are prepared but forward estimates are not systematically linked to the annual budget allocations. Sector strategies in Ukraine should be prepared in the form of ministerial action plans as required under the Budget Code. However, these were not always prepared and do not contain detailed expenditure estimates.

PREDICTABILITY AND CONTROL IN BUDGET EXECUTION

A highly centralised internal control system is still in place from Soviet times. This system focuses on inputs through centralized controls on detailed line items and transactions in the budget. The system is predominantly based on Treasury controls over commitments and expenditures as well as internal financial inspections. Procurement procedures envisage competitive procurement as a default. However, the low procurement execution rate – only 63 percent of planned procurements resulted in contract signing in 2014 – reveal that procedures are too cumbersome. Effective budget execution has been further hampered by the tight fiscal situation leading to in-year budget cuts. Despite the ongoing crisis, expenditure arrears increased only slightly to 0.6 percent of central government budget and VAT refund arrears declined in course of 2014, before picking up again in 2015. Revenue administration remains target driven with limited utilization of risk approach.

ACCOUNTING AND REPORTING

Basic systems for accounting, recording and reporting are in place. There are regular reconciliations between transactions data in the Treasury system and accounting data provided by ministries and lower tier governments. There are accounting records for every service delivery unit (schools, hospitals, cultural centers) which provide reliable information on all types of resources received on a monthly, quarterly and annual basis. Monthly revenue and expenditure execution data is prepared on a timely basis and appears to be accurate. However, expenditures are only captured at the payment stage.

EXTERNAL SCRUTINY AND AUDIT

External audit functions still faces some challenges in providing an effective oversight role. The 2014 Law on Accounting Chamber strengthened SAI independence and broadened its mandate to include central government revenues. At the same time local budgets are still excluded from the ACU remit. There is a limited follow up on ACU recommendations partially resulting from lack of scrutiny of reports by legislature. ACU recommendations were not approved by the legislature in 2015.

4.2. Effectiveness of the internal control framework

The effectiveness of an internal control framework plays a vital role in addressing risks and providing reasonable assurance that the spending entities meet the four objectives of internal control: executing orderly, ethical, economical, efficient and effective operations; fulfilling accountability obligations; complying with applicable laws and regulations, and safeguarding resources against loss, misuse and damage.

The Methodological Recommendations for Internal Control (Order Minister of Finance of 14.09.2012, No. 995, based on article 111 Budget Code of Ukraine) require spending entities to use of the COSO-Integrated Internal Control Framework for setting-up and strengthening their internal control. The Methodological recommendations are based on and in line with COSO and INTOSAI standards.

The PFM strategy of 2013 addresses in a general way the shortcomings of internal control of the public spending entities in terms of the four internal control objectives, following the five components of Internal Control: control environment, risks assessment, control activities, communication and information; and monitoring.

PEFA assessors did not find separate evaluations of the effectiveness of internal control, issued by internal auditors, State Treasury, State Financial Inspection (performing state audits) or the Court of Accounts (SAI). The COSO Integrated Control Framework is developed for use at entity level. Internal Control conclusions regarding the objectives and components of COSO for the whole of government or for a government broad area like PFM, can be derived from: generalizations of findings and conclusions at entity level, and from the findings of the assessments of PI's and their dimension.

In Ukraine, a highly centralised internal control system is still in place since Soviet times. The main characteristic is the focus on inputs involving centralized controls on detailed line items and transactions in the budget. Nothing has changed since 2011, even with internal audit departments coming gradually in force.

Any commitment or payment of a budget spending entity needs the prior approval of The State Treasury. The STU checks the entities' availability of budget under the allocated monthly ceilings. The requests for commitments and payments have to be submitted with documentation demonstrating compliance with plans, rules and procedures. The State Financial Inspection checks compliance and lawfulness of financial transactions ex post. These checks are only partially risk-based. SFI data provided in the report 2014 show the total amount of illegal or inappropriate expenditure identified in 2014 is UAH 7.58 bln, with an impact on the budget of UAH of 3.16²⁴. It appears that many of the problems arose at SOEs rather than at budget spending units. The total amount of infringements of rules not involving losses of public funds was 4.42 bln UAH; it is not stated how much of this involved the budget.

In cases of irregularities and non-compliance with rules, plans and procedures the SFI has correctional powers. The financial and compliance checks of the SFI do not analyse the systemic weaknesses of the internal control systems and procedures that can be at the base of breaches of rules and procedures. A small part of the time and capacity of the SFI is devoted to so-called state audits, which neither in depth examine the systemic weaknesses of internal control systems and procedures.

²⁴ <http://www.dkrs.gov.ua/kru/uk/publish/article/106505>

The Heads of the entities, the accounting departments and the law departments play a major role in the internal control of systems, procedures and transactions inside the public entities. Without the approval of the Head, the entity does not enter into commitments and payments. Inside the public entities the internal control is also centralized and vertical. The accounting department and legal department have to give the Head of the entity assurance of the legality of commitments and payments. This separation of responsibilities between Head, accounting chief and law department can threaten the four-eyes principle of segregation of duties and lead to overriding of controls, if the responsible operational or supporting departments are not adequately involved in the internal control procedures.

In the line ministries and other central government institutions internal audit departments are in principle since 2012 responsible for assessing the strengths of the internal control systems and procedures. The internal audit departments have replaced the former own inspection units of the line ministries and institutions. In some cases they are titled as internal control and internal audit departments, which already indicates the hybrid character of these departments. In practice almost all internal audit departments, no matter what they are called, are occupied with doing almost only financial and compliance checks. A small part of the time and capacity of the internal audit units is allocated for so called audits of effectiveness. These audits can address the strengths and weaknesses of the internal control systems. In practice they address often financial and operational compliance. In PI-25, the Internal Audit function will be considered in depth.

Based on the assessment of the indicators PI-24 (internal control for non-salary expenditures) and PI-25 (internal audit) and taking into account PI-30 (SAI/external audit) one can conclude that there is no integrated internal control in the sense of COSO in place in the public spending entities of Ukraine. The post-Soviet Union system of centralized (external) control predominates, with its focus on compliance of transactions and activities with laws, regulations and procedures. Without an change in the external environment of the public spending entities, there is little prospect that the centralized and internally vertical control by the managers and their accountants and juridical departments will change. In such environments the potential for the internal audit departments to become professional internal control assessors and advisors of the executive managers, instead of being an internal inspection service, is very limited. Reform requires change across multiple institutions beyond the Ministry of Finance, including the State Financial Inspection and the SAI, as well as changes in Public Administration, Civil Service and Prosecutor-General are needed. These reforms cannot be coordinated by the Ministry of Finance alone, let alone the Central Harmonization Unit for only PIFC. Integration asks for Cabinet wide coordination and stimulation.

4.3. PFM strengths and weaknesses

An effective PFM system is essential for the implementation of public policies and the achievement of strategic national objectives by supporting aggregate fiscal discipline, strategic allocation of resources and efficient service delivery. An open and orderly system is one of the enabling elements for those three levels of budgetary outcomes:

- Effective controls of the budget total and management of fiscal risks contribute to maintaining aggregate fiscal discipline;
- Planning and executing the budget in line with government priorities contributes to implementation of government's objectives;
- Managing the use of budget resources contributes to efficient service delivery and value for money

A brief summary of the impact of the identified weaknesses of Ukraine PFM system at those three levels of budgetary outcomes is presented below.

Budget outturns in 2012-2014 show Ukraine's ability to contain fiscal deficit with support of the IMF program, the prudent fiscal position was undermined by fiscal risks. Despite revenue shortfalls, the strong treasury function and control structure effectively contained expenditures and expenditure arrears have been minimal. That said considerable fiscal risks materialized through large Naftogaz deficit, need to recapitalize failed banks and Deposit Insurance fund weakening overall fiscal position. Weak governance of SOE and fragmented asset management further exacerbate fiscal risks.

The PFM system in Ukraine hampers efficient service delivery. The budget process does not have a strong policy or strategic focus. There is no medium-term fiscal strategy to guide the budget process. The Government has managed to contain the fiscal deficit during recent crises. But this has come at the cost of budget predictability as expenditures have been cut through extensive reallocations during budget execution. Performance information is included in program budgets but tends to focus on outputs rather than outcomes and results. Weak links between sector plans and budget allocations and weaknesses in public investment management both at selection and implementation stages are not conducive to efficient targeting of resources to strategic policy priorities.

Ukraine's PFM system is control oriented and rigid. The control environment is burdensome and obliges those responsible for the delivery of public services to focus their efforts on compliance rather than improving performance and the effectiveness of service delivery. Cash rationing practices have helped curtail the deficit during the fiscal crisis, but will add further rigidity budget system once the fiscal situation normalizes. Ongoing efforts to improve internal audit and external audit and focus on performance auditing are only likely to have an impact on the performance orientation of the PFM system over the longer-term.

4.4. Performance changes since a previous assessment

Overall, PFM improvements during 2012-2014 focused on strengthening the legislative framework. Notable progress has been made with the adoption of amendments to the Tax Code changes related to data disclosure and transfer pricing controls, amendments to the Budget Code established a multi-year budgeting framework, revamped intergovernmental transfers, and changes to procurement law allowed for implementation of e-procurement and reduced number of exemptions. There was also notable progress on budget transparency. However, in several important areas, such as medium term budgeting and internal control, implementation of the new legal provisions has been slow.

5. Government PFM reform process

5.1. Approach to PFM reforms

The PFM reform accelerated with approval of the National PFM Strategy and Action Plan. On 22/10/2013, the Instruction of the Cabinet of Ministers #774-p “On the PFM Strategy”, entering into force the PFM Strategy and Action Plan, was published on the web-site of the Cabinet of Ministers. The draft PFM Strategy and Action Plan were prepared in a transparent way with involvement of all donors cooperating with the Ministry of Finance led by the EU, including GIZ, SIDA and World Bank, international experts from OECD/ SIGMA. Discussions were conducted in the framework of sub-working groups organized by the Ministry of Finance and Inter-Ministerial Working Group that included all government bodies involved in implementation of the PFM Strategy and Action Plan.

The PFM strategy addresses all key areas, namely: the tax system; medium-term budget forecasting and planning; public finance liquidity and public debt management; quasi-fiscal operations; accounting system in the public sector; public procurement system; public investments; public internal financial control; independent external financial control; anti-corruption efforts; public access to budget-related information.

The Ministry of Finance coordinates preparation of quarterly monitoring reports on implementation of PFM Action Plan and publishes them on its web-site. This ensures transparency of reporting and provides information for civil society. However, the quality of reporting is uneven among components and reflects the lack of a sound monitoring system.

Since 2013 the EU and the Ministry of Finance have been working on improvement of the Action Plan, conducting regular working sessions with participation of OECD/SIGMA experts. However, the Action Plan is still insufficiently focused on implementation (as opposed to legislation) and is only to a limited extent suitable for monitoring PFM reform in future years. The PFM Strategy refers systematically to legislative initiatives to be adopted. Both Strategy and Action Plan rarely refer to the implementation as such of reform process, while many efforts are needed in this regard: mobilization of human resources, purchase of equipment and information systems, regulatory and administrative provisions, and institutional coordination mechanisms.

Progress in the implementation of the PFM strategy should be strengthened by a simultaneous development of the Public Administration Reform and the Reform of the Judiciary.

5.2. Recent and on-going reform actions and institutional considerations

The Ministry of Finance coordinates PFM reform and is responsible for reporting on implementation of the PFM Strategy and Action Plan. The role of other key institutional actors was limited to their respective arrears such as Accounting Chamber taking a lead on external audit reform, and Ministry of Economic Development leading efforts in public investment management and procurement. There is insufficient coordination of different reform efforts, including between the Ministry of Finance and the Ministry of Justice, the Eurointegration office, and the National Agency for Civil Service in the area of with legal approximation. There is a very weak interaction between the Accounting Chamber, the legislature and executive.

During 2014-2015 progress was recorded regarding the components on public procurement system, independent external financial control; anti-corruption efforts; public access to budget-related information; independent external financial control. However, some components made no significant progress such as budget planning, public investment management system, and internal audit.

The new progressive law on the Accounting Chamber of Ukraine entered into force on 9 August, 2015. This focuses attention on important elements of the external audit function including: strengthening interaction between the Parliament, the Government and the Accounting Chamber of Ukraine; enhancing transparency and ensuring public access to ACU reports; improvement of the quality of audit and control according to the INTOSAI international standards. Following to the new law, the Accounting Chamber publishes audit reports and other activities regarding external audit as well as its working plans and decisions of the ACU on its website. This has not been done before. However, the selection of the new head and members of the ACU is still ongoing, and this causes delays in implementation of the reform.

Public access to fiscal information was improved by obliging the Ministry of Finance to publish the budget proposal not only in press, but also on its web site as well as publish enacted budget and its summary within a month after approval of the state budget law. Moreover, the Ministry of Finance launched a web-portal with data on budget expenditures which allows monitoring and controlling the expenses of both state and local budgets, communal enterprises.

The Law of Ukraine No 1197-VII ‘On carrying out public procurement’, which was adopted on 10 April 2014, fosters the principles of transparency and non-discrimination of the procurement process and encourages competition. Its provisions bring Ukraine’s public procurement legislation closer to the EU standards. Notable improvements in the legislation include a significant reduction of the procedures that are exempted from competitive bidding and the introduction of a new definition of procuring entities, closer to the EU definition. Furthermore, in order to strengthen transparency, publication requirements regarding public procurements have been substantially widened and improved. Despite the progress in establishing a more transparent and competitive public procurement system, there is still a risk of introduction of exemptions, as evidenced by the legislative proposals submitted to the Parliament. The new Public Procurement Law was also approved and comes into force in 2016. Procurement Law provides for only three; two-step bids and request of price offers and preliminary qualification of participants will be eliminated, leaving a system of:

- open bids
- a competitive dialogue
- a negotiable procurement procedure.

All public procurements through the electronic system will be mandatory. Public procurement in the oil and gas, post services, and telecoms sectors will be subject to regulation under separate laws which are to be adopted by the parliament.

The changes to the Tax Code approved in December 2015 introduced key changes to the personal taxation including flat PIT rate of 18 percent as well as reduction in social security contributions from differentiated rates of 36.76 to 49.7 percent to 22 percent. The changes also include multiple improvements into administration of CIT and VAT.

In 2015, the government decided to focus on three PFM priorities: the reform of the tax system (policy and administration), the budget decentralization process, and more recently the Medium Term Budget Planning and limitation of the number of amendments to the budget. At the beginning of 2015, the Ukrainian authorities announced a program of tax reform with the following goals: decreasing the number of taxes, simplification of taxes, decreasing the tax burden on salaries, and tax decentralization. These measures aim at simplifying tax administration in the country and motivate Ukrainian businesses to become more transparent in the tax area. By the time of writing, the Ministry of Finance had reduced the number of taxes from 22 to 11 (removed – 3, transformed – 13 into 5) thereby reducing the number of tax reporting forms. Together with the new State Fiscal Service the Ministry has developed and approved a number of legal acts aiming at reduction of administrative regulation of the economy, introduction of unified and transparent rules for all commercial entities and simplification of financial reporting.

Annex 1. Performance indicator summary

The Performance indicator summary comments on changes in performance in the area, however does not comment on detailed dimension by dimension changes due to new 2016 methodology. It does not attempt to compare scores with the 2011 assessment, and only provides comments at indicator level giving 2011 scores with indicator numbers in case changed for reference.

Current assessment			Previous assessment	
Indicator/dimension	Score	Justification	Score	Explanation of change
Pillar I. PFM-OUT-TURNS: Credibility of fiscal strategy and budget				
PI-1. Aggregate expenditure outturn compared to original approved budget / (i) Aggregate expenditure outturn compared to original approved budget	B	Expenditure outturns deviation was below 10 percent in 2 out of 3 years despite difficult external environment and conflict in the East.	B	During both periods under consideration (2008-2010 and 2012-2014), Ukraine faced considerable fiscal challenges. During 2009, Ukraine had an unprecedented contraction of the economy of about 15 percent as a result of financial and economic crisis of 2008. Conflict in the East and loss of Crimea in 2014 created another large shock for the economy and fiscal situation.
PI-2. Composition of expenditure outturn compared to original approved budget	C+		D+	While there is a slight improvement in the score however the issue with large variations in budget outturns continuous to persist. The high degree of aggregate central government expenditure credibility does mask some larger variation in the composition of expenditure between the budget and actual spending both by function and by economic classification. That said considerable external shocks explain most of it, as capital expenditures are frequently cut first during fiscal crisis, and spike in defense related expenditures is rooted in the conflict in the east of Ukraine.
(i) Extent of variance in expenditure composition during the last three years	C	Variance was below 15 percent in all three years		
(ii) Extent of variance in expenditure composition by economic classification during the last three years	C	Variance was below 15 percent in all three years		
(iii) Average amount of expenditure charged to a contingency vote over the last three years	A	The average amount of expenditure charged to contingency fund did not exceed 1 percent of original budget		
PI-3. Aggregate revenue outturn compared to original approved budget	C		B	The indicator score deteriorated since 2011 due to overly optimistic revenue forecast in all the years, as well as economic decline caused by both external and internal factors discussed above.
(i) Aggregate revenue outturn compared to original approved budget	C	The deviation in 2012 was 4 percent, while in 2013 and 2014 it was 7 and 10 percent below forecast respectively		
(ii) Extent of variance in revenue composition during the last three years	C	Over the past three years (2012-2014), revenue composition variance was under 15 percent.		
Pillar II-III. KEY CROSS-CUTTING ISSUES:				
II. Comprehensiveness and Transparency				
PI-4. Budget classification / (i) Classification of budget	A		A	No major changes were observed.
PI-5. Comprehensiveness of information included in budget documentation / (i) Comprehensiveness of information included in budget documentation	B	All four basic and four additional elements are available for the public (deficit financing, macro-economic assumptions, debt stock and financial assets).	A	There was no major change in performance. The PEFA Upgrade includes additional elements reflecting evolved good practice, which resulted in score deteriorating to B.

Current assessment			Previous assessment	
Indicator/dimension	Score	Justification	Score	Explanation of change
PI-6. Central government operations outside financial reports	D+		D	The indicator score has improved since 2011 mainly due to improved reporting of EBOs. The methodology has changed and overall score is not fully comparable
(i) Expenditure outside financial reports	D	The reporting of EBOs is only done to the Executive and not to the Parliament. There are also slippages in disclosure of reports. The share of EBOs in central government		
(ii) Revenue outside financial reports	D	EBO revenues are above 50 percent of budgetary central government		
(iii) Financial reports of extra-budgetary units	A	Data on all major EBOs is included into ex-post report and detailed at least at the level of GFS economic classification or equivalent		
PI-7. Transparency of inter-governmental fiscal relations	C+		A	There have been slight deterioration mainly due to tariff utilities and also slippages in budget calendar in 2013 and 2014.
(i) Transparent and rules based System for allocating transfers	B	Less than 90.0 percent of the total amount of transfers was allocated on the basis of transparent rules in 2014		
(ii) Timeliness of information on transfers	C	Substantial delays in 2013 and 2014 did not allow the local government to timely incorporate information into their budget planning processes.		
(iii) Extent to which consolidated fiscal data is collected and reported for general government	-	Consolidated fiscal data is generated by the Treasury		
PI-8. Performance information for service delivery	C+		-	This is a new indicator. There have been no substantial changes in access to fiscal information during 2012-2014.
(i) Performance plans for service delivery	B	All key spending units include information about key performance indicators and targets to their budget proposals. Most of indicators are output indicators.		
(ii) Performance achieved for service delivery	C	In 2014, 58.6 percent of key spending units presented and published information on key performance indicators at the level of programs.		
(iii) Resources received by service delivery units	A	The strong centralized Treasury system monitors resources received by delivery units, but monitoring of the use of resources is lacking.		
(iv) Performance evaluation for service delivery	D	Though efficiency assessments of budgetary funds are outlined in the legal framework, in practice they are not performed.		
PI-9. Public access to fiscal information / (i) Public access to fiscal information	B	The government discloses all basic elements and two additional elements	B	There have been no substantial changes in access to fiscal information during 2012-2014.

Current assessment			Previous assessment	
Indicator/dimension	Score	Justification	Score	Explanation of change
III. Asset and Liability Management				
PI-10. Fiscal risk reporting	C+		D+	This is a substantially revised indicator, however the performance of the fiscal risk reporting did not substantially change since 2011.
(i) Monitoring of public corporations	D	SOE oversight is weak and fragmented		
(ii) Monitoring of SNGs	A	Sub-national governments operate through the Treasury and cannot expend more than their budget. Local debt is authorized and monitored by the MoF.		
(iii) Contingent liabilities and other fiscal risks	D	Contingent liabilities are not monitored except for sovereign guarantees to SOEs and local governments.		
PI-11. Public investment management	D		-	This indicator has not been evaluated in 2010. Ukraine's public investment management system was evaluated by the World Bank in 2012 Public Investment Management Assessment (PIMA) and scored C, because the evaluation covered a broad range of indicators and evaluation parameters. If the evaluation results are analyzed on the basis of parameters correlated with the evaluation at hand, they will score D on the average.
(i) Economic analysis of investment proposals	D	No independent economic appraisal undertaken		
(ii) Investment project selection	D	No prioritization undertaken		
(iii) Investment project costing	D	Maintenance costs are not considered at the project preparation stage		
(iv) Investment project monitoring	D	No systematic monitoring is undertaken		
PI-12. Public asset management	C+		-	This is a new indicator for 2015.
(i) Financial asset monitoring	C	Up to date and substantially complete financial asset registers exist, although with some omissions. The performance of financial assets is monitored and reported annually.		
(ii) Non-financial asset monitoring	C	Fixed asset registers exist.		
(iii) Transparency of assets disposal	B	The procedures for the competitive and transparent sale, transfer or disposal of non-financial assets and asset usage rights are established in the legislation and are respected in the majority of cases.		

Current assessment			Previous assessment	
Indicator/dimension	Score	Justification	Score	Explanation of change
PI-13. Debt management	B+		-	This is a new indicator for 2015.
(i) Reporting of debt and guarantees	A	Domestic and foreign debt records are complete, accurate, updated and reconciled on a monthly basis with data considered to be of high integrity. Comprehensive management and statistical reports (covering debt service, stock and operations) are produced at least quarterly.		
(ii) Approval of debt and guarantees	A	As per the Budget Code of Ukraine, central government's contracting of loans and issuance of guarantees are made within limits for total debt and total guarantees, and always approved by a single responsible government entity		
(iii) Debt management strategy	C	The medium term strategy is produced, but does not set target levels for indicators of interest-rate, refinancing and exchange rate risk based. There is no reporting on performance against debt management objectives to legislature.		
(iv) Stock and monitoring of expenditure arrears	B	Data on the stock of arrears is generated annually, but may not be complete for a few identified expenditure categories or specified budget institutions. This data demonstrates that the stock of arrears is no more than 10 percent of total expenditure.		
Pillars IV-VII. BUDGET CYCLE				
IV. Policy-Based Planning and Budgeting				
PI-14. Macroeconomic and fiscal forecasting	B+		-	This is a new indicator for 2015.
(i) Macroeconomic forecasts	B	Indicative major macro-economic indicators are used to project the two budget periods following the planned one, but exclude relevant economic aggregates, macroeconomic environmental risks to the fiscal variables (including revenue, expenditure and debt), and optimistic and pessimistic macroeconomic scenarios.		
(ii) Fiscal forecasts	B	The government prepares forecasts of the main fiscal indicators, including revenues (by type), aggregate expenditure, and the budget balance, for the budget year and two following fiscal years. These forecasts, together with the underlying assumptions, are included in budget documentation submitted to the legislature.		
(iii) Macroeconomic sensitivity analysis	A	The government prepares a range of fiscal forecast scenarios based on alternative macroeconomic assumptions, and these scenarios are published, together with its central forecast.		

Current assessment			Previous assessment		
Indicator/dimension	Score	Justification	Score	Explanation of change	
PI-15. Fiscal strategy	D+		-	This is a new indicator for 2015.	
(i) Fiscal impacts of policy proposals	C	The Ministry of Finance undertakes assessment of impact of draft laws on budget, however impact on the budget is only assessed for one budget year.			
(ii) Fiscal strategy adoption	D	For the reporting period, though a process was legislated in 2010, it has been inconsistently applied and not formalized.			
(iii) Reporting on fiscal outcomes	NA				
PI-16. Medium-term perspective in expenditure budgeting	D		PI-12 on multi-year perspective was C+	New Budget Code of 2010 introduced medium-term forecasting of the State budget for the two years following the upcoming budget year, however the medium term budget framework is not yet implemented, so no material change in performance	
(i) Medium-term expenditure estimates	D	The forecast for budget programs only included expenditures under budget programs which are implemented out of credits (loans) raised by the government from international financial institutions. The structure did not fully correspond to annual budget structure. The State Budget Forecast was developed only once, was not detailed enough to provide key spending units with information required for preparation of their draft budgets and action plans and was not realistic and therefore was not used in drafting the state budget for 2013.			
(ii) Medium-term expenditure ceilings	D	The Government does not approve expenditure ceilings for budget units before budget circular is issued.			
(iii) Alignment of strategic plans and medium-term budgets	D	Limited application of informal sector strategies or sector plans were used only to inform annual budgeting process.			
(iv) Consistency of budgets with previous year estimates	D	Links between the medium-term framework's second year estimates and setting of the annual budget for following fiscal year is not clear, differences are not explained.			
PI-17. Orderliness in Budget Process	C+		PI-11: B+	Amendments to the Budget Code (2010) have improved the budget management process through new procedural rules and adjustments to the budget calendar, allowing more time for budget preparation by line ministries and other Central Public Authorities (CPAs). Outside of these enhancements, no significant changes were made to the annual budget process during the period under review. There were instances of formal submission and further withdrawal of the executive budget proposal, which impacted PI-18 score.	
(i) Budget calendar	B	A clear annual budget calendar exists, and is largely adhered to, though minor delays have been experienced, notably in 2014. The calendar allows budgetary units reasonable time (at least four weeks from receipt of the budget circular) so that most of them are able to meaningfully complete their detailed estimates on time.			
(ii) Guidance on budget preparation	C	A single, comprehensive, and clear budget circular, covering all budget expenditure for the full fiscal year, is issued to budgetary units, which reflects ceilings approved by Cabinet (or equivalent). This approval takes place after the circular distribution to budgetary units, but before budgetary units have completed their submission.			
(iii) Budget submission to the legislature	A	The executive has consistently submitted the annual Budget Proposal to The Verkhovna Rada in accordance with the budget calendar			

Current assessment			Previous assessment	
Indicator/dimension	Score	Justification	Score	Explanation of change
PI-18. Legislative scrutiny of budget	D+		PI-27: C+	There are no major changes in performance expect for considerable delays in recent year due to delayed submission of the executive proposal 2014
(i) Scope of budget scrutiny.	B	Rada is fairly comprehensive in its scrutiny of the budget law, though its input is only after it has been proposed, not in its formulation.		
(ii) Legislative procedures for budget scrutiny	D	The timeliness of review and approval of the budgetary process is generally reasonable, though there were delays in 2014 as a result of disagreements to certain macro-economic projections		
(iii) Timing of budget approval.	B	Passed within the calendar year, though some questions as to adequate time for thorough review before passage.		
(iv) Rules for budget adjustments by the executive.	B	The Budget Code allows for in-year amendments in certain situations. This occurred in 2014.		
V. Predictability and Control in Budget Execution				
PI-19. Revenue administration compliance	B		PI-13: C+; PI-14: C	There are no major changes in performance. Target driven approach to revenue collection continues to prevail. Most improvements in scores could be attributed to changes in the methodology.
(i) Rights and obligations for revenue measures	A	There is sufficient information provided on all procedures, obligations and rights		
(ii) Revenue risk management	C	There is no comprehensive risk management system utilized by SFS, however some elements of risk management such as risk based selection of tax audits and customs inspections are in place.		
(iii) Revenue audit and investigation	C	Ukraine utilizes a target driven approach to revenue collection, however audit and investigation activities are performed, and plans exist and are followed.		
(iv) Revenue arrears monitoring	B	Stock of revenue arrears at the end of the last completed fiscal year is below 10 percent of the total revenue collection of the year and the revenue arrears older than 12 months are less than 50 percent of the total revenue arrears		
PI-20. Accounting for revenues	B+		B+	Slight improvement in reconciliation practices.
(i) Information on revenue collection	A	The stock of tax arrears at the end of 2014 stood at 4 percent of tax collections.		
(ii) Transfer of revenue collections	A	All tax and customs payments are paid to the account of the respective agency in the State Treasury and thus transfer is immediate		
(iii) Revenue accounts reconciliation	A	The SFS reconciles revenue data with the Treasury. Reconciliation happens on the 4th day of the month following the reporting one.		

Current assessment			Previous assessment	
Indicator/dimension	Score	Justification	Score	Explanation of change
PI-21. Predictability of in-year resource allocation	B+		C+	No changes in performance are observed.
(i) Consolidation of cash balances	A	Treasury consolidates cash balances daily		
(ii) Cash forecasting and monitoring	A	The Treasury forecasts the annual cash flow broken down by month and updates its annual forecast on a monthly basis.		
(iii) Information on commitment ceilings	A	The budgetary units can commit funds within their annual budget allocations and make payments within monthly limits.		
(iv) Significance of in-year budget adjustments	C	Significant in-year budget adjustments are frequent, but undertaken with some transparency.		
PI-22. Expenditure arrears	B		B+	No changes in performance are observed. The generation of considerable VAT refund arrears in 2013-2015 explains deterioration of the score.
Stock of expenditure arrears	B	This data demonstrates that the stock of arrears is no more than 10 percent of total expenditure.		
Monitoring of expenditure arrears	B	Data on the stock of arrears is generated annually, but may not be complete for a few identified expenditure categories or specified budget institutions.		
PI-23. Payroll controls	D+		D+	No changes in performance are observed.
(i) Integration of payroll and personnel records	D	With personnel, payroll and payment information in many separate systems, some automated and some manual, the level of integration is low and reconciliation is difficult.		
(ii) Management of payroll changes	C	Previous analysis indicated that it takes up to three months to update payroll to reflect changes in personnel information to update payroll, with the result that there are frequent retrospective adjustments to the payroll. However, the decentralized nature of payroll management means there could be considerable variations in performance across ministries and it was not possible to assess performance across the whole of government in this aspect		
(iii) Internal control of payroll	A	Internal rules and procedures of government entities, which govern changes to personnel and payroll information are detailed and clear and establish a clear audit trail.		
(iv) Payroll audit	A	Payroll is regularly audited by the SFI, as part of routine financial audits. These are conducted on average every 18 months – as part of the comprehensive audits.		

Current assessment			Previous assessment	
Indicator/dimension	Score	Justification	Score	Explanation of change
PI-24. Procurement	A		PI-19: C+	The indicator was substantially revised is not comparable, however there are positive development in the use of competitive procedures since 2011. The share of non-competitive selection in the value of procurement has decreased threefold during the period. This could be partially attributed to a considerable reduction in the number of exemptions from public procurement introduced to the legislation in 2014. Removal from methodology requirement to civil society into the Appeal Body resulted in overall score improvement.
(i) Procurement monitoring	A	Databases (or records) are maintained for contracts representing at least 90 percent of value of procurement of goods, services and works, including both data elements, but information on contract costs is only available on contract by contract basis.		
(ii) Procurement methods	A	Single source contracting represents 11.6 percent of the total value of all public contracts concluded in 2014.		
(iii) Public access to procurement information.	A	Information is accessible and exceeds the criteria requirements		
(iv) Procurement complaint management	A	The complaints resolution mechanism satisfies all criteria of the dimension.		
PI-25. Internal controls on non-salary expenditure	B		PI-23: C+	Although the assessors have found no evidence that the effectiveness of the internal controls overall for non-salary expenditures has changed since 2010, based on the revised dimensions the overall assessment score changed from C+ to B.
(i) Segregation of duties	C	Narrow segregation of duties with possibilities over override of controls		
(ii) Effectiveness of expenditure commitment controls	A	The Treasury system, applied across government at all levels, includes a module whereby commitments should be registered before orders are placed or contracts concluded, and will only be accepted if they are within the budgetary provision of the spending unit. Under this system commitments cannot extend beyond the current budget year, and if not already provided for would require virement authorization or new appropriations		
(iii) Compliance with payment controls	B	Payment irregularities are not a major issue because of connection between records of commitments and payments.		
PI-26. Effectiveness of Internal Audit	D+		D+	In 2010 the Internal Audit function did not exist. Therefore, the work of the State Financial Inspection ("performance audits") were reviewed and assessed instead. The 2014 assessment however, is purely focused on the Internal Audit function. Therefore, the assessors underline that the evaluation demonstrates the current level of internal audit development in Ukraine and cannot be really compared with the 2010 assessment.
(i) Coverage of the internal audit	D	The Internal Audit function is implemented in 100 percent of central executive authorities. There is no general information available on total planned expenditure/ revenue collection covered by annual audit activities. Most audit work is focused on checking financial transactions and compliance of activities.		
(ii) Nature of audits and standards applied	C	The Internal audit function still has no systematic or diagnostic nature, assessing the effectiveness of internal control and management processes in the public organization. The practical introduction of IAU's is described by the Ukrainian Internal Audit Standards which are based on IIA Standards. In practice internal auditors face a lack of support and are confronted by misinterpretation of their function by their top managers.		
(iii) Internal audit activity and reporting	B	In 2014 - 76 percent of audit plans have been implemented. Internal Auditors submit their reports only to the Minister or Head of the public entity. IA reports are not transmitted to the State Financial Inspection or SAI, but might be transferred upon request.		
(iv) Response to internal audits	B	According to the CHU report - 87 percent of the recommendations have been reported as being implemented by management.		

Current assessment			Previous assessment	
Indicator/dimension	Score	Justification	Score	Explanation of change
VI. Accounting, Recording and Reporting				
PI-27. Financial data integrity	A		A	No major changes were introduced and the system continues to function efficiently.
(i) Bank accounts reconciliation	A	Accounts reconciliation happens daily		
(ii) Suspense accounts	NA	There are no suspense accounts in use in Ukraine		
(iii) Advance accounts	A	The reconciliation of advance accounts takes place monthly.		
(iv) Financial data integrity processes	B	Access and changes to records is restricted and recorded, and results in an audit trail, but there is no operational body in charge of verifying financial data integrity		
PI-28. In-year Budget Reports	A		B+	No major changes.
(i) Coverage and comparability of reports	A	Coverage and classification of data allows direct comparison to the original budget. Information includes all items of budget estimates. Expenditures made from transfers to de-concentrated units within central government are included in the reports.		
(ii) Timing of in-year budget reports	A	The STU prepares monthly and quarterly reports of central government (revenues, expenditures, debt, liabilities and external loans) within 15 days of the end of the month and 35 days of the end of the quarter. The local government data is added and consolidated reports following the same breakdown are prepared within 25 days of the end of the month		
(iii) Accuracy of in-year budget reports	B	There is no major concerns over the quality of information. However expenditures are only captured at the payments stage.		
PI-29. Annual financial reports	C+		C	No major changes.
(i) Completeness of the financial reports	B	Coverage and classification of data allows direct comparison to the original budget. Information includes all items of budget estimates. Expenditures made from transfers to de-concentrated units within central government are included in the reports.		
(ii) Submission of reports for external audit	A	The government prepares its annual financial statements within three months after the end of the fiscal year		
(iii) Accounting standards	C	There is no major concerns over the quality of information. However expenditures are only captured at the payments stage. There is limited disclosure of accounting policies/ standards in the annual reports.		

Current assessment			Previous assessment	
Indicator/dimension	Score	Justification	Score	Explanation of change
VII. External Scrutiny and Audit				
PI-30. External audit	C		D+	A key change since 2011 was the expansion of the ACU's mandate to include State Budget revenues.
(i) Audit coverage and standards	C	The ACU, over a two year period, undertakes an examination of the financial records (covering revenue and expenditure) of all bodies funded by the State Budget, which includes State Budget funds provided to local bodies. This is progress compared with the last PEFA assessment when the ACU did not have the authority to audit revenue. Under the Law (1996) on the Accounting Chamber the ACU did not undertake its audits in full compliance with the ISSAIs and Ukraine did not have its own national auditing standards. Following the new Law (2015) the ACU approved a methodology for financial audit in October 2015.		
(ii) Submission of audit reports to the legislature	B	Under the Law (1996) on the Accounting Chamber the ACU was required to: (i) produce the conclusion on the execution of the Annual State Budget within two weeks of the submission by the Ministry of Finance of the national accounts; and (ii) by December of that year to produce an annual report about the ACU activities i.e. within 9 months of receipt of the financial reports of government. Over the last three financial years, the evidence shown to the assessment team indicates that the ACU met these deadlines. Under the new Law (2015) there are new requirements relating to the ACU providing reports to the VR.		
(iii) External audit follow up	C	The ACU includes conclusions, suggestions and recommendations in its outputs / reports. However, in some outputs / reports the recommendations were very general in nature. There was evidence that the subject of the report (the public body) formally responds to the recommendations. However, there was limited evidence that the implementation of recommendations was followed-up by the ACU.		
(iv) SAI independence	B	The new Law (2015) has strengthened the independence of the ACU in a range of areas. For example, it requires the ACU to publish all its reports and decisions, and the ACU has an option to apply to the Budget Committee for consideration of proposals on ACU funding in the State Budget in cases of disagreement with the Government.		

Current assessment			Previous assessment	
Indicator/dimension	Score	Justification	Score	Explanation of change
PI-31. Legislative scrutiny of audit reports	C+		D+	There was an improvement in transparency and regularity of hearings on external audit reports.
(i) Timing of audit reports scrutiny	B	The BC analyses the quarterly and the annual ACU conclusions within 1 month of receipt of the reports		
(ii) Hearings on audit findings	C	The BC holds hearings at which the ACU's conclusions on quarterly and annual reports of the Government on the execution of the State Budget are examined. The BC seeks clarification / explanation from government bodies, including the Ministry of Finance. Representatives of the ACU also provide clarification / explanation at the hearings of the BC. The hearings may not take place for all audited entities.		
(iii) Recommendations on audit by the legislature	C	The legislature issues recommendations on actions to be implemented by the executive, but follow up is limited		
(iv) Transparency of the legislative scrutiny of audit reports	B	The BC puts a schedule of its future meetings, minutes of meetings, transcripts of meetings, and the results of questions reviewed in the meetings on the website. Meetings of the BC and the sub-Committees of the BC Committee were open to members of the public and the media.		

Annex 2. Sources of information: Partial List of Officials Met

1. Tetiana Baranivska, Internal control and audit unit, Ministry of Finance
2. Oxana Nagorna, World Bank projects unit, Ministry of Finance
3. Andriy Kuzma, State budget execution unit, Ministry of Finance
4. Tetiana Koval, Debt management strategy unit, Ministry of Finance
5. Olena Ivchenko, Revenue forecasting division, Ministry of Finance
6. Oleksandra Kosharna, International accounting standards implementation unit, Ministry of Finance
7. Andriy Romanenko, Budget and debt policy unit, Ministry of Economic Development and Trade
8. Serhiy Panchuk, Tax policy unit, Ministry of Economic Development and Trade
9. Nataliya Kovalenko, Macroeconomic forecasting unit, Ministry of Economic Development and Trade
10. Serhiy Bokun, National accounts, inflation and balance of payment forecasting unit, Ministry of Economic Development and Trade
11. Oxana Gryshkevych, Investment projects division, Ministry of Economic Development and Trade
12. Olga Kovbliuk, Infrastructure project appraisal unit, Ministry of Economic Development and Trade
13. Nataliya Lazar, Investment and innovation projects methodology and appraisal, Ministry of Economic Development and Trade
14. Iryna Isayeva, Higher educational institutions financing medium term forecasting and planning unit, Ministry of Education and Science
15. Inna Tihomirova, Strategic planning department, State Financial Inspection
16. Tetiana Kokotun, Strategic planning department, State Financial Inspection
17. Roman Koval, Department of public procurement complaints, Antimonopoly Committee
18. Angelina Tur, State Property Fund
19. Olena Usmanova, State Property Fund
20. Lyudmila Lukina, Debt service unit, State Treasury Service
21. Nataliya Botsman, Treasury service of local budgets methodology, State Treasury Service
22. Andriy Mamyshev, Accounting Chamber
23. Larysa Buniak, Accounting Chamber
24. Ihnatenko Serhiy Vasyliovych, Antimonopoly Committee
25. Mamshev Andrey Valentinovich, Accounting Chamber
26. Feshchuk Svetlana Leonidovna, Budget Committee of the Verkhovna Rada
27. Zubko Tatiana Aleksandrovna, State Customs Service
28. Suvorov Vladislav Vladimirovich, State Customs Service
29. Valentina Melnik, Ministry of Finance
30. Kucherenko Olena, Ministry of Economic Development and Trade

Annex 3. Sources of Information: Documents consulted

1. Constitution of Ukraine
2. Law #2222-IV of December,8 2004 on Amendments to Constitution of Ukraine
3. Budget Code #2456-VI of July 8, 2010
4. Law #79-VIII on amendments to the Budget Code of Ukraine of December 28, 2014
5. Tax Code #2755-VI of December 2, 2010
6. Law #71-VIII of December 28, 2014 on amendments to the Tax Code of Ukraine
7. Law #315/96-BP of July 11, 1996 on Accounting Chamber
8. Law #576-VIII of July 2, 2015 on the Accounting Chamber
9. Public Procurement Law #1490-III of February 22, 2000
10. Public Procurement Law #2289-VI of June 1, 2010
11. Law #4851-VI of May 24, 2012 on Specifics of public procurement in certain fields of economic activity
12. Law #1197-VII of April 10, 2014 on public procurement
13. Law #183-VIII of February 11, 2015 on the open use of public funds
14. Law #2626-VI of October 21, 2010 on amendments to the law of Ukraine on Management of State Assets
15. Law #1560-XII of September 18, 1991on Investment Activities
16. Law #4572-VI of March 22, 2012 on Civil Society Associations
17. Law #393/96-BP of October 2, 1996 on Petitions of Citizens
18. Law #2657-XII of October 2, 1992 on Information
19. Law #996-XIV of July 16, 1999 on Accounting and Financial Reporting
20. Law #1602 of March 23, 2000 on State Forecasting and Development of Ukraine’s Economic and Social Development Programs
21. Cabinet of Ministers Order #774 of August 1, 2013
22. Law #83-VIII of February 11, 2015on Accessibility of Budget Information
23. Cabinet of Ministers Decree #621 of April 26, 2003
24. Cabinet of Ministers Decree #1216 of November 28, 2011
25. Cabinet of Ministers Decree #404 of August 27, 2014 as amended by the Decrees #709 of December 22, 2014 and #76 of February 14, 2015), in 2015 — for the four years (2016–2019) (Cabinet of Ministers Decree #558 of August 5, 2015)
26. Cabinet of Ministers Decree #1001 of September 28, 2011
27. Cabinet of Ministers Resolution #214 of June 25, 2014
28. Cabinet of Ministers Resolution #320-2013 of April 29, 2013
29. Cabinet of Ministers Resolution #215 of April 15, 2015
30. Ministry of Finance Order #11 of January 14, 2011 on Budget Classification
31. Ministry of Finance Order #42 of January 28, 2004
32. Ministry of Finance Order #44 of January 24, 2012

33. Ministry of Finance Order #608 of May 17, 2011
34. Ministry of Finance Order #553 of June 15, 2015
35. Ministry of Finance Order #554 of June 15, 2015
36. Ministry of Finance Order #760/1031 of December 4, 2013
37. Ministry of Finance and Treasury Order #449 of November 30, 2010
38. Ministry of Finance Order #263 of May 14, 2010
39. STU Order #32 of February 13, 2012
40. Ministry of Finance Order #1247 of October 4, 2011
41. Ministry of Finance Order #995 of September 14, 2012
42. Resolution #1149 of December 8, 2010 on Allocation of Intergovernmental Transfers
43. Presidential Decree #1085/2010 of December 2010 on Optimizing the System of Central Bodies of Executive Authority
44. Cabinet of Ministers Decree #955/08 of August 2001 on Procedures for Planning the KRU Activities on Control and Revision
45. Presidential Decree #499/2011 of April 28, 2011 on State Financial Inspection of Ukraine
46. Cabinet of Ministers Decree #59/January 2011 on Internal Financial Control
47. Cabinet of Ministers Resolution #34 as of January 16, 2007 on the Public Sector Accounting Reform Strategy for 2007-2015
48. Cabinet of Ministers Resolution #170 of March 2, 2011 on the Medium-term Sovereign Debt Management Strategy for 2011-2013
49. Cabinet of Ministers Resolution #607 of May 10, 2012 on the Medium-term Sovereign Debt Management Strategy for 2012-2014
50. Cabinet of Ministers Resolution #320 of April 29, 2013 on the Medium-term Sovereign Debt Management Strategy for 2013-2015
51. Cabinet of Ministers Resolution #318 of April 5, 2012 on the State budget forecast for 2013 and 2014
52. Ministry of Finance Order #938 of August 23, 2012 on approval of the Treasury servicing of local budgets
53. Open Budget Index, 2014
54. Ukraine PEFA 2011, World Bank
55. Ukraine Public Investment Management Assessment 2012, World Bank

Annex 4. Budget Outturns Calculations

Calculation Sheet for Revenue composition outturn (February 1, 2016)

Fiscal years for assessment

Year 1 = 2012

Year 2 = 2013

Year 3 = 2014

Data for year = 2012

Economic head	budget	actual	adjusted budget	deviation	absolute deviation	percent
Tax revenues						
Taxes on income, profit and capital gains	60,255.7	62,376.1	62,646.3	-270.1	270.1	0.4%
Taxes on goods and services	187,251.4	176,012.5	194,680.3	-18,667.8	18,667.8	9.6%
International Trade Taxes	11,942.0	13,186.5	12,415.8	770.7	770.7	6.2%
Other taxes	26627	23140	27,683.4	-4,543.4	4,543.4	16.4%
Grants						
Grants from foreign governments and international organizations	762.379	222.6484	792.6	-570.0	570.0	71.9%
Grants from other government units	1137.227	1342.517	1,182.3	160.2	160.2	13.5%
Other revenue						
Income from business activity (SOEs, Central Bank transfer	15407.37	32200.47	16,018.6	16,181.8	16,181.8	0.0%
Capital income	841.4005	1231.444	874.8	356.7	356.7	1849.8%
Administrative fees, fines, penalties and forfeits	4741.271	5435.853	4,929.4	506.5	506.5	10.3%
Sum of rest	23855.59	30877.45	24,802.0	6,075.4	6,075.4	24.5%
Total revenue	332821.3	346025.5	346,025.5	0.0	48,102.7	
overall variance						104.0%
composition variance						13.9%

Data for year = 2013

Economic head	budget	actual	adjusted budget	deviation	absolute deviation	percent
Tax revenues						
Taxes on income, profit and capital gains	64839.74	61883.45	60,621.7	1,261.7	1,261.7	2.1%
Taxes on goods and services	195290.1	163578.8	182,585.9	-19,007.1	19,007.1	10.4%
International Trade Taxes	15324	13342.5	14,327.1	-984.6	984.6	6.9%
Other taxes	25288.21	23972.3	23,643.1	329.2	329.2	1.4%
Grants						
Grants from foreign governments and international organizations	1047.651	1529.275	979.5	549.8	549.8	56.1%
Grants from other government units	1589.152	1609.282	1,485.8	123.5	123.5	8.3%

Other revenue						
Income from business activity (SOEs, Central Bank transfers)	24651.8	33288.23	23,048.1	10,240.1	10,240.1	44.4%
Capital income	1911.822	255.4085	1,787.5	-1,532.0	1,532.0	85.7%
Administrative fees, fines, penalties and forfeits	4600.584	5163.787	4,301.3	862.5	862.5	20.1%
			0.0	0.0	0.0	#DIV/0!
Sum of rest	28287.06	34603.86	26,446.9	8,157.0	8,157.0	30.8%
Total revenue	362830.1	339226.9	339,226.9	0.0	43,047.5	
overall variance						93.5%
composition variance						12.7%

Data for year = 2014

Economic head	budget	actual	adjusted budget	deviation	absolute deviation	percent
Tax revenues						
Taxes on income, profit and capital gains	58099.39	52587.71	54,319.8	-1,732.1	1,732.1	3.2%
Taxes on goods and services	221765	183965.1	207,338.5	-23,373.4	23,373.4	11.3%
International Trade Taxes	16715	12608.7	15,627.6	-3,018.9	3,018.9	19.3%
Other taxes	29694.26	31016.75	27,762.6	3,254.2	3,254.2	11.7%
Grants						
Grants from foreign governments and international organizations	1225.482	5382.955	1,073.6	4,309.3	4,309.3	401.4%
Grants from other government units	2736.238	2117.995	2,397.2	-279.2	279.2	11.6%
Other revenue						
Income from business activity (SOEs, Central Bank transfer	31618.63	28469.32	27,700.3	769.0	769.0	2.8%
Capital income	1460.93	888.099	1,279.9	-391.8	391.8	30.6%
Administrative fees, fines, penalties and forfeits	4623.598	5305.656	4,050.6	1,255.0	1,255.0	31.0%
			0.0	0.0	0.0	#DIV/0!
Sum of rest			0.0	0.0	0.0	#DIV/0!
Total revenue	367938.5	322342.3	341,550.1	-19,207.9	38,382.9	
overall variance						87.6%
composition variance						11.2%

year	total revenue deviation	composition variance
2012	104.0%	13.9%
2013	93.5%	12.7%
2014	87.6%	11.2%

Calculation Sheet for PFM Performance Indicators PI-1 and PI-2 (i)
Fiscal years for assessment

Year 1 =	2012
Year 2 =	2013
Year 3 =	2014

Data for year = 2012

administrative or functional head	budget	actual	adjusted budget	deviation	absolute deviation	percent
General public services	50,953.17	44,010.67	56,012.9	-12,002.2	12,002.2	21.4%
Defense	17,016.99	14,485.73	18,706.8	-4,221.1	4,221.1	22.6%
Public order and safety	35,214.15	36,469.76	38,711.0	-2,241.2	2,241.2	5.8%
Economic affairs	42,414.27	49,396.04	46,626.1	2,770.0	2,770.0	5.9%
Environmental protection	3,619.07	4,135.43	3,978.4	157.0	157.0	3.9%
Housing and community amenities	515.44	379.65	566.6	-187.0	187.0	33.0%
Healthcare	11,807.08	12,520.57	12,979.5	-459.0	459.0	3.5%
Recreation, culture and religion	5,014.74	5,488.47	5,512.7	-24.2	24.2	0.4%
Education	30,203.81	30,243.23	33,203.1	-2,959.9	2,959.9	8.9%
Social Protection	63,707.07	75,254.43	70,033.3	5,221.1	5,221.1	7.5%
20	100,530.33	124,459.62	110,513.1	13,946.5	13,946.5	12.6%
21 (= sum of rest)			0.0	0.0	0.0	#DIV/0!
allocated expenditure	360996.11	396843.6	396,843.6	0.0	44,189.1	
contingency	1491.67	0				
total expenditure	362487.78	396843.6				
overall (PI-1) variance						9.5%
composition (PI-2) variance						11.1%
contingency share of budget						0.0%

Data for year = 2013

administrative or functional head	budget	actual	adjusted budget	deviation	absolute deviation	percent
General public services	59,200.66	50,101.09	57,410.6	-7,309.5	7,309.5	0.12732
Defense	16,199.05	14,843.04	15,709.2	-866.2	866.2	0.055139
Public order and safety	38,843.90	39,190.93	37,669.4	1,521.5	1,521.5	0.040392
Economic affairs	37,093.96	41,299.22	35,972.4	5,326.9	5,326.9	0.148082
Environmental protection	7,036.84	4,595.02	6,824.1	-2,229.0	2,229.0	0.326645
Housing and community amenities	51.16	96.86	49.6	47.2	47.2	0.952376
Healthcare	12,266.85	12,879.34	11,895.9	983.4	983.4	0.082668
Recreation, culture and religion	4,646.78	5,111.89	4,506.3	605.6	605.6	0.134395
Education	32,910.54	30,943.08	31,915.4	-972.3	972.3	0.030466
Social Protection	89,195.19	88,547.28	86,498.2	2,049.1	2,049.1	0.023689
21 (= sum of rest)	118,590.76	115,848.32	115,005.0	843.4	843.4	0.007333

allocated expenditure	416035.67	403456.07	403,456.1	0.0	22,754.2	
contingency	1483.11	0				
total expenditure	417518.78	403456.07				
overall (PI-1) variance						3.4%
composition (PI-2) variance						5.6%
contingency share of budget						0.0%

Data for year = 2014

administrative or functional head	budget	actual	adjusted budget	deviation	absolute deviation	percent
General public services	74,741.55	65,825.83	67,821.2	-1,995.4	1,995.4	0.029421
Defense	17,782.03	27,363.41	16,135.6	11,227.8	11,227.8	0.695842
Public order and safety	40,485.10	44,619.02	36,736.6	7,882.4	7,882.4	0.214566
Economic affairs	50,375.04	34,410.72	45,710.8	-11,300.1	11,300.1	0.247208
Environmental protection	7,314.28	2,597.04	6,637.1	-4,040.0	4,040.0	0.608706
Housing and community amenities	682.12	111.53	619.0	-507.4	507.4	0.819804
Healthcare	12,224.17	10,580.81	11,092.3	-511.5	511.5	0.046115
Recreation, culture and religion	5,270.33	4,872.37	4,782.4	90.0	90.0	0.018822
Education	33,974.27	28,677.87	30,828.6	-2,150.7	2,150.7	0.069764
Social Protection	92,961.43	80,558.24	84,354.1	-3,795.9	3,795.9	0.044999
21 (= sum of rest)	138,305.87	130,600.94	125,500.1	5,100.8	5,100.8	0.040644
allocated expenditure	474116.2	430,217.8	430,217.8	0.0	48,602.2	
contingency	6416.86	0				
total expenditure	480533.06	430217.8				
overall (PI-1) variance						10.5%
composition (PI-2) variance						11.3%
contingency share of budget						0.0%

year	for PI-1	for PI-2 (i)
	total exp. deviation	composition variance
2012	9.5%	11.1%
2013	3.4%	5.6%
2014	10.5%	11.3%

Calculation Sheet for Expenditure by Economic Classification Variance

Fiscal years for assessment

Year 1 =	2012
Year 2 =	2013
Year 3 =	2014

Data for year = 2012

Economic head	budget	actual	adjusted budget	deviation	absolute deviation	percent
Use of goods and services	126,571.81	125,421.08	139,427.9	-14,006.8	14,006.8	10.0%
Interest	31,080.04	25,753.35	34,236.9	-8,483.5	8,483.5	24.8%
Current subsidies and transfers	172,808.20	215,005.87	190,360.6	24,645.3	24,645.3	12.9%
Fixed investments	6,639.60	9,004.35	7,314.0	1,690.4	1,690.4	23.1%
Capital transfers	21,410.86	19,973.18	23,585.6	-3,612.4	3,612.4	15.3%
Other expenses	1800	1750	1,982.8	-232.8	232.8	11.7%
Total expenditure	360310.502	396907.82	396,907.8	0.0	52,671.2	
overall variance						110.2%
composition variance						13.3%

Data for year = 2013

Economic head	budget	actual	adjusted budget	deviation	absolute deviation	percent
Wages and salaries	65,352.80	64,313.71	67,976.1	-3,662.4	3,662.4	5.4%
Use of goods and services	66,282.92	61,325.81	68,943.6	-7,617.8	7,617.8	11.0%
Interest	36,334.45	34,409.26	37,793.0	-3,383.7	3,383.7	9.0%
Current subsidies and transfers	129,613.93	132,826.82	134,816.8	-1,990.0	1,990.0	1.5%
Social assistance	88,425.22	88,404.17	91,974.7	-3,570.5	3,570.5	3.9%
Fixed investments	5,629.14	7,124.50	5,855.1	1,269.4	1,269.4	21.7%
Capital transfers	13,578.15	10,719.73	14,123.2	-3,403.5	3,403.5	24.1%
Other expenses	11,000	33,800	11,441.6	22,358.4	22,358.4	195.4%
Total expenditure	416,216.60	432,923.98	432,924.0	0.0	47,255.7	
overall variance						104.0%
composition variance						10.9%

Data for year = 2014						
Economic head	budget	actual	adjusted budget	deviation	absolute deviation	percent
Wages and salaries	68,906.82	69,283.77	62,524.4	6,759.3	6,759.3	
Use of goods and services	68,519.31	65,431.56	62,172.8	3,258.8	3,258.8	5.2%
Interest	47,957.56	51,018.25	43,515.6	7,502.7	7,502.7	17.2%
Current subsidies and transfers	155,937.39	146,816.68	141,493.9	5,322.8	5,322.8	3.8%
Social assistance	92,404.63	81,491.98	83,845.8	-2,353.8	2,353.8	2.8%
Fixed investments	6,929.36	4,579.61	6,287.5	-1,707.9	1,707.9	27.2%
Capital transfers	19,605.24	2,820.00	17,789.3	-14,969.3	14,969.3	84.1%
Other expenses	13,900	8800	12,612.5	-3,812.5	3,812.5	30.2%
Total expenditure	474,160.31	430,241.84	430,241.8	0.0	45,687.2	
overall variance						90.7%
composition variance						10.6%

year	total expenditure deviation	composition variance
2012	110.2%	13.3%
2013	104.0%	10.9%
2014	90.7%	10.6%