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Subnational Public Expenditure and Financial Accountability (PEFA) Assessment, 2019

UKRAINE, IZIASLAVSKYI RAYON



2019 Ukraine Subnational Public Expenditure and Financial Accountability (PEFA) Assessment

IZIASLAVSKYI RAYON

December, 2019



Ukraine
Ukraine subnational pefa assessment 2019
Iziaslavskyi rayon

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

PEFA Secretariat
March 5, 2020

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Abbreviations and Acronyms

ACU	Accounting Chamber of Ukraine
AMC	Antimonopoly Committee of Ukraine
ATCs	Amalgamated territorial communities
BCU	Budget Code of Ukraine
CG	Central Government
CPI	Consumer price index
CRH	Central Rayon Hospital
EBOs	Extra Budgetary Operations
EC	European Commission
EU	European Union
EUroPAF	EU Program for the Reform of Public Administration and Finances
FY	Fiscal Year
GDP	Gross domestic product
GFS/COFOG	Government Financial Statistics / Classification of the Functions of Government
HR	Human Resource
HLG	Higher Level of Government
IA	Internal Audit
IMF	International Monetary Fund
IPSAS	International Public Sector Accounting Standards
ISSAI	International Standards of Supreme Audit Institutions
KPIs	Key performance indicators
KSU	Key Spending Unit of State Budget Funds
LPP	Law of Public Procurement
M1 WL	Weakest link method
M2 (AV)	Averaging method
MoE	Ministry for Development of Economy, Trade and Agriculture of Ukraine
MoF	Ministry of Finance of Ukraine
MTBF	Medium-term Budget Framework
N/A or NA	Not Applicable
NPSAR(S)	National Public Sector Accounting Regulations (Standards)
PEFA	Public Expenditure and Financial Accountability
PFM	Public Finance Management
PIP	Public Investment Project
RC	Rayon Council
RSA	Rayon State Administration
SAS	State Audit Service of Ukraine
SFS	State Fiscal Service of Ukraine
SNG	Subnational Government
SOE	State-owned enterprise
SPFU	State Property Fund of Ukraine
STS	State Treasury Service
TSA	Treasury Single Account
UAH	Ukrainian Hryvnya
VAT	Value Added Tax
VRU	Verkhovna Rada of Ukraine (Parliament)

Currency and Indicative Exchange Rates

Local Currency Unit: Ukrainian Hryvnya (UAH)

1 US\$ = 24.08 UAH

1 EUR = 26.33 UAH

As of September 30, 2019

Fiscal Year

January 1 – December 31

Executive summary

- 1. The main purpose of the 2019 PEFA assessment is to provide the Government of Ukraine with an objective, up-to-date diagnostic of public financial management performance at the rayon level of subnational government based on the latest internationally recognized PEFA methodology.** This 2019 PEFA report is an assessment of the quality of the Ukrainian PFM system at the subnational level. More specifically, the PEFA assessment measures which processes and institutions contribute to the achievement of desirable budget outcomes, aggregate fiscal discipline, strategic allocation of resources, and efficient service delivery. A central government PEFA assessment and a subnational assessment at the oblast level were conducted in 2019. The Ministry of Finance has expressed its interest to update the 2017-2020 PFM Reform Strategy based on the 2019 PEFA assessment's findings and subsequent recommendations.
- 2. This assessment covers the Iziaslavskiy rayon administration which is composed of 16 budgetary institutions.** Where relevant it covers national bodies that are responsible for certain activities in the rayon: State Treasury; Authorized Body for Procurement Service (Ministry for Development of Economy, Trade and Agriculture), State Audit Service, Accounting Chamber, and State Fiscal Service (revenue administration). It also covers the Budget Committee of the rayon council (RC).
- 3. The PEFA assessment was undertaken by the World Bank under the Parallel EC-World Bank partnership Program for ECA Programmatic Single-Donor Trust Fund/EU Program for the Reform of Public Administration and Finances (EUROPAP).** The assessment oversight and management team include the Ministry of Finance, the World Bank, the Delegation of the European Union to Ukraine and representatives from the rayon local administration. The assessment covered fiscal years 2016 to 2018 and was performed in September/early October 2019. The cut-off date was September 30, 2019. Assessment management and quality assurance arrangements are presented in Box 1.1 below.
- 4. The challenges in producing accurate total revenue projections have not been met in recent years.** Actual revenues were significantly greater than estimates and grants from the central government were also greater, except in 2018 when it was on track. Actual total revenues from all sources were much higher than estimated in the planned budget. As a result, the aggregate expenditure side of the budget has not performed well. Budget execution required the use of virement and monthly supplementary budgets, both following the Budget Code, to allocate the additional revenues.
- 5. The Chart of Accounts, which underpins budget preparation, execution and reporting, is comprehensive and consistent with GFS standards, but transparency and predictability of funds are weak.** Despite the advanced Chart of Accounts, the rayon does not report by administration classification. Neither does the information that is included in the budget support a fully transparent budget process. The transfers to subnational government under the rayon are determined by Rayon Council (RC) rules but reports of lower level of government are not published. The volumes of intergovernmental transfers approved by the rayon administration after the deadline for preparing and publishing draft local budgets. This applies to own transfers from the rayon budget and transfers originating from the state budget, received directly or transferred through the oblast budget which the rayon authorities distribute to lower level branches. Information on performance plans and achievements in service delivery outputs and outcomes in the rayon is very good and reflects the program budgeting structure, with performance plans, performance achieved and performance evaluation reflecting the "program budget passport" system and the work of the Balance Commission. While information on spending on individual service delivery units is available, it is only reported in aggregate. Public access to fiscal information is good. Four of all applicable required elements are made available. A citizen's (summary) budget is not available at the rayon level.
- 6. A comprehensive and inclusive process is lacking in managing public investment.** Economic analysis is not carried out, and project costing and project monitoring do not meet the basic requirements. Selection of investments is rated higher reflecting the priorities set by sectoral policies for choosing projects. Rayon allocated capital inter-governmental transfers to local budgets after the approval of budgets during the fiscal

year and without transparent formula-based approach. Sometimes transfers happen in the last months of the year, which may lead to ineffective use of budgeted funds. Those capital transfers exceeded in 1.3 times rayon investment projects^b in 2018. Information on disposal of assets is reported by each spending unit within annual financial reports. The rayon has no debt at the time of the assessment as it is not allowed to borrow.

7. **Some limited progress has been made towards a comprehensive medium-term expenditure framework.** There is good information on the specification and evaluation of key performance indicators. A medium-term approach is taken to Key Spending Unit's (KSU) budget proposals but not to the formulation of annual budgets. The adopted overall fiscal strategy focuses on the budget year and does not examine changes from previous forecasts, but there is reporting against fiscal outcomes in the budget execution report. There are no hard ceilings for budget preparation and the budget program proposals are used for annual budget estimates only. There is a budget calendar which provides spending units less than four weeks to prepare their budgets. The legislature receives less than one month to carry out its scrutiny but it approves the budget on time. It considers fiscal policies and aggregates for the upcoming budget year and the medium term. Procedures and timetables for budget scrutiny are respected.

8. **The State Fiscal Service is responsible for revenue collection at the time of the assessment on behalf of the rayon.** Revenue collected is well-managed in terms of the flow of funds to the Treasury and recording of transactions that are collected on behalf of the rayon. All revenues are paid into the rayon account with the Treasury. All accounts are reconciled on a timely basis. The State Fiscal Service can monitor revenues in real time. Payments to the Treasury Single Account are reconciled monthly on schedule. A revenue report is prepared monthly for management purposes.

9. **The consolidation of cash balances in the Treasury Single Account (TSA) at the National Bank is made daily.** The Finance Department forecasts the annual cash flow broken down by month, but only updates it periodically. Spending units know their annual budget within one month of approval of the rayon budget and can commit funds up to the value of their annual budget allocations and make payments up to the value of their monthly apportionment limits. Management of budget releases using strong commitment control processes has been successful in managing arrears.

10. **Each department is responsible for maintaining its own payroll accounting system.** Economic Information on employees, which is accounted for by the Human Resource unit, and remuneration processed by the accounting department, are reconciled. Changes to staff and payroll information are made on approval. Budgetary institutions have clear and detailed rules and procedures for making changes to staff and payroll information. These rules and procedures include a requirement for signatures of authorized persons and provide a clear audit trail.

11. **The public procurement system is strong.** This reflects the national ProZorro electronic procurement platform which is used at all levels of government in Ukraine. It has been recognized internationally and has received several awards. All procurements above a threshold at the time of the assessment were carried out by competitive methods and there were no waivers.

12. **Internal controls on non-salary expenditure are positive.** There are effective commitment controls and compliance with payment rules and procedures. Improved segregation of duties with clear responsibilities is ensured by the management information system ("E-Treasury") that supports the TSA. However, there is no internal audit unit in the rayon. The Western Directorate of the State Audit Service may carry out internal audit activities based on its risk assessment but has not done so to date.

13. **Accounts reconciliation and financial data integrity are areas of strength.** The bank reconciliation for the TSA takes place daily. There are no suspense or advance accounts. Data integrity is good as access and changes to records are restricted and recorded, which produces a sufficient audit trail. A senior member of the rayon's management team provides oversight of all transactions.

Summary of 2019 PEFA Assessment Ratings: Indicators by Pillar

Subnational PEFA Indicator HLG-I	I. Budget reliability	II. Transparency of public finances	III. Management of assets and liabilities	IV. Policy-based fiscal strategy and budgeting	V. Predictability and control in budget execution	VI. Accounting and reporting	VII. External scrutiny and audit
Transfers from higher level of government	Aggregate expenditures outturn	Budget classification	Fiscal risk reporting	Macroeconomic and fiscal forecasting	Revenue administration N/A	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 N/A	Budget preparation process	Expenditure arrears		
		Performance information for service delivery		Legislative scrutiny of budgets	Payroll controls		
	Public access to fiscal information				Procurement management		
					Internal controls on nonsalary expenditure		
					Internal audit		

A
B AND B+
C AND C+
D AND D+
NOT APPLICABLE

14. **With respect to in-year budget reports, coverage and classification of revenue and expenditure in reports allow direct but not full comparison to the original budget.** Reporting on expenditure is based on economic and functional classifications, but not on administrative classification. This does not allow for comprehensive direct comparison with the original budget. Information includes all budget estimates for the spending units. There are quarterly budget execution reports that are issued within 35 days from the end of the quarter to the rayon state administration (RSA). Basic information is provided monthly to the RSA and detailed information quarterly. There are no material concerns regarding data accuracy. Information on expenditure is provided at the payment stage (only unpaid commitments are shown).

15. **The annual financial statements include information on assets, liabilities, revenue, expenditure, and a reconciled cash statement.** Reporting on expenditure is based on economic and functional classifications, but not on administrative classification, which does not allow for direct comparison with the original budget, as is the case for the in-year budget reports. The financial statements are produced within three months after the end of the reporting year but have never been submitted for external audit. The national public sector accounting regulations (standards) that apply to all financial statements are largely consistent with international standards. Notes to the financial statements clearly disclose the accounting framework and standards used in preparing annual financial reports. However, the differences between applicable national provisions and International Public Sector Accounting Standards (IPSAS) are not presented.

16. **External audit at the rayon level is not routinely carried out.** As a result, legislative scrutiny of audit reports does not take place. The financial statements are reviewed at the RC.

17. **The internal control environment is generally sound, but is weakened by the absence of periodic internal audits.** The controls associated with the day-to-day transaction of the rayon budget are functioning and result in good data integrity regarding the activities of these entities. The laws and regulations provide the legal framework, and allow for specific roles and responsibilities, segregation of duties, and operating processes. The system embeds access controls and audit trails that support the internal control framework. The budget execution reporting system that provides information on performance relating to service delivery enhances the overall control environment. The rayon's Balance Commission reviews expenditure performance in relation to service delivery and provides independent evaluation and makes recommendations on service delivery performance, however the results of these reviews have never been published.

Aggregate Fiscal Discipline

18. **Aggregate fiscal discipline is achieved due to control over budget execution, but is weakened due to a low level of realism in the revenue forecasts.** While revenue administration ensures that revenues are efficiently collected, the relative weaknesses in forecasting own revenue and the transfers from the central government have undermined overall discipline. In particular, the system of transfers from the state budget allows the central government to allocate some transfers during a budget year as well as reallocate transfers between local budgets during the budget year. Moreover, the rayon allocates some transfers to lower level budgets during the budget year as well. Nevertheless, implementing the planned budget, on an aggregate basis, to accommodate unplanned revenues is assisted using virement and supplementary budgets following the procedures laid out in the Budget Code. Treasury operations and cash management enables expenditures to be managed within the available resources as forecast by the rayon's Finance Department. Control of contractual commitments is effective and has ensured that expenditure arrears are insignificant and manageable. The absence of a full external audit function may inhibit fiscal discipline while the operations of the State Audit Services is minimal and there is no internal audit function in the rayon. The operations of the Balance Commission fill the gap. The rayon's use of competitive tenders in its procurement also improves fiscal discipline.

Strategic allocation of resources

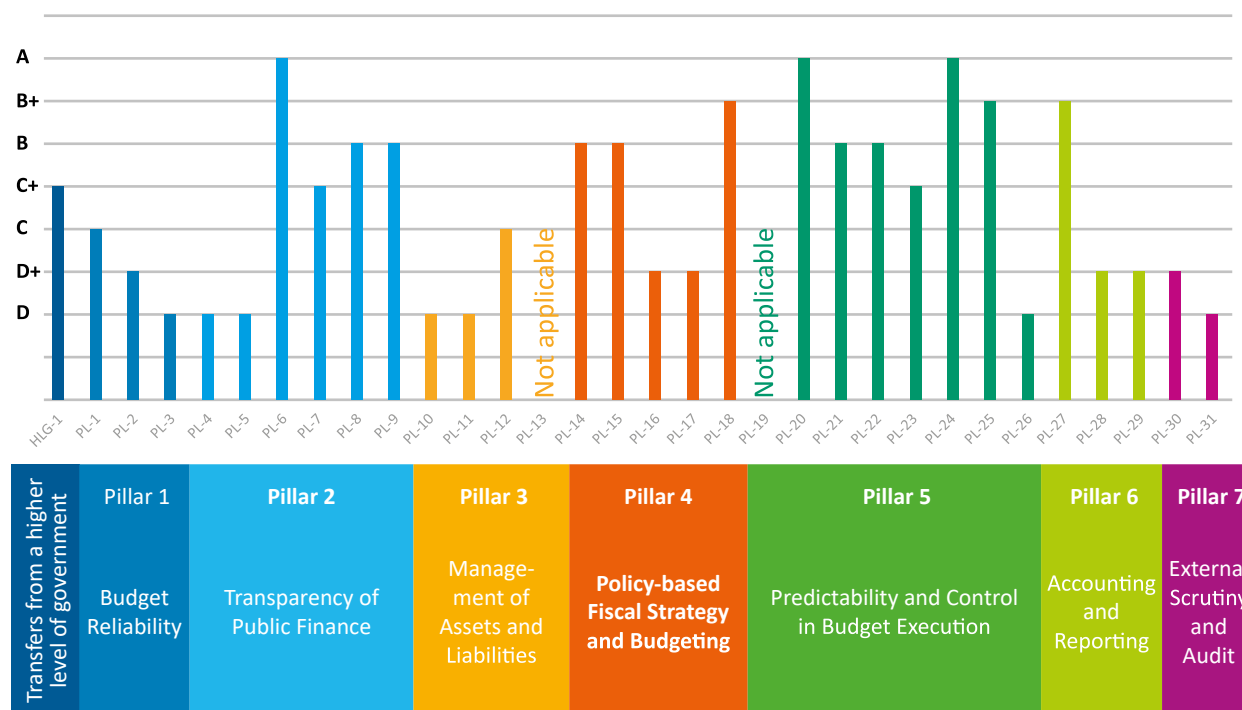
19. **The Chart of Accounts and budget classification cater to a multi-dimensional analysis of expenditure but the full classification is not fully used at the reporting stage.** The budget information available to citizens

makes them aware of what is being spent and encourages them to demand resources directed at their needs. Although the rayon budgets are adopted annually and the program proposals are used for annual budget estimates only, there is an emerging medium-term perspective in expenditure budgeting at the level of key spending units. Performance indicators are specified, and there is assessment and independent evaluation of performance achievement. The work of the Balance Commission provides a critical review of performance, but its results are not published. There is an emphasis on overall fiscal forecasting but this does not extend to a multi-year fiscal strategy to assist in resource allocation.

Efficient use of resources for service delivery

20. **The strength in the procurement process is good and affects the efficiency of service delivery.** Relative weakness in the payroll system particularly in the integration of payroll and personnel systems may mean that staff are not used effectively. The strengths in accountability mechanisms provide counter checks on inefficient use of resources although regular external audits of full annual financial statements are absent. The quarterly budget execution reports (supported by internal monthly reporting) do not ensure that there is well-timed assessment of resource usage relating to the planned budget, considering the lack of expenditure reports by administrative classification. Publishing of performance targets and outcomes supports the efficient use of resources in service delivery units. The reviews of expenditure performance by the Balance Commission are a positive feature of the rayon's PFM system.

Figure 1. Summary of overall PEFA scores by indicator



21. **The adoption of a comprehensive decentralization program has been at the center of the reform process.** Addressing governance ineffectiveness of small local communities was the primary objective of the reform process. The awareness of the necessity to undertake deep structural reforms in order to make the economy more efficient to ensure sustainable growth became a mainstream political agenda. It is against this backdrop that the very bold and elaborate decentralization agenda was adopted to become a top reform priority. The program was officially formulated in the Concept for Reform of the Local Government and Territorial Organization adopted by the Cabinet in April 2014. Consequently, the program was also reflected in a range of systemic legislative pieces among which are the Budget Code of Ukraine (BCU) and Tax Code of Ukraine.

22. **At the end of 2014, amendments to the Budget Code were introduced to implement the reform of intergovernmental fiscal relations in light of new models of financial provision.** The responsibilities of local governments – primarily relating to education, healthcare and social welfare were changed to reflect amalgamation process at the lowest level. A supplementary range of fiscal reforms was also introduced to enlarge the own revenue base of local governments. In addition, the changes to the Budget Code enabled broadening of the ability of type of local governments to borrow and incur debt. Most importantly, the local government transfer system was changed to accommodate the new functional mix and the tax code modifications. Amalgamation of over 10,000 small settlements (called hromadas) into larger town-like communities was prescribed by the 2015 Law on Voluntary Amalgamation of Territorial Communities. As of the end of 2018, 806 new entities (ATC) were established covering nearly 40 percent of Ukraine’s rural population (i.e., over 8 million people).

23. **This PEFA assessment creates a baseline for the rayon. There has been no previous assessment at this level¹.**

¹ A central government PEFA assessment was conducted in 2015 and 2019.

Overview of the Scores of the 2019 PEFA Indicators – Izyaslavsky Rayon

PFM performance indicator		Scoring method	Dimension score				Overall score
			i.	ii.	iii.	iv.	
HLG-1	Transfers from a higher level of government	M1	A	C	A		C+
Pillar I. Budget reliability							
PI-1	Aggregate expenditure outturn	M1	C				A
PI-2	Expenditure composition outturn	M1	C	D	A		D+
PI-3	Revenue outturn	M2	D	D			D
II. Transparency of public finances							
PI-4	Budget classification	M1	D				D
PI-5	Budget documentation	M1	D				D
PI-6	Central government operations outside financial reports	M2	A	A	N/A		A
PI-7	Transfers to subnational governments	M2	A	D			C+
PI-8	Performance information for service delivery	M2	A	A	C	C	B
PI-9	Public access to fiscal information	M1	B				B
III. Management of assets and liabilities							
PI-10	Fiscal risk reporting	M2	N/A	D	N/A		D
PI-11	Public investment management	M2	D	C	D	C	D
PI-12	Public asset management	M2	N/A	N/A	C		C
PI-13	Debt management	M2	N/A	N/A	N/A		N/A
IV. Policy-based fiscal strategy and budgeting							
PI-14	Macroeconomic and fiscal forecasting	M2	N/A	B	N/A		B
PI-15	Fiscal strategy	M2	D	A	A		B
PI-16	Medium-term perspective in expenditure budgeting	M2	D	D	C	N/A	D+
PI-17	Budget preparation process	M2	C	C	D		D+
PI-18	Legislative scrutiny of budgets	M1	A	B	A	B	B+
V. Predictability and control in budget execution							
PI-19	Revenue administration	M2	N/A	N/A	N/A	N/A	N/A
PI-20	Accounting for revenue	M1	A	A	A		A
PI-21	Predictability of in-year resource allocation	M2	A	C	A	C	B
PI-22	Expenditure arrears	M1	B	B			B
PI-23	Payroll controls	M1	C	A	A	C	C+
PI-24	Procurement management	M2	A	A	A	A	A
PI-25	Internal controls on non-salary expenditure	M2	C	A	A		B+
PI-26	Internal audit	M1	D	N/A	N/A	N/A	D
VI. Accounting and reporting							
PI-27	Financial data integrity	M2	A	N/A	N/A	B	B+
PI-28	In-year budget reports	M1	D	B	B		D+
PI-29	Annual financial reports	M1	D	D	C		D+
VII. External scrutiny and audit							
PI-30	External audit	M1	D	D	N/A	B	D+
PI-31	Legislative scrutiny of audit reports	M2	D	N/A	N/A	N/A	D

1. Introduction

1.1 Rationale and purpose

24. **The main purpose of the 2019 PEFA assessment is to provide the Government with an objective and up-to-date diagnostic of the public financial management performance at the rayon level of subnational government based on the latest internationally recognized PEFA methodology.** A central government PEFA assessment and a subnational assessment at the oblast level have also been performed. The 2019 PEFA assessments are an assessment of the quality of the Ukrainian PFM system at the subnational level and national level. More specifically, the PEFA assessments measure which processes and institutions contribute to the achievement of desirable budget outcomes, aggregate fiscal discipline, strategic allocation of resources, and efficient service delivery. The Ministry of Finance has expressed its interest to update the 2017-2020 PFM Reform Strategy based on 2019 findings and subsequent recommendations as a result of the assessment process.

1.2 Assessment management and quality assurance

25. **The PEFA assessment was undertaken by the World Bank under the Parallel EC-World Bank partnership Program for ECA Programmatic Single-Donor Trust Fund/EU Program for the Reform of Public Administration and Finances (EUroPAF).** The assessment oversight and management team include the Ministry of Finance, the World Bank, and the Delegation of the European Union to Ukraine as well as representatives from the local administrations. The EU funded the assessment and was a member of the oversight and management team, and at the operational level reviewed the assessment report.

26. **While the MoF took the leadership role in overall coordination with stakeholders the Finance Management Department of Iziaslavskiyi rayon state administration (RSA) coordinated the assessment at the rayon level.** That included the data collection, advising the World Bank on key counterparts for individual indicators and facilitation of the arrangement of meetings between the PEFA assessment team and counterparts at the rayon level². In addition, the rayon Finance Department assisted in the provision of required information by other institutions involved in the assessment (Department of Economic Development, Trade and Infrastructure; Department of Housing and Communal Services; the Department of Education, Youth and Sports; Culture division; the Department of the State Treasury Service in Iziaslavskiyi rayon; the Iziaslavskiyi Department of the Main Directorate of State Fiscal Service (SFS) in Khmelnytsk oblast; and the Standing Committee of Iziaslavskiyi rayon council on budget, finance and social protection and others) and coordinated the reviews of the assessment report. The World Bank was responsible for undertaking the assessment of the rayon budget and quality assurance of the PEFA assessment.

27. **All members of the oversight team served as reviewers of the PEFA assessment report.** Overall, the oversight team effectively played the central governance role in the assessment process in terms of directing the assessment, monitoring progress and addressing any issues regarding policy, communication with other stakeholders, or institutional or data accessibility throughout the assessment process.

² List of officials met is provided in Annex 3B.

BOX 1.1. Assessment management and quality assurance arrangements

PEFA assessment management organization

- The Ministry of Finance of Ukraine Mr. Vasyl Shkurakov, the Deputy Minister of Finance - Oversight Team Chair
- The World Bank Mr. Daniel Boyce, Practice Manager, EECG1
- The Delegation of the European Union to Ukraine Mr. Martin Klaucke, Head of Section, Good Governance and Rule of Law
- Isyaslavsky Rayon Administration Mr. Serhii Zhuravel, Head of the Finance Department

Review of Concept Note and/or terms of reference

- Draft Concept Note was circulated to Government of Ukraine and other peer reviewers on March 5, 2019
- Invited reviewers:
 - o **PEFA Secretariat**
 - o **The Ministry of Finance of Ukraine:** Oleksii Zhak, Director, Department for Strategic Planning and European Coordination
 - o **The World Bank:** Lewis Hawke, Lead Public Sector Specialist; Patrick Piker Umah Tete
 - o **The Delegation of the European Union to Ukraine:** Alexandra Janovskaia, First Secretary; Policy Officer; Economic Reforms – Public Finance Management
 - o **The International Monetary Fund:** Michelle Stone – Technical Assistance Adviser, Public Financial Management in Fiscal Affairs Department
 - o **Isyaslavsky Rayon Administration** Mr. Serhii Zhuravel, Head Finance Management Department.
- Reviewers who provided comments: Lewis Hawke (March 6); A. Janovskaia (March 7); PEFA Secretariat (March 11); O. Zhak (March 12); M. Stone (March 13)
- Date of final Concept Note sent to PEFA Secretariat: July 29, 2019

Review of the assessment report

- Validation Report draft circulated on September 9, 2019 to the Government of Ukraine and to peer reviewers
- Invited reviewers and dates when they provided comments: Lewis Hawke (February 4, 2020); Oleksii Balabushko (January 27, 2020); Patrick Piker Umah Tete (February 6, 2020); PEFA Secretariat (February 14, 2020, and March 5, 2020); Mr. Serhii Zhuravel (February 7, 2020).

28. **Many team members drew on knowledge gained through ongoing involvement with the Government on public finance management issues.** This included the central government PEFA assessment, for which the field work had been conducted during April and May 2019 and the subsequent oblast PEFA assessment. The 2019 central government PEFA assessment was a repeat using the 2016 methodology.

1.3 Assessment methodology

29. **Coverage of the Assessment:** The assessment covers the rayon administration, comprising 16 budgetary institutions. Where relevant it covered national bodies that were responsible for certain activities in the rayon: State Treasury; Authorized Body for Procurement Service (Ministry for Development of Economy, Trade and Agriculture), State Audit Service, Accounting Chamber, and State Fiscal Service (revenue administration). It also covered the Budget Committee of the rayon council.

30. **The assessment team** considered the fiscal years 2016 to 2018 as the time period covered by the assessment and the time of the assessment was October 2019. The cut-off date was September 30, 2019.

31. **Sources of Information:** The list of information for each of the indicators is found in Annex 3 as well as a full list of persons met.

32. **Other methodological issues for the preparation of the report:** The assessment was carried out using the 2016 PEFA Framework. All 31 indicators (and their 94 dimensions) plus the Higher Level of Government indicator (HLG-1) relevant to subnational government were assessed and followed the methodology without deviation in terms of coverage and application. 23 dimensions were scored as not applicable because they were administered by a higher level authority (such as State Revenue Service for tax administration) or they did not exist in the rayon (such as Internal Audit).

2. Country background information

2.1 Country economic situation

33. **Ukraine is an eastern European country with a population of about 42 million. The country has experienced acute political, security, and economic challenges during the past five years.** Since the “Maidan” uprising in February 2014 that led to the ousting of the President, the country has witnessed several momentous events, including the outbreak of conflict in eastern Ukraine and presidential, parliamentary, and local elections. The most recent presidential election was held in May 2019.

34. **Ukraine’s relatively small and open economy has significant economic potential.** It possesses a good agriculture land-base, mineral and raw materials, and has a manufacturing base supported by an educated workforce and an expanding internal market. Economic growth resuming in the last few years after the deep economic crisis in 2014-2015: at 2.4 percent in 2016, 2.5 percent in 2017, and 3.3 percent in 2018. While the resumption of growth is a positive development, the recovery remains weak following the cumulative 15.8 percent contraction in 2014-15³. Foreign direct investment (FDI) was weak at 1.9 percent of GDP in 2018, compared to 3.4 percent on average before the crisis (2011-2013). Exports of goods grew by 9.2 percent in 2018 mostly due to improving commodity prices, while imports of goods continued to grow by 14.0 percent due in large part to investment and intermediate goods, but also due to gradually recovering disposable incomes. There was a current account trade deficit in each of the past three years. Inflation declined to just below 10 percent in 2018.

35. **Both gross government debt and external debt have been on a steep declining trend since 2016.** The Ukraine currency, Hryvnia (UAH) follows the government’s flexible exchange rate policy and was trading at UAH 24.08 to the US\$ in September 2019 but has been as low as UAH 29.9 to the US\$ in January 2018. Nominal GDP per capita in US\$ terms is around \$3,220.

36. **Poverty remains above pre-crisis levels and faster economic growth is critical for raising household incomes going forward.** Real wages grew significantly in 2017 and 2018 in part due to the sharp increase in public sector wages. This, together with growth of pensions, has led to a decline in moderate poverty (World Bank’s national methodology for Ukraine) to an estimated 16.8 percent in 2018 that was still above pre-crisis level of 14.1 percent in 2013. The poverty rate (under \$5.5/day in 2011 PPP) declined to 4 percent in 2018 from 5.6 percent in 2017. The unemployment rate decreased slightly to 8.8 percent in 2018 from 9.5 percent in 2017.

³ Ukraine: Economic Growth and Fiscally Sustainable Services (The World Bank).

Table A. Selected economic indicators

	2016	2017	2018
GDP (UAH million)	2,385,367.0	2,983,882.0	3,560,596.0
GDP per capita (UAH)	55,899.4	70,233.0	84,235.0
Real GDP growth (%)	2.4	2.5	3.3
CPI (end of period) (%)	12.4	13.7	9.8
Gross government debt (% of GDP)	69.2	61.5	52.2
External terms of trade (annual percentage change)	-8.7	-7.4	-4.5
Current account deficit (% of GDP)	1.4	2.1	3.3
Total public external debt (% of GDP)	41.1	36.2	30.9
Gross official reserves (months of import value)*	3.4	3.2	3.3
Average annual population (persons)	42,672,529	42,485,473	42,269,802
State Debt (UAH million)	1,650,833.3	1,833,709.9	1,860,291.1
External State Debt (UAH million)	980,187.8	1,080,310.5	1,099,200.9
State Guaranteed Debt (UAH million)	278,927.9	307,964.6	308,130.5
External State Guaranteed Debt (UAH million)	259,843.4	294,685.0	297,810.1

* World Bank calculations.

Source: Ukrainian authorities – Ministry of Finance, State Treasury Service, State Statistics Service.

2.2.1 Fiscal and budgetary trends

37. **The adoption of a comprehensive decentralization program has been at the center of the reform process.** Addressing the governance ineffectiveness of small local communities was listed as the primary objective of the reform process. The awareness of the necessity to undertake deep structural reforms in order to make the economy more efficient to ensure sustainable growth became a political mainstream agenda. It is against this backdrop that the very bold and elaborate decentralization agenda became a top reform priority. The program was officially formulated in the Concept for Reform of the Local Government and Territorial Organization adopted by the Cabinet in April 2014. Consequently, the program was also reflected in a range of systemic legislative changes among which are the Budget Code of Ukraine and Tax Code of Ukraine.

38. **At the end of 2014, amendments to the Budget Code were introduced to implement the reform of intergovernmental fiscal relations in light of new models of financial provision.** The responsibilities of local governments – primarily relating to education, healthcare and social welfare were changed to reflect amalgamation process at the lowest level. A supplementary range of fiscal reforms was also introduced to enlarge the own-revenue base of the local governments. In addition, the Budget Code changes allowed for broadening of the ability of type of local governments to borrow and incur debt. Most importantly, the local government transfer system was reformed to accommodate the new functional mix and the Tax Code modifications.

39. **Amalgamation of over 10,000 small settlements (hromadas) into larger town-like communities was prescribed by the 2015 Law on Voluntary Amalgamation of Territorial Communities.** As of the end of 2018, 806 new entities (ATC) were established covering nearly 40 percent of Ukraine’s rural population (i.e., over 8 million people). The relative sizes of the state and different subnational structures are shown in Table B.

Table B. Size of central government and local budgets revenue and expenditure, 2018 (UAH billion)

	CG budget	ARC, oblasts*, Kyiv, Sevastopol	Cities of oblast significance	Rayons	Cities of rayon significance, villages	ATC	Consolidated budget of Ukraine
Revenues	920.8	85.3	104.3	27.8	23.6	22.4	1,184.2
Expenditures	686.9	153.7	192.1	150.3	29.9	37.3	1,250.2
Transfers to (-) from (+) other level budgets	-291.6	62.8	84.3	122.5	5.9	16.1	0.0
Borrowing / reserves	1.5	0.2	0.2	0.01	0.01	0.0	1.9
Deficit (-) surplus (+)	-59.2	-5.8	-3.7	0.0	-0.4	1.2	-67.9

* Includes Khmelnytskyi oblast.

ARC = Autonomous Republic of Crimea.

Source: Treasury reports.

2.2 Subnational government economic situation: Iziaslavskiy rayon in Khmelnytskyi oblast

40. **Iziaslavskiy is one of the 20 rayons in the Khmelnytskyi oblast.** The area of the Iziaslavskiy rayon is 1,250 km² representing 6.07 percent of the oblast. Over 67 percent of the territory of the rayon is agricultural land, of which 75 percent is under cultivation. There are 92 settlements in the rayon, including the city of Izyaslav, and 91 villages, out of which 20 villages have been amalgamated in two amalgamated territorial communities (ATC). The total population was 42,665 on January 1, 2019, of which urban population was 16,515.

41. **The main economic activity of the Iziaslavskiy rayon is the production and processing of agricultural products and livestock.** Forestry is also widely developed. Production of bakery products is an important industry. Wood is processed into building materials and commodity for the manufacture of pulp and paper products.

Table C. Iziaslavskiy rayon: Indicators of socio-economic development

Name of the indicator	2016	2017	2018
Gross agricultural production at comparable prices 2010 (UAH million)	523.0	530.8	605.0
Gross agricultural production index at comparable prices 2010 (annual percentage change)	104.5	101.5	114.0
Wage fund for the workers, employees, staff in agriculture, small and medium-size enterprises (excluding servicemen), UAH million	202.0	278.1	343.3
Average monthly salary of employees (UAH)	3,664.5	5,629.1	7,187.6
Foreign direct investment (US\$ million)	1.02	1.15	1.11
Foreign direct investment (annual percentage change)	101.0	112.7	96.5
Volume of exports (US\$ million)	27.14	35.61	24.73
Volume of exports (annual percentage change)	111.5	131.4	69.4
Volume of imports (US\$ million)	0.83	3.90	3.74
Volume of imports (annual percentage change)	107.8	469.9	95.9

Source: Rayon State Administration.

2.3 Fiscal and budgetary trends in Iziaslavskiy rayon

42. **Transfers from central government dominate the revenues of rayon budget.** As shown in Table D, in 2018 there was a budget deficit funded from accumulated reserves, but in 2016 and 2017 there was a budget surplus. Key sources of own revenues are personal income tax and revenues from sales of goods and services which is growing annually (see details in Annex 6). The RSA does not collect rayon budget revenues because the SFS is in charge of revenue collection. Key types of transfers include targeted grants for social protection needs, health care and education. Transfers are allocated based on the rules identified by the central government. Their trend followed annual legal changes.

Table D. Iziaslavskiy rayon: Indicators of socio-economic development

Indicator	2016	2017	2018
Total revenue	265.6	384.3	400.9
– Own revenue	44.6	67.0	87.7
– Transfers from other government levels	221.0	317.3	313.2
Total expenditure	257.3	370.8	407.9
Total crediting	-0.002	-0.002	-0.002
Aggregate deficit (-) / surplus (+) (incl. grants)	+8.4	+13.4	-7.0

Source: Treasury reports.

43. **The main functions of the rayon are social protection and social security, and education as shown in Table E.** Most of the remainder is transfers to the city Iziaslav and villages which are not amalgamated yet into ATCs (3rd tier of subnational government). Most of these transfers (85.6 percent of total) are own transfers from the rayon budget, 90 percent of which relate to pre-school, general education and cultural establishments.

Table E. Budget allocation by function (percent of total expenditures)

Functional head	2016	2017	2018
Education	26.8	30.0	36.8
Social protection and social security	45.7	43.4	38.2
Intergovernmental transfers	6.9	6.3	7.9
Other expenditures	0.1	0.5	0.1
Total expenditures	100.0	100.0	100.0

Source: Treasury reports.

44. **The vast majority of spending categories by the rayon is on social benefits in the form of grants.** This shows a decreasing trend over the three years with a corresponding increase in goods and services. Compensation of employees averages around a quarter of total expenditure.

Table F. Budget allocation by function (percent of total expenditures)

Economic head	2016	2017	2018
Compensation of employees	27.5	21.8	23.6
Use of goods and services	8.5	18.3	16.4
Consumption of fixed capital	4.7	4.2	6.5
Interest	0.0	0.0	0.0
Subsidies	6.9	6.3	7.9
Grants	1.4	2.1	3.0
Social benefits	44.9	42.6	37.4
Other expenses	6.0	4.8	5.2
Total expenditures	100.0	100.0	100.0

Source: Treasury reports.

2.4 Legal and regulatory arrangements for PFM

45. **Ukraine is a parliamentary-presidential republic.** Citizens exercise power directly through state authorities and local self-government bodies. The function of government in Ukraine are carried out according to the principle of its division into legislative, executive and judicial branches. Executive power in the country is vested in the Cabinet, and legislative power, to the Parliament (the Verkhovna Rada of Ukraine). The Constitution is the nation's fundamental law. The constitution was adopted and ratified at the 5th session of the Parliament on June 28, 1996. The constitution mandates a pluralistic political system with the protection of basic human rights and liberties, and a parliamentary-presidential form of government.

46. **The President of Ukraine is elected by popular vote for a five-year term which is limited to two terms, consecutively.** Parliament has a collegiate structure and consists of 450 national deputies elected for a period of five years on the basis of universal, equal and direct suffrage by secret ballot. The Parliament is the only legislative body authorized to pass laws in Ukraine. Its powers are realized through the collective activity of national deputies at its sessions. The Parliament ratifies international agreements and approves the budget. The Cabinet is the supreme body of executive power. It is responsible to the President and the Parliament whose control it is under and is accountable within the limits provided by the Constitution.

47. **The judicial system of Ukraine consists of general jurisdiction courts (three levels) and the Constitutional Court.** The courts of general jurisdiction form a single system, which consists of both general and specialized courts. The Supreme Court is the highest judicial body of general jurisdiction, and ensures the consistency of jurisprudence, although it may review the decisions of the specialized courts only in circumstances specified by law. Since the judicial reform of 2016, judges are appointed by the President upon their nomination by the Supreme Council of Justice.

48. **The Accounting Chamber established in 1996 is a supreme body of the independent external public financial control (audit) body subordinated to the Parliament.** The Chamber's main purpose is to provide control over the use of state budget. This includes the use of all intergovernmental transfers at the local level, as well as revenues of state taxes and fees, or part thereof, assigned to local budgets, and the use of local budgets in part of expenditures, which are determined by the functions of the state and transmitted to local governments.

49. **The bodies of the State Audit Service (SAS) and its interregional territorial bodies carry out public financial control on behalf of the government.** The SAS, established on October 28, 2015 as a result of the reorganization of the State Financial Inspection, is the central executive authority and was directed and coordinated by the Cabinet. Since November 3, 2019⁴ the Ministry of Finance, which forms and implements state policy regarding public financial control, coordinates the SAS.

50. **The Budget Code 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.** The Budget Code⁵, as amended over time, is the primary fiscal law covering all aspects of budget formulation, execution and reporting including central and subnational government. Ukraine unified its tax legislation into a single tax code in 2010 which replaced numerous tax laws. This introduced comprehensive and coherent tax legislation that has been amended periodically after the initial approval. The Customs Code was approved in 2012 and came into force on June 1, 2012.

51. **The budgets of all tiers of subnational administrations are implemented through the centralized Treasury system using a TSA.** Revenues and expenditures of all public units at all levels pass through the Treasury system and are reported in accordance with the GFS/COFOG classification. This system provides for full consolidation of all general government expenditure on a sector basis. Subnational administrations are not allowed to spend more than their planned budget.

⁴ Decree of the Cabinet of Ministers # 922.

⁵ n2456-vi, dated July 8, 2010

52. **The internal control framework is regulated by several laws and bylaws.**

- Budget Code, sets the overall regulatory frame for managerial accountability, internal control and internal audit in budget spending entities
- Law on Basic Principles of State Financial Control, regulating tasks (including some audit) and powers of the SAS
- The laws and rules concerning the Treasury (complete ex- ante commitment and payment controls)
- The Resolution of Cabinet No. 1001 of September 28, 2011 for the introduction of the internal audit function, and No.1062 of December 12, 2018 for the key principals of internal control in spending units
- Law on Accounting and Financial Reporting empowering the accountant departments role in the field of internal control
- Standards for Internal Audit of October 4, 2011 (Order N 1247 Minister of Finance)
- Methodological recommendations for Internal Control (Order Minister of Finance of September 14, 2012, No. 995, with changes dated December 10, 2014).

53. **All subnational governments prepare annual financial statements.** Accounting and generation of public sector financial statements are conducted in accordance with the requirements of national public sector accounting regulations (standards). Provision for audit falls between the ACU and the State Audit Services (SAS)⁶. In 2018, the ACU only audited the transfers from the central government for a selected sample of subnational entities. None in the Khmelnytskyi oblast was included. The annual financial statements may be audited by the SAS in accordance with a plan, which does not call for these reports to be audited annually. The rayon's financial statement has not been audited. Procurement by subnational governments is conducted though the national ProZorro electronic procurement system based on the national legal requirements.

54. **The rayon has an elected assembly comprising 34 members.**

55. **The goal of the State Statistics Service of Ukraine is to provide official statistics.** The second tier consists of 490 districts (rayons), 188 cities of oblast significance and amalgamated territorial communities (665). The third tier consists of cities of rayon significance and settlements and villages that have not been amalgamated into ATCs, yet (7,627). According to Article 118 of the Constitution, the executive power at the top tier and rayons 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 rayon level operate as deconcentrated agencies of the central government, rather than as governments accountable to local constituencies. Executives of cities of oblast significance and heads of ATC are directly elected, as well as heads of villages and towns (cities of rayon significance) that have not been amalgamated. Table G below outlines the central and subnational governments' structure.

⁶ According to its Charter, established by the Decree no. 43 of the Cabinet dated 3 February 2016, "The State Audit Service is a central executive authority, the activity of which is directed and coordinated by the Cabinet and which forms and implements the state policy in the sphere of the public financial control." At first sight it appears that the SAS has the same duties and powers as the Accounting Chamber, namely controlling the collection and the use of budgeted funds, with the exception that the SAS is accountable to the Cabinet and not to the Parliament as the Accounting Chamber is. The SAS does not have the status of Supreme Audit Institution (SAI) in contrast to that of the ACU.

Table G. Overview of the central and subnational governance structure in 2018*

Government level	Corporate body	Own political leadership	Approves own budget	Number of jurisdictions	Average population	Percentage of public expenditure	Percentage of public revenue	Percentage funded by transfers
Central	Y	Y	Y	1	42 million	55.0	77.7	0.7
1 st tier (oblasts and Kyiv city)	Y	Y	Y	25		12.3	7.2	69.2
2 nd tier (rayons, cities of oblast significance, ATC)	Y	Y	Y	1,343		30.3	13.1	62.4**
3 rd tier (cities of rayon significance, settlements and villages)	Y	Y	Y	7,627		2.4	2.0	25.4

* Not including Autonomous Republic of Crimea and Sevastopol city.

** Rayons – percentage funded by transfers is 82.7 percent.

Source: State Statistic Service, Treasury reports, PEFA Team calculations.

2.5 Institutional arrangements for PFM

56. **The structure of the administration of Iziaslavskyi rayon is shown in Table H.** There are 14 administrative units with 110 staff and the council members are supported by 12 staff. The RSA has no extrabudgetary units under its management and does not control or own any shares in a public corporation.

Table E. PFM responsible institutions at the central level in Ukraine

Element	Count
Assembly members (elected)	34
Assembly staff	12
Departments	14
Departmental staff	110

Source: Iziaslavskyi Rayon.

57. **Management of public finances in the Iziaslavskyi rayon is split between the rayon's own administrative units and national ministries and departments following the articles of the Budget Code.** The Finance Department is responsible for preparing the budget and the overall administration of the rayon's finance. The RC scrutinizes the budget proposed by the administration and its Budget Committee also examines the annual financial statement. Financial statements are sent to the oblast administration and are consolidated for the whole of the oblast. There is a Balance Commission which is a joint venture between the administration and the council with the objective of reviewing expenditure performance during the year. Membership includes elected members of the council and officials from the council and heads of institutions and departments, as appropriate. There is no internal audit unit in the rayon.

58. **With respect to the involvement of national agencies, the Treasury is responsible for the operations of the rayon's subaccounts in the TSA.** It also produces monthly budget execution reports and the annual financial statements. The SFS collects and administers revenues throughout Ukraine which includes the tax revenues accruing to all subnational governments. The Ministry for Regional Development is involved in investment planning and execution. The State Property Fund maintains the Consolidated Register of State Property which includes those located in the rayon. The Accounting Chamber is responsible for conducting audits as per its

2. Country background information

mandate. The Ministry for Development of Economy, Trade and Agriculture of Ukraine (MoE) implements the ProZorro electronic procurement platform that the rayon administration uses. The Antimonopoly Committee (AMC) is an independent body for consideration of all public procurement complaints including any related to the rayon.

59. The list of key budget process participants and their major functions are summarized in Table I.

Table I. PFM responsible institutions at the Iziaslavskiy rayon

Institution	Major functions
Rayon State Administration	Submission of the draft rayon budget and reports on budget execution, a program of socio-economic development of Iziaslavskiy rayon to the RC
Finance department of RSA	Budget preparation and execution Revenues forecasting
SAS (Western Directorate)	Government audit service
Treasury (local office in Iziaslavskiy rayon)	Accounting of the rayon budget execution operations Treasury services for the expenditures and revenues of the budget, including centralized processing of spending units' transactions Consolidation of reports provided by spending units Preparation of in-year and annual reports on budget execution and submission them to local finance authorities
SFS (local office in Iziaslavskiy rayon)	Tax collection Preparation reports on: actual revenue, revenue arrears, payments excessively received, the amount of tax debt written off, tax expenditures including budget revenue loss
Department of Economic Development, Trade and Infrastructure of RSA	Macroeconomic forecasting of indicators related to the rayon budget Preparation of the Program of socio-economic development of Iziaslavskiy rayon, which include the list of public investment projects Public-private partnership
MoE	Procurement (monitoring and regulation)
Accounting Chamber	External audit

60. **The line departments of RSA play a critical role in the PFM system.** Line departments responsibilities include strategic and long-term planning, budgets preparation, including the development of budget programs and their performance indicators, developing proposals for public investment projects and their implementation, public procurement, budget management and internal control.

61. **Other institutions play key roles in the PFM system.** The State Statistics Committee (local office in Iziaslavskiy rayon) is responsible for collecting and distributing fiscal data; the RC is responsible for the supervisory control of its communal enterprise; and the Antimonopoly Committee manages compliance with public procurement legislation.

62. **Table J shows the structure of the public sector of the Iziaslavskiy rayon.** There are no extrabudgetary units and funds as all agencies related to departments are included in the budget the TSA. Local government at the rayon level has 16 budgetary institutions. Subnational government has a multi-layered structure which has in the recent past undergone significant reform (and continues to do so). As described above, Ukraine has a three-tier government structure, in which each of its branches at the local level supervises the lower level. Nevertheless, the logic of the administrative hierarchy does not apply to the public finance system, including intergovernmental transfers. The BCU differentiates revenue and executive power of each subnational tier and approaches in inter-budgetary relationships for each tier. Budgets of oblasts (regions), rayons, cities of oblast significance and amalgamated communities receive transfers from the state budget directly, and have their own revenue and expenditures power. Details are provided in the assessment of indicator PI-7.

Table J. Structure of the public sector (entities and financial turnover) - Iziaslavskiy rayon

2018	Public Sector				
	Government Sub-sector		Social Security Funds	Public Corporation	
	Budgetary Unit ²	Extra-budgetary Units		Sub-sector	
			Non-Financial Public Corporations	Financial Public Corporations	
Local government – rayon level	16	0	0	0	0
Local government – lower than rayon level	36	0	0	N/A	0

N/A – Not applicable.

Source: Rayon State Administration.

68. As shown in Tables K and L the rayon's revenue is significantly dependent on transfers from the oblast which in turn includes transfers from central government. Some of these are then transferred to lower levels of government under the rayon which are included in the rayon's expenditure.

Table K. Iziaslavskiy rayon planned expenditure and revenue 2018 (UAH, billions)

	Budgetary unit	Extra budgetary Units	Social security funds	Total
Revenues (excluding transfers)	69.3	N/A	N/A	69.3
Expenditures (excluding transfers)	349.2	N/A	N/A	349.2
Transfers to (-) and from (+) other units of general government	279.9	N/A	N/A	279.9
Liabilities	0.0	N/A	N/A	0.0
Financial Assets (Jan. 1, 2018)	48.9	N/A	N/A	48.9
Non-financial assets	N/I	N/A	N/A	N/I

N/A – Not applicable, N/I – No information.

Source: Treasury reports.

Table L. Iziaslavskiy rayon actual expenditure and revenue 2018 (UAH millions)

	Budgetary unit	Extra budgetary Units	Social security funds	Total
Revenues (excluding transfers)	87.7	N/A	N/A	87.7
Expenditures (excluding transfers)	375.5	N/A	N/A	375.5
Transfers to (-) and from (+) other units of general government	280.8	N/A	N/A	280.8
Liabilities	0.0	N/A	N/A	0.0
Financial Assets (Jan. 1, 2019)*	39.3	N/A	N/A	39.3
Non-financial assets	N/I	N/A	N/A	N/I

N/A – Not applicable, N/I - No information.

* 98.2 percent of which is current receivables for internal settlements.

Source: Treasury reports.

2.6 Other important features of PFM and its operating environment

64. **The Budget Code provides for a centralized PFM system built around the TSA.** It covers both central and subnational governments. There are no extrabudgetary units in the rayon. All its tax revenues are collected by the SFS. Transfers from central government represent some 76 percent of total revenue while transfers to lower level of government within the rayon are 8 percent of its expenditure. This reflects the structure of subnational government in Ukraine.

3. Assessment of PFM Performance

Subnational PEFA Indicator HLG-1: Transfers from higher level of government

General description of the characteristics of the indicator within the scope covered

65. **This indicator evaluates the degree of variance of intergovernmental transfers sent to subnational government by the higher level government.** It evaluates compliance with originally approved indicators and compliance with acceptable timeframe. The period of assessment for indicator is the last three completed fiscal years (2016, 2017 and 2018). Coverage is subnational government. The list of intergovernmental transfers received by the rayon budget in 2018 is presented in Annex 4 and calculations for this indicator are included in Annex 5.

66. **In 2018 the rayon budget received state budget transfers for horizontal equalization (basic grant); additional grants and targeted grants called subventions.**

67. **Almost all transfers from the state budget are allocated as per the formula based on specified criteria.** Horizontal equalization of revenue and the collection capacity⁷ takes into account the following parameters: (i) the size of the population; (ii) corporate income tax (for oblast budgets); (iii) individual income tax; and (iv) revenue collection capacity index of the relevant local budget. This index is a coefficient that determines the level of revenue collection capacity of the relevant budget compared to a similar average for all relevant local budgets in Ukraine per capita. The main criterion for the distribution of educational and medical subventions is the number of service users among the students and the population, respectively. Social subventions are distributed based on the number of recipients.

68. **Individual subventions from the state budget are based on additional criteria or on political decisions.** In addition, some of them are distributed among local budgets after the fiscal year has begun which impacts on their transparency. In 2018, the volume of such subventions amounted to UAH 13.8 billion, or 4.6 percent of the total volume of intergovernmental transfers. For example, the procedure for the implementation of measures for the socio-economic development of certain territories⁸, (the largest volume) defined only directions and required establishment of the Ministry of Finance Commission for distribution of that subvention, but does not define the distribution criteria.

Summary of scores and performance table

Indicator/dimension	Minimum requirements (<i>Scoring Method M1</i>)	
	2019 Score	Brief justification for score
HLG-1. Transfers from higher level government	C+	
HLG-1.1. Execution of planned transfers from higher level government	A	Execution of planned transfers from higher level government over the last three years have accounted for more than 95 percent of the original budget (2016 – 116.4 percent, 2017 – 111.3 percent, 2018 – 100.0 percent)
HLG-1.2. Variance of intergovernmental transfers	C	Variance between the original budget and actually allocated intergovernmental transfers during two of the last three years was less than 10 percent (in 2016 - 19.7 percent, 2017 – 8.3 percent, in 2018 – 5.2 percent)
HLG-1.3. Timeliness of transfers from higher level government	A	There is an agreed schedule for the transfer of grants and subsidies from higher level government. A monthly plan for intergovernmental transfers is established and agreed at the beginning of the year. More than 75 percent of actual payments (on a quarterly basis) have been received on time in the last three years

⁷ of oblast budgets, budgets of cities of oblast significance, rayons and ATCs.

⁸ Resolution of the Cabinet dated February 6, 2016 No. 106 as amended on December 1, 2017, No. 1040.

HLG-1.1 Execution of planned transfers from higher level government

Performance level and evidence for scoring of the dimension

69. The total amount of intergovernmental transfers that came to the rayon budget of Iziaslavskiy rayon from the state and oblast budgets in 2016-2018 is presented in table HLG-1.1.

Table HLG 1.1. Total transfers from higher level government: budget and actual amount

	2016 FY	2017 FY	2018 FY
Budget (UAH thousand)	183,433.0	279,469.8	306,002.1
Actual amount (UAH thousand)	213,488.0	311,169.5	305,894.3
Variance, %	116.4	111.3	100.0

Source: Annual Budget Execution Reports.

70. In 2016, variance of actual allocated intergovernmental transfers from the transfers planned in the original budget amounted to 116.4 percent in 2017 111.3 percent, and in 2018 - 100.0 percent.

71. The score for the dimension is A.

HLG-1.2 Variance of intergovernmental transfers

Performance level and evidence for scoring of the dimension

72. Social subventions accounted for the largest share of transfers to the Iziaslavskiy rayon budget in 2016-2018.

73. The rate of variation of intergovernmental transfers by type was 19.7 percent in 2016, 8.3 percent in 2017 and 5.2 percent in 2018. The largest variance was observed in other intergovernmental transfers. This situation is primarily because in each of the last three years, the rayon budget received additional intergovernmental transfers that were not planned in the original budget.

74. The variance between the original budget and actual intergovernmental transfers in the 2017-2018 was less than 10 percent.

75. The score for the dimension is C.

HLG-1.3 Timeliness of transfers from higher level government

Performance level and evidence for scoring of the dimension

76. There is a pre-agreed schedule for the transfer of grants and subsidies from higher level government. A monthly plan for intergovernmental transfers is established and agreed at the beginning of the year. The analysis of quarterly revenue dynamics over the last three years shows that over 75 percent of all intergovernmental transfers in each of the last three years under review (2016, 2017, and 2018) were in line with the agreed schedules (Annex 5). For instance, equalization grant was disbursed thrice a month and not later than the 10th, 20th, and 25th day of the month. Educational and medical subventions were disbursed twice by the 10th and 25th days of the month.

77. The score for the dimension is A.

PILLAR ONE: Budget Reliability

PI-1. Aggregate expenditure outturn

General description of the characteristics of the indicator within the scope covered

78. This indicator measures the extent to which aggregate budget expenditure outturn reflects the amount originally approved, as defined in government budget documentation and fiscal reports. Coverage is budgetary subnational government. The assessment is based on the budget and actual expenditure for the last three completed fiscal years (2016-2018). Calculations for this indicator are included in Annex 6.

78. 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.

Summary of scores and performance table

Indicator/dimension	Score 2019	Brief justification for score
PI-1. Aggregate expenditure outturn	C	
1.1. Aggregate expenditure outturn	C	The deviation of aggregate indicators of expenditure outturn compared to originally approved budget was less than 15 percent in 2017-2018 (2016 - 122.7 percent, 2017 – 113.8 percent, 2018 – 108.7 percent)

Source: Annual Budget Execution Reports, PEFA Team estimates.

1.1 Aggregate expenditure outturn

Performance level and evidence for scoring of the dimension

80. Expenditure outturn of the Iziaslavskiy rayon budget is characterized by annual over-performance of planned targets. The largest over-performance in 2016 amounted to 122.7 percent. In 2017 and 2018 variance was slightly lower and amounted to 113.8 percent and 108.7 percent, respectively. Such variance is mostly caused by inconsistent intergovernmental transfers from the state budget. Expenditure planning deviations are also adversely affected by the practice of allocating available balance that was generated at the end of the budget period. According to the requirements set out in the Budget Code (Articles 14 and 72), such balance can only be distributed after the approval of the annual budget implementation report, which must be submitted to the local council within two months after the end of the previous budget period (i.e., by March 1). The Finance Department of RSA cannot plan the allocation of these expenditures when preparing the initial budget.

Table 1.1. Total expenditures: Budget and actual amount

	2016 FY	2017 FY	2018 FY
Budget (UAH thousand)	209,605.8	325,971.8	375,297.0
Actual amount (UAH thousand)	257,256.7	370,823.6	407,894.7
Deviation, %	122.7	113.8	108.7

Source: Annual Budget Execution Reports, PEFA Team estimates.

81. The score for the dimension is C.

PI-2. Expenditure composition outturn

General description of the characteristics of the indicator within the scope covered

82. This indicator measures the extent to which reallocations between the main budget categories during execution have contributed to variance in expenditure composition. Coverage is budgetary subnational government. The assessment is based on the budget and actual expenditure for the fiscal years 2016-2018. Calculations for this indicator are included in Annex 6.

83. 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.

Summary of scores and performance table

Indicator/dimension	Minimum requirements (Scoring Method M1)	
	Score 2019	Brief justification for score
PI-2. Expenditure composition	D+	
2.1. Expenditure composition by function	C	Variance in expenditure composition by functional classification have been less than 15 percent over the last three years (2016 - 12.2 percent, 2017 - 9.2 percent, 2018 - 10.6 percent)
2.2. Expenditure composition by economic type	D	Performance was less than necessary for a C score. Variance in expenditure composition by functional classification have been less than 15 percent over the last three years (2016 - 19.8 percent, 2017 - 40.0 percent, 2018 - 20.1 percent)
2.3. Expenditure on contingencies	A	In 2016-2018, the actual expenditures from contingency reserves were not made (the expenditures from contingency reserves were planned annually, but their share did not exceed 1 percent of the original budget expenditures)

2.1 Expenditure composition by function

Performance level and evidence for scoring of the dimension

84. Variance of Iziaslavskiy rayon budget outturn in terms of the composition of expenditures was within 15 percent. The average annual variance by category was 12.2 percent in 2016, 9.2 percent in 2017, and 10.6 percent in 2018. Functional allocation was used to calculate budget variance. The high variations in social protection and security in 2016 and 2017 were due to the increasing of subventions for social protection of population from the central government during budget year. These grants are disbursed on needs as well as on plan, thus the actual amounts usually are different from the budget. A high variation was observed also in education in 2018; this was due to additional sources allocated for capital expenditures in education during budget year.

Table 2.1. Expenditure composition variance by functional classification, 2016-2018

	2016 FY	2017 FY	2018 FY
Variance, %	12.2	9.2	10.6

84. The score for the dimension is C.

2.2 Expenditure composition by economic type

Performance level and evidence for scoring of the dimension

86. **Variance in expenditure composition by economic classification has been less than 15 percent over the last three years (2016 - 19.8 percent, 2017 - 40.0 percent, and 2018 - 20.1 percent).** The largest variances from the original budget were recorded in the expenditure for acquisition of fixed capital. During the last three years these expenditures were not planned in the initial budget (they were planned in the amount of UAH 14,300 only in 2017). At the same time, the annual actual amounts spent on acquisition of fixed capital were considerable, amounting to UAH 12.1 million in 2016, UAH 15.5 million in 2017, and UAH 26.4 million in 2018. These data indicate systemic problems with the planning of these expenditures.

Table 2.2. Expenditure composition variance by economic classification, 2016-2018

	FY 2016	FY 2017	FY 2018
Deviation	19.8	40.0	20.1

Source: Annual Budget Execution Reports, PEFA Team estimates.

87. **The score for the dimension is D.**

2.3 Expenditure from contingency reserves

Performance level and evidence for scoring of the dimension

88. **During 2016-2018 there was no expenditure from contingency reserves.** Contingency reserves were planned annually in the budget, but did not exceed 1 percent of the total expenditures of the original budget (2016 - 0.98 percent, 2017 - 0.12 percent, 2018 - 0.50 percent).

89. **The score for the dimension is A.**

PI-3. Revenue outturn

General description of the characteristics of the indicator within the scope covered

90. **This indicator measures the change in revenue between the original approved budget and end of year outturn.** Coverage is budgetary subnational government. The assessment is based on the budget and actual revenue from fiscal years 2016-2018. Calculations for this indicator are included in Annex 6.

91. **Accurate revenue forecasts are the key to preparing a sound budget.** Revenues allow the government to finance expenditures and deliver services to its citizens. Optimistic revenue forecasts can lead to unreasonably large spending allocations. This, after all, will require a potentially disorganizing reduction in mid-year spending or an unplanned increase in borrowing to maintain an approved level of spending. On the other hand, pessimism in the forecast can result in the unplanned proceeds 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.

Summary of scores and performance table

Indicator/dimension	Minimum requirements (Scoring Method M1)	
	Score 2019	Brief justification for score
PI-3. Revenue outturn	D+	
3.1. Aggregate revenue outturn	C	Performance was less than necessary for the C score (actual revenue was higher than 116 percent of budgeted revenue in each year: 2016 – 183.3 percent, 2017 – 154.8 percent, 2018 – 131.8 percent)

Indicator/dimension	Minimum requirements (Scoring Method M1)	
	Score 2019	Brief justification for score
3.2. Variance in revenue composition	D	Performance was less than necessary for a C score. Last two years the amount of variation in the revenue composition was more than 15 per cent (2016 - 21.3 percent, 2017 – 18.5 percent, 2018 – 14.5 percent)

3.1 Aggregate revenue outturn

Performance level and evidence for scoring of the dimension

92. The revenue forecast is undertaken by the Finance Department of the RSA based on a macro-economic forecast provided by the Department of Economic Development, Trade and Infrastructure of the RSA. This forecast is determined by the realistic scenario of macro-economic forecast, prepared by the central government (see PI-14). Some revenues have usually been under-estimated. The main under-estimated revenues were: personal income tax (for 123.4 percent, or UAH 15.4 million) and ‘windfall’ income from own revenues of budgetary institutions in part of grants, gifts and charitable contributions (UAH 2.4 million, or 2.6 percent of total revenue without intergovernmental transfers, with zero plan in 2018). There is a high degree of RSA caution in budget planning to ensure tax revenues cover all needed priority expenditures. With respect to windfall receipts there is a systematic problem of PFM where there is no requirement for the planning of such revenues by service delivery units. Those revenues are taken as unpredictable without looking at the existing history and periodicity of their realization.

93. During the three years, Iziaslavskiy rayon budget received more revenue (excluding intergovernmental transfers from higher-level budgets) than projected. The variance in 2016 was 183.3 percent, in 2017 - 154.8 percent, and in 2018 - 131.8 percent compared to the budgeted revenue.

Table 3.1. Revenue variance, 2016-2018

	2016 FY	2017 FY	2018 FY
Variance, %	183.3	154.8	131.8

Source: Annual Budget Execution Reports, PEFA Team estimates.

94. The score for the dimension is D.

3.2 Variance in revenue composition

Performance level and evidence for scoring of the dimension

95. Variance in revenue composition was more than 15 percent in 2016-2017. Variance amounted to less than 15 percent (14.5) only in 2018. Compared to the original budget, the largest impact on the structure of variances was made by the personal income tax. This tax is the largest own revenue source of the Iziaslavskiy rayon budget. In 2016-2018, the personal income tax revenues turned out to be higher than planned in the original budget (2016 - 166.2 percent, 2017 - 143.1 percent, and 2018 - 123.4 percent). In addition, other revenues significantly over-performed annually.

Table 3.2. Variance in revenue composition, 2016-2018

	2016 FY	2017 FY	2018 FY
Variance, %	21.3	18.5	14.5

Source: Annual Budget Execution Reports, PEFA Team estimates.

96. The score for the dimension is D.

PILLAR TWO: Transparency of Public Finances

PI-4. Budget classification

General description of the characteristics of the indicator within the scope covered

97. **This indicator assesses the extent to which the rayon budget and account classification is consistent with international standards.** Time period is at time of assessment. The coverage is budgetary subnational government.

98. **The application of budget classifications is governed by Articles 8 to 12 of the BCU, which provides for the definition, scope, and classification of data.** In accordance with the BCU, the Ministry of Finance approves the budget classification, except for the programmatic classification of expenditure and lending of the state budget, which is approved annually by the law on the state budget (the Order of the Ministry of Finance No. 11 dated January 14, 2011 “On Budget Classification”). Model programmatic classification of expenditures and lending to local budgets was approved by the Order of the Ministry of Finance of September 20, 2017 No. 793 “On approval of components of programmatic classification of expenditures and lending to local budgets”. This model classification is applied in the budget process at the level of all local budgets.

Summary of scores and performance table

Indicator/ dimension	Score 2019	Brief justification for score
PI-4. Budget classification	D	
4.1. Budget classification	D	Budget formulation and implementation are based on administrative, economic and functional classifications. Budget execution reports delivered by the Treasury are based on economic and functional classifications, but not on administrative classification. Functional classification meets the requirements of the Government Finance Statistics Manual /Classification of Functions of Government. Moreover, programmatic classification is applied

4.1 Budget classification

Performance level and evidence for scoring of the dimension

99. **Budget classification is approved by the Ministry of Finance, is unified for all subnational governments and has the following components:**

- Classification of revenue (divided into tax and non-tax revenue, revenue from capital transactions, and transfers);
- Functional classification;
- Administrative classification;
- Economic classification of expenditure;
- Lending classification;
- Typical programmatic classification of expenditures and lending of local budgets;
- Classification of financing by type of creditor;
- Classification of financing by type of debt obligation;
- Classification of debt by type of creditor; and
- Classification of debt by type of debt obligation.

100. **The budget classification is close to the IMF Government Finance Statistics Manual of 2001 in accordance with the Final Formulation of Methodology under the IMF Special Data Dissemination Standard.** Previously, the budget classification was consistent with the IMF Government Finance Statistics Manual of 1986. Although the process of transition to the IMF Government Finance Statistics Manual of 2001 has begun. The functional classification meets the requirements of the Government Finance Statistics Manual/Classification of Functions of Government, while economic classification still needs to be aligned with the GFS standards. The accrual-based standards that are consistent with IPSAS are yet to be implemented in full. Spending units perform accounting using the accrual method. The State Treasury Service keeps accounting for the execution of state and local budgets under the cash method, while applying the accrual method to spending units' liabilities. Currently it is planned to study the best European experience in preparing information on the receipt and use of budget funds on an accrual basis and to determine the risks of the reliability of the information disclosed in the financial statements as well as the objectivity of management decisions made based of such information. This work must be completed by the end of 2020⁹.

101. **The RSA formulates annual budgets based on administrative, programmatic and economic classifications at the level of the third digit.** Each budget program code consists of seven digits. First two digits represent the first level of administrative classification, the third digit represents the second level of administrative classification identifying core budget program implementors. The next four digits represent a specific code of a budget program based on the Typical Programmatic Classification of Expenditures and Lending issued by the MoF. Each budget program code corresponds to a sub functional classification code (through a conversion table issued by the MoF). Starting from the 2017 budget year, all annual local budgets present a breakdown by programmatic classification with detailing by related economic codes. Based on the aforementioned correspondence between programmatic and functional classification the RSA Finance Department can analyze expenditures by functional classification at any stage of the budget process.

102. **Annual and in-year budget reports issued by the Treasury and consisted of financial information by functional and economic classification at the fourth level digits but do not include information by administrative classification.** The Treasury's budget execution reports include information on revenues, expenditures and financing. The Treasury's budget execution reports for three years 2016, 2017 and 2018 were published on the Iziaslavskiy RSA's website on October 1, 2019.

103. **Detailed information about budget programs of each key spending unit could be found in other documents delivered by KSUs.** KSUs produced budget requests and passports of budget programs which describe budget programs in more details, in particular, mid-term perspective (in budget requests) and outcomes and outputs (in both documents). The BCU identifies a budget program as a range of measures aimed at achieving a common objective, tasks, and the expected result, identified and implemented by a spending unit according to its respective functions. Characteristics of budget programs include their tasks, areas of use of budget funds, performance indicators, etc.

104. **The RC does not have extrabudgetary funds, and all the transactions with the funds that it manages are included in the rayon budget.**

105. **Budget reports do not contain the information desegregated by administrative classification.**

106. **The score for the indicator is D.**

Recent or ongoing reform activities

107. **On 20 June 2018, the Cabinet, via Order No. 437, approved the Strategy for the Modernization of the Public Sector Accounting and Financial Reporting System for the period until 2025.** Among other things, this strategy entails analyzing a possibility to present budget execution operations using the accrual basis of accounting.

⁹ The order of the Cabinet dated June 20, 2018 No. 437-r "On approval of the Strategy for the modernization of the accounting system and financial reporting in the public sector for the period until 2025".

PI-5. Budget documentation

General description of the characteristics of the indicator within the scope covered

108. **This indicator assesses the comprehensiveness of the information provided in the annual budget documentation, as measured against a specified list of basic and additional elements.** Time period is the last budget submitted to the legislature (Budget 2019) and the coverage is budgetary subnational government.

Summary of scores and performance table

Indicator/ dimension	Score 2019	Brief justification for score
PI-5. Budget documentation	D	
5.1. Budget documentation	D	Budget documentation contains two of the four basic elements and two of eight additional elements (three of which are inapplicable). All of them are accessible to the RC

5.1 Budget documentation

Performance level and evidence for scoring of the dimension

109. **Budget documentation contains two basic and two additional elements.** This includes documentation submitted by the RSA to the RC together with the annual rayon budget proposals, as well as the documents approved by the RC. The rayon budget, which is published on the website of the RC¹⁰, includes indicators approved for the current year in the same format as the budget proposal as well as the indicated aggregate target indicators for the current year.

110. **According to BCU, local council's executive body must submit to the local council information about the socio-economic status of relevant administrative and territorial units for the next budget period¹¹.** This information should be included in the explanatory note to a local budget.

111. **In accordance with the BCU, the local budget establishes, among other things,** total amounts of revenues, expenditures and lending of the local budget, the ceiling for annual deficit (surplus) of the local budget in the next budget period and local debt at the end of the next budget period, the ceiling for the issuing of local guarantees and the powers to provide such guarantees, local budget revenues by budget classification (as an annex), financing of the local budget according to budget classification (as an annex), and budgetary allocations for the key spending units of the local budget according to the budget classification (as an annex).

112. **In the local budget, expenditures for the key spending units must be detailed by programmatic classification of the local budget and by applicable codes of economic classification.**

113. **Rayon councils do not have the right to borrow (part three of Article 16 BCU) therefore the rayon budget cannot have a deficit.** Until now, Annex 2 (Financing of Budget) contained only funds transferred from the general fund (surplus) to the special fund (deficit) for the development budget and zero balance of the budget as a whole (items 1 and 5 in Table 5.1).

114. **The draft rayon budget 2019 submitted by the RSA to the RC was supported by an explanatory note, which contained some information required for this indicator.** The explanatory note provides information on tax benefits, a forecast of macroeconomic indicators for the planned and subsequent two years, as well as a forecast of budget revenues and expenditures for the same period.

¹⁰ Accessible by following the link: <https://www.adm-km.gov.ua/wp-content/uploads/2018/03/%D0%9E%D0%B1%D0%B%D0%B0%D1%81%D0%BD%D0%B8%D0%B9-%D0%B1%D1%8E%D0%B4%D0%B6%D0%B5%D1%82-2018.pdf>.

¹¹ According to Article 76 of the BCU.

115. **The RSA did not submit the previous year's budget outturn in the same format as the budget proposal to the RC.** Annexes to the budget include tables with planned revenues based on revenue classification and expenditures based on administrative and programmatic classification. Budget reports submitted to RC presented text information describing the execution of revenue by type of revenue classification and the execution of expenditure by type of functions. The description of expenditure execution included some typical budget programs of local budgets and did not include expenditures by administrative classification.

116. **Table 5.1 presents the achievement of budget criteria information with 2 basic and 2 additional elements.**

Table 5.1. Budget criteria achieved

Elements	Consistent or not consistent (Yes/No)	Explanation
Basic elements		
1. Forecast of the fiscal deficit or surplus or accrual operating result	Yes	The information is located in Annex 2 to the decision on the rayon budget
2. Previous year's budget outturn, presented in the same format as the budget proposal	No	Budget documentation does not contain previous year's budget outturn. The RSA submits to the RC a report on budget execution in the form of text information that describes budget outturn but does not submit reports in same format as the budget proposal
3. Current fiscal year's budget presented in the same format as the budget proposal	Yes	Annexes to the approved rayon budget decision for the current year, which can be found on the website of Iziaslavskiy RC, contain approved indicators for the current year in the same format as the indicators of the draft budget submitted
4. Aggregated budget data for both revenue and expenditure according to the main heads of the classifications used, including data for the current and previous year with a detailed breakdown of revenue and expenditure estimates.	No	Information is not prepared
Additional elements		
5. Deficit financing, describing its anticipated composition	Yes	The information is located in annex 2 to the decision on the rayon budget
6. Macroeconomic assumptions.	N/A	RSA has no capacity to forecast GDP of the rayon level. Central government issues forecast of inflation and interest rates (see PI-14.1)
7. Debt stock, including details at least for the beginning of the current fiscal year presented in accordance with GFS or other comparable standard	N/A	The RC has no right to borrow, so this element is not applicable
8. Financial assets, including details at least for the beginning of the current fiscal year presented in accordance with GFS or other comparable standard	No	RSA does not submit such information to the RC. The Treasury submits financial statements to RSA that include the balance sheet containing information on financial assets relating to budgetary operations

Elements	Consistent or not consistent (Yes/No)	Explanation
9. Summary information of fiscal risks, including contingent liabilities such as guarantees, and contingent obligations embedded in structure financing instruments such as public-private partnership (PPP) contracts, and so on	No	Fiscal risks can arise from the financial positions of lower-tier of subnational government (PI-10.2). However, there was no summary information of such fiscal risks provided
10. Explanation of budget implications of new policy initiatives and major new public investments, with estimates of the budgetary impact of all major revenue policy changes and/or changes to expenditure programs	No	RSA does not prepare such information
11. Documentation on the medium-term fiscal forecasts	Yes	The explanatory note to the draft decision on the rayon budget 2019 contains indicative estimates of the rayon budget for 2020 and 2021. These indicators include revenues and expenditures according to major sections of the budget classification
12. Quantification of tax expenditures	N/A	This element is not applicable. The RC does not administer taxes

117. **Compliance was achieved regarding two of the four basic elements and two of eight additional elements, three of which are inapplicable.**

118. **The score for the indicator is D.**

PI-6. Subnational government operations outside financial reports

General description of the characteristics of the indicator within the scope covered

119. **This indicator measures the extent to which subnational government revenue and expenditure are reported outside the subnational government financial reports.** The assessment of this indicator is based on the information and reports available for fiscal year 2018. The coverage is subnational government.

120. **All revenues of the spending units are included in the TSA and are reflected in the annual financial reports of the rayon, including those received from the budget, own revenues, grants and any other sources.** Likewise, all expenditures of the budgetary units are included both in the TSA and reflected in the annual financial reports. As a result, there are no operations of budgetary units (i.e., revenue and expenditure) outside financial reports of rayon. There are no extrabudgetary funds at the rayon level (or other local level). The communal enterprise (as mentioned in PI-10 does not meet the PEFA definition of public corporations) is not classified as extrabudgetary unit in line with the definition in the GFS Manual 2014.

Summary of scores and performance table

Indicator/ dimension	Score 2019	Scoring Method M2
		Brief justification for score
PI-6. Subnational government operations outside financial reports	A	
6.1. Expenditure outside financial reports	A	All expenditures made by the rayon are included in the TSA. There are no extrabudgetary expenditures
6.2. Revenue outside financial reports	A	All revenues accrued by the rayon are included in the TSA. There are no extrabudgetary revenues
6.3. Financial reports of extra-budgetary units	N/A	As there are no extrabudgetary revenues and expenditures this dimension is not applicable as there are no reports

6.1 Expenditure outside financial reports

Performance level and evidence for scoring the dimension

121. **All expenditures made by the rayon are included in the TSA.** There are no extrabudgetary expenditures outside of financial reports for the Iziaslavskiy rayon budget. The BCU does not permit extrabudgetary funds and severely restricts opening accounts outside of the TSA for any state or subnational authorities and budget entities. Some exemptions are specified for opening accounts in public sector banks for operations with budget funds, and whole information was included in budget reports. These exemptions include development budgets of subnational governments and spending of own revenues¹² of budgetary institutions¹³. In addition, the placement of temporary free local budgets' cash¹⁴ on deposits in public sector banks is allowed by Article 16 of the CBU (part eight). According to the MoF's Order #938 dated August 23, 2012, if an authority or entity used these provisions of the BCU, they must officially report to the Treasury on monthly base. Iziaslavskiy rayon did not use any of mentioned exemptions during the assessment period.

122. **There are no extrabudgetary expenditures.**

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

6.2 Revenue outside financial reports

Performance level and evidence for scoring the dimension

124. **All revenues accrued by the rayon are included in the TSA.** There are no extrabudgetary revenues.

125. **The score for the dimension is A.**

¹² Own revenues include payment for services provided by budgetary institutions in accordance with the law, grants and gifts to budgetary institutions and funds for the implementation of targeted activities.

¹³ Article 78 of the CBU (part two).

¹⁴ Temporary free budgets' cash is budget revenues, the diversion of which will not lead to a loss in the paying capacity of budgets (the ability to timely and fully make payments and meet all commitments) and to arrears during the period for which such funds are supposed to be placed on deposits.

6.3 Financial reports of extra-budgetary units

Performance level and evidence for scoring the dimension

126. There are no extrabudgetary revenues, expenditures and reports.
127. This dimension is not applicable.

PI-7. Transfers to subnational governments

General description of the characteristics of the indicator within the scope covered

128. This indicator assesses the transparency and timeliness of transfers from rayon budget to local budgets (lower tier of subnational government) with direct financial relationships to it. It addresses the basis for making transfers from the rayon budget and whether local authorities receive timely information on the allocation of intergovernmental transfers to facilitate the budget planning process. Time period for this indicator is the last fiscal year, 2018. Coverage is the rayon and the city and villages that have direct financial relations with it.

129. Ukraine has a three-tier government structure at the local level, where each of its branches at the local level supervises the lower level below it. Nevertheless, the logic of the administrative hierarchy does not fully apply to the system of fiscal transfers between different authorities. The rayon budget provides direct financing for some shared villages' needs and provides intergovernmental transfers to the budget of Izyaslav city and villages (which are not amalgamated yet into ATCs), while ATCs have direct budget relationships with the central and oblast budgets. The rayon budget also financed all expenditures related to support of vulnerable groups of the population in the rayon within targeted transfers received from the state budget and channeled through the oblast budget.

130. In 2018, transfers were made from the rayon budget to the budget of Izyaslav, a city of rayon significance and the budgets of 29 villages (i.e., 30 budgets in total).

Summary of scores and performance table

Indicator/ dimension	Score 2019	Minimum requirements (Scoring Method M2)
		Brief justification for score
PI-7. Transfers to subnational governments	C+	
7.1. System for allocating transfers	A	In 2018, almost all own transfers from the rayon budget were allocated under a transparent formula approved by the RC
7.2. Timeliness of information on transfers	D	The city of Izyaslav and the villages received of intergovernmental transfers approved by the rayon administration after the deadline for preparing and publishing draft local budgets. This applies to own transfers from the rayon budget and transfers originating from the state budget, received directly or transferred through the oblast budget which the rayon authorities distribute to lower level branches

7.1 System for allocating transfers

Performance level and evidence for scoring the dimension

131. The rayon budget distributes to local budgets at the lower level (Izyaslav city and villages) both the transfers from the state budget received directly or through the oblast budget, and transfers from its own budget (own transfers) (see Annex 7). Thus, the rayon budget is authorized to allocate part of transfers from

the state budget to lower-level budgets. These transfers are educational subventions, capital subvention to support orphans and subvention on socio-economic development. The proportion of these subventions of total transfers was 14.4 percent in 2018.

132. **Most of transfers received from the state budget directly or through the oblast budget are distributed by the rayon administration between local budgets based on a formula.** Educational subventions and capital subvention to support orphans are allocated based on amount of recipients and additional criteria, such as estimated occupancy of classes and educational plans (for educational subvention); the availability of land, taking into account the needs of persons with disabilities, compliance with state building standards and sanitary legislation, etc. (for the capital subvention to support orphans). The subvention for measures of socio-economic development of certain territories (10.6 percent of total transfers from the state budget) was distributed in 2018 without any formula and criteria.

133. **89.7 percent of planned own transfers were allocated based on a formula¹⁵.** When approving the original rayon budget, it was envisaged that one transfer to the local budgets of the lower level (own transfer) would be made in the amount of UAH 23.2 million, which was allocated between local budgets based on a formula. During the budget year own transfers were increased by amendments to rayon budget for UAH 2.7 million, or 10.3 percent of adjusted total transfers, which were allocated in the budget without the formula.

134. **From the total amount of actual own transfers assessed in this indicator, 89.4 percent were allocated and distributed using a transparent formula.** Of the total volume of such transfers (UAH 25.8 million), UAH 23.1 million was allocated by an approved formula. These transfers relate to pre-school, general education and cultural establishments, and the formula considers the number of recipients of the service, the financial standard of service provision to one recipient and the coefficients required for the calculation. The remaining UAH 2.7 million, or 10.6 percent, was distributed based on allocation decisions. Although clearly defined criteria for the distribution of the latter is not available, the process of their distribution takes into account the availability of design and estimate documentation, confirmation that the local budget is insufficient to cover the payroll fund, and the ability of the local budget to resolve the issue at the expense of its own reserves.

135. **About 90 percent of planned and actual total own transfers were distributed under a transparent formula.**

136. **The score for the dimension is A.**

7.2 Timeliness of information on allocation of transfers between budgets

Performance level and evidence for scoring the dimension

137. **The draft local budget should be completed and published before November 27 of the year preceding the planned year.** In accordance with part two of Article 77, local budgets shall be approved by December 25 of the year preceding the planned year. According to part three of Article 15 of the Law "On Access to Public Information", dated January 13, 2011, No. 2939 draft regulatory acts, decisions of local self-government bodies must be made public no later than 20 working days before the date of their consideration for the purpose of adoption.

138. **The original rayon budget for 2018 approved the distribution of one own transfer between local budgets (in the amount of UAH 23.1 million)¹⁶.** The information on the volume of this transfer was sent to the local budgets after approval of the draft rayon budget decision at the RSA meeting on December 20, 2018, or after the deadline for preparing and publishing draft local budgets. However, the rayon budget was changed during the year and own transfers to local budgets were increased to six transfers with the total amount of UAH 25.8 million. Therefore, the RSA notified the financial directorates about new transfers throughout the fiscal year.

¹⁵ Formula were approved by the decision of the RC of 22.12.2017 No.3 "On the rayon budget for 2018".

¹⁶ A grant, which is transferred to local budgets in accordance with paragraph 20 of the Final Provisions of the BCU.

139. **In 2018, the rayon budget transmitted one transfer from the state budget to lower-level local budgets, which it received through the oblast budget after the beginning of the budget year.** This transfer included a subvention for providing high-quality, modern and affordable general secondary education under “New Ukrainian School” program. It was received by the rayon budget in the amount of UAH 1,512,400, of which UAH 227,800 was transferred to lower-level local budgets. Guided by the BCU¹⁷ the Cabinet distributed this transfer between the oblast budgets after the beginning of the fiscal year on April 4, 2018. The oblast council distributed this transfer between the rayons and cities budgets and the ATC budgets on June 6, 2018. Therefore, the rayon administration has distributed this subvention between local budgets only after that date and informed relevant rayon and city finance directorates and heads of ATC about the amounts of transfers due to them.

140. **The score for the dimension is D.**

PI-8. Performance information for service delivery

General description of the characteristics of the indicator within the scope covered

141. **This indicator examines the service delivery performance information in the executive’s budget proposal or its supporting and documentation in year-end reports.** It determines whether performance audits or evaluations are carried out. It also assesses the extent to which information on resources received by service delivery units is collected and recorded. The time period covered: dimension 8.1: performance indicators and planned outputs and outcomes for the next fiscal year, 2019; dimension 8.2: outputs and outcomes of the last completed fiscal year, 2018; dimensions 8.3 and 8.4 and last three completed fiscal years, 2016-2018. The coverage is Iziaslavskyi rayon including services managed and financed by other tiers of government where the rayon significantly finances such services through reimbursements or earmarked grants, or uses other tiers of government as implementing agents.

Summary of scores and performance table

Indicator/ dimension	Score 2019	Scoring Method M2 AV
		Brief justification for score
PI-8. Performance information for service delivery	B	
8.1. Performance plans for service delivery	A	Key Performance Indicators are established for individual spending units based on established norms relating to achievable service delivery based on performance and efficiency targets
8.2. Performance achieved for service delivery	A	Each key spending unit reports on the realization of the KPI outputs and outcomes specified in their passports of budget programs. Budget program passport execution reports prepared for each KSU contain such information
8.3. Resources received by service delivery units	C	Information on all resources disaggregated by sources of fund received and used by service delivery units across sectors are recorded and available from in-year and annual budget execution reports of each service delivery unit. The rayon is able to track expenditures down to the individual spending units such as hospital and schools using own software. However, spending at this level is not incorporated in budget execution reports of KSU which only included aggregate departmental expenditure
8.4. Performance evaluation for service delivery	C	The assessment of service delivery performance with respect to efficiency and effectiveness is multi-faceted, independent but results were not published

¹⁷ "2. The procedure and conditions for granting state budget subsidies to local budgets are set by the Cabinet of Ministers of Ukraine. (Article 97)".

8.1 Performance plans for service delivery

Performance level and evidence for scoring the dimension

142. **The budget of the rayon is structured around a well-developed medium-term budget program.** This is based on individual programs in each administrative unit in a department. Programs objectives are specified. All key spending units¹⁸ must present to the finance department, after the budget has been agreed, the key performance indicators (KPIs) that they plan to achieve using their budgetary allocation. This is known as the budget program passport. KPIs are also established by KSUs for their individual units.

143. **These budget program passports are published as part of the budget documentation.** They include specification of key outputs and outcomes that each spending program plans to achieve during the year. The specification of outputs and outcomes follow the methodological guidance developed by the Ministry of Finance in the development of the system of program budgeting in Ukraine. KPIs are established by KSUs in internal documents for individual units based on norms relating to achievable service delivery based on performance and efficiency targets. Passport plan information was provided to the Assessment Team.

144. **The score for the dimension is A.**

8.2 Performance achieved for service delivery

Performance level and evidence for scoring the dimension

145. **Each key spending unit reports on the realization of the KPI outputs and outcomes specified in their passports of budget programs.** Budget program passports execution reports for each KSU of rayon budget contain this information. The reports are published on the RSA website and by department. As required by a unified template adopted by the MoF¹⁹, the presented information was consistent with annual planned outputs and outcomes as set forth in budget program passports and if there is any deviation in the actual performance this is explained in most cases. Passport realization information was provided to the Assessment Team. Spending units report on their KPIs to KSUs during preparation and report on budget programs passports implementation.

146. **The score for the dimension is A.**

8.3 Resources received by service delivery units

Performance level and evidence for scoring the dimension

147. **There is a sub-account for each spending unit within the TSA.** Information on all resources disaggregated by sources of fund received and used by service delivery units across sectors are recorded and available from in-year and annual budget execution reports of each service delivery unit²⁰. Those reports consist of the information on non-financial resources in kind²¹ and associated with them expenditures. Moreover, SDUs submitted to the Treasury a specific statement on natural earnings disaggregated by budget programs and sources of fund on monthly basis. The source of funds includes budget, own sources and any external funds, including but not limited grants and natural earnings. The rayon is able to track expenditures down to the individual spending units such as hospital and schools using departmental software. However, spending at this level is not incorporated in a KSU's budget execution report which only includes aggregate departmental expenditure.

148. **The score for the dimension is C.**

¹⁸ The budget approves allocations of budget funds for key spending units (KSUs) by budget programs, while KSUs identify spending units which implement budget programs during budget period. KSUs include departments of RSA and rayon council.

¹⁹ In line with the MoF Decree no. 836 [of 26.08.2014].

²⁰ MoF's Order № 44 of 24.01.2012.

²¹ MoF's order № 938 dated 23.08.2012.

8.4 Performance evaluation for service delivery

Performance level and evidence for scoring the dimension

149. **Performance evaluation of all service delivery is conducted annually by a unit of the Spending Department.** For Education Youth and Sports, there is an Accounting and Economics Unit that carries out the evaluation of the 10 programs. A similar process exists for each Department. Each delivery unit in all programs provides relevant information and based on this information the evaluation is carried out using established methodology which follows a template provided by the Ministry of Finance. An efficiency report is prepared for each and every program that gives a score classified as high, average or low. When a low score is given, an explanation of the low score is presented. Performance reports are compiled by the spending units for all budget programs. These reports are submitted to the RSA Finance Department which reviews all the reports.

150. **To improve the assessment of performance, the Iziaslavskyi rayon has created a Balance Commission²².** The Balance Commission is a joint venture between the rayon administration and the RC with the objective of reviewing expenditure performance. It is similar in focus to an Audit Commission in some subnational entities. The Balance Commission membership includes elected members of the RC and officials from the RC and heads of institutions and departments, as appropriate. The Balance Commission meets quarterly during the year in accordance with the schedule of meetings pre-approved by the head of the Balance Commission. Each spending unit present data on performance – both financial and non-financial – and answer questions from the Balance Commission. All the meetings record minutes. Recommendations are listed in the minutes with a timetable for implementation and these are monitored with respect to action.

151. **Assessment of service delivery performance with respect to efficiency and effectiveness is multi-faceted, independent, but results were not published.**

152. **The score for the dimension is C.**

Recent or ongoing reform activities

153. **The creation of the Balance Commission has been an imaginative development to assess performance in the rayon.**

PI-9. Public access to fiscal information

General description of the characteristics of the indicator within the scope coveredd

154. **This indicator assesses the comprehensiveness of fiscal information available to the public based on specified elements of information to which public access is considered critical.** The time period is the last completed fiscal year, 2018, and the coverage is budgetary subnational government.

Summary of scores and performance table

Indicator/ dimension	Score 2019	Brief justification for score
PI-9. Public access to fiscal information	B	
9.1. Public access to fiscal information	B	Local authorities disclose four basic elements out of five, one of which is not applicable, and one additional element, one of which is not applicable as well

²² Similar to the Khmelnytskyi oblast Balance Commission.

9.1 Public access to fiscal information

Performance level and evidence for scoring the dimension

155. **Requirements for the disclosure of fiscal information are contained in the BCU Law No. 183-VIII dated February 11, 2015 “On Openness of Public Funds Use”, Law No. 2939 dated January 13, 2011 “On Access to Information in Public Domain”, as well as within the general requirements for the official publication of legislative acts, which are set forth in the Laws No. 586 dated April 9, 1999 and No. 539 dated September 23, 1997 “On the Procedure of Covering the Activities of Governmental Authorities and Local Self-Government Authorities in Ukraine by Mass Media”.** Information can be published both on the websites of the relevant local authorities and in the press.

156. **Article 7 of the BCU sets the principle of publicity and transparency - informing the public on the issues of drafting, reviewing, approving, implementation of the state budget and local budgets, as well as monitoring the implementation of the state budget and local budgets.** Article 28 of the BCU sets out requirements for availability of budget information. In accordance with these requirements, local state administrations ensure that local budget information is published, including local budget decisions and quarterly performance reports. The decision about local budget must be published no later than 10 days after its adoption in the newspapers designated by the respective local councils.

157. **In accordance with the Law on Access to Information in Public Domain, government authorities ensure publication of reports on their official websites.** As indicated in paragraph 7 of Table 9.1, the SAS shall publish audit reports on its website.

158. **The situation with access to fiscal information has improved after the creation of an e-data web portal (spending.gov.ua) starting from 2015.** This website provides information on public expenditure by key spending units.

159. **Table 9.1 presents evidence of meeting the requirements for access of the public to fiscal information.** 4 basic elements out of 5, one of which is not applicable, and 1 additional element, one of which is not applicable as well, are available to the public.

Table 9.1. Evidence of meeting the requirements for access of the public to fiscal information

Element/requirements	(Y/N)	Evidence used/comments
Basic elements		
1. Annual draft budget. A complete set of draft budget documents (as presented by the SG in PI-5) is available to the public within one week of the executive council’s submission to the legislature	Yes	RC posts the publication of the following documents on its website (http://rada-izyaslav.gov.ua/proekti-rishen/): complete document package on the draft budget prepared by RSA (which is evaluated in PI-5)
2. Approved budget. The decision on the rayon budget, approved by the rayon council, shall be made public within two weeks of its adoption	Yes	RC ensures publication of the approved decision on the rayon budget on its web site (decision on the rayon budget 2018 with annexes http://rada-izyaslav.gov.ua/rishennya-rajonnoi-radi/7-sklikannya/28-pozachergova-sesija/ , decision on the rayon budget for 2019 with annexes http://rada-izyaslav.gov.ua/rishennya-rajonnoi-radi/7-sklikannya/43-pozachergova-sesija/), and RSA in the official media (rayon newspaper “Zorya Nadgorynia”) no later than ten days after its adoption

Element/requirements	(Y/N)	Evidence used/comments
		In addition, budget decisions are posted on the RSA's official website: (On January 2, 2018, the rayon budget decision for 2018 was published https://drive.google.com/drive/folders/1Q5TV1yxguk11W8nQCewRvZ32jZzHgK-m?usp=sharing , and on December 27, 2018 - the decision on the rayon budget 2019 https://drive.google.com/file/d/1Ccc40R6sCinuKpEAsBTiA6mmlMDsuCfr/view?usp=sharing)
3. In-year budget reports. The reports are routinely made available to the public within one month of their issuance, as assessed in PI-28	Yes	Quarterly report on the implementation of the rayon budget is published on the RSA website (https://izadm.gov.ua/budget.html , https://drive.google.com/drive/folders/1m1nhdu8KvfQv02X0vb6BCjigL9rCu8T). In addition, the decisions on the implementation of the rayon budget for each quarter of the year are published on the official website of the RC (Q1 2018 - http://rada-izyaslav.gov.ua/rishennya-rajonnoi-radi/7-sklikannya/32-sesiya/ , H1 2018 - http://rada-izyaslav.gov.ua/rishennya-rajonnoi-radi/7-sklikannya/36-sesiya/ , 9 months of 2018 - http://rada-izyaslav.gov.ua/rishennya-rajonnoi-radi/7-sklikannya/39-sesiya/)
4. Annual report on the implementation of the budget. The report is made available to the public within six months of the fiscal year's end	Yes	Annual report on the implementation of the rayon budget is published on the RSA website (https://izadm.gov.ua/budget.html , https://drive.google.com/drive/folders/1kVVDPgSMcjSvIvTK0eOJzAHA8go__2w). In addition, the official website of the RC publishes decisions on the implementation of the rayon budget for the year (decisions for 2018 - http://rada-izyaslav.gov.ua/rishennya-rajonnoi-radi/7-sklikannya/45-sesiya/)
5. Audited annual financial report, incorporating or accompanied by the external auditor's report. The reports are made available to the public within twelve months of the fiscal year's end	N/A	Since no external audit of the annual financial reports has been carried out this element is not applicable
Additional elements		
6. Prebudget statement. The broad parameters of the draft budget in terms of expenditure, projected revenue and debt are made available to the public at least four months before the beginning of the financial year	No	Such information is not prepared at the rayon budget level
7. Other external audit reports. All non-confidential reports on central government consolidated operations are made available to the public within six months of submission	N/A	Since no external audit report has been carried out this element is not applicable

Element/requirements	(Y/N)	Evidence used/comments
8. Summary of the budget proposal. A “citizen’s budget”, where appropriate, translated into the most commonly spoken local language, is publicly available within two weeks of the executive budget proposal’s submission to the legislature and within one month of the budget’s approval	No	Such information is not prepared at the rayon budget level.
9. Macroeconomic forecasts. The forecasts, as assessed in PI-14.1, are available within one week of their endorsement	Yes	RSA has no capacity to forecast GDP of the rayon level. Central government issues forecast of inflation and interest rates (see PI-14.1). In the same time a macroeconomic forecast related to the rayon budget for the next two planned years is included in the explanatory note prepared for the draft decision on the rayon budget. This document is published on the website of the RSA along with the decision of the rayon budget 2018. https://drive.google.com/drive/folders/1Q5TV1yxguk11W8nQCewRvZ32jZzHgK-m?usp=sharing for 2019: https://drive.google.com/file/d/1Ccc40R6sCinuKpEAsBTiA6mmlMDsuCfr/view?usp=sharing

160. **Requirements are met for 4 basic elements out of 5, one of which is not applicable, and 1 additional element, one of which is not applicable.**

161. **The score for the dimension is B.**

Recent or ongoing reform activities

162. **In accordance with the latest changes to the BCU of December 2018), public access to fiscal information has improved.** Amendments made to Article 28 require that the key spending units of the local budgets publish budget requests, annual budget information on budget programs and indicators, passports of budget programs, reports on their implementation and the results of evaluating the effectiveness of budget programs.

163. **According to these amendments to the BCU, the local budget forecast will be approved annually and drafting of the budget for the next year will take local budget forecast into account.** This document will be published to ensure compliance of an additional element (paragraph 6, prebudget statement).

164. **The launch of the 2018 Electronic Data Portal (<https://openbudget.gov.ua>), which reports on the implementation of all local budgets on a monthly basis made fiscal information more accessible.** All information is submitted in open data format and updated monthly. At the same time, only the information on the consolidated budget of the Iziaslavskiy rayon is published on this portal as is the case for all RSAs. Full implementation of the project will take about two years. The aim of the project is to open up to the public as much information as possible. Implementation of this project will facilitate public access to budget documentation.

PILLAR THREE: Management of Assets and Liabilities

PI-10. Fiscal risk reporting

General description of the characteristics of the indicator within the scope covered

165. **This indicator measures the extent to which fiscal risks to subnational government are reported.** Fiscal risks can arise from the financial positions of lower tiers of subnational government, public corporations, and contingent liabilities from subnational government’s own programs and activities, including extra budgetary units. The assessment is based on the information available for the last completed fiscal year, 2018. Coverage for dimension 10.1 is SNG controlled and/or owned and shared public corporations. For dimension 10.2 it is the lower tier of subnational governments that have direct financial relations with the SNG being assessed. For dimension 10.3 it is budgetary and extrabudgetary units of the Iziaslavskiyi rayon.

Summary of scores and performance table

Indicator/ dimension	Score 2019	Scoring Method M2 AV
		Brief justification for score
PI-10. Fiscal risk management	D	
10.1. Monitoring of public corporations	N/A	Iziaslavskiyi rayon does not control or own any shares in a public corporation
10.2. Monitoring of subnational government (SNG)	D	The State Treasury Service Department prepares the consolidated report of local budgets of Iziaslavskiyi rayon and submits it to the RSA. However, the RSA did not publish such reports annually on its website
10.3. Contingent liabilities and other fiscal risks	N/A	Iziaslavskiyi rayon does not have any significant contingent liabilities as defined by the PEFA framework

10.1 Monitoring of public corporations

Performance level and evidence for scoring the dimension

166. **Enterprises fall into two broad categories: state and communal unitary enterprises, and commercial enterprises (e.g., joint-stock companies) in accordance with the Ukrainian State Commercial Code.** In fiscal year 2018, Iziaslavskiyi rayon was responsible for the management of only one communal enterprise, Rayon Bureau of Technical Inventory <http://rada-izyaslav.gov.ua/ogoloshennya/komunalne-pidpriemstvo-izyaslavske-rajonne-bjuro-tehnichnoi-inventarizacii-nadae-poslugi/>. However, the communal enterprise does not meet the definition of a public corporation which is aligned with GFS 2014²³. As stated in the supplementary guidance for the subnational PEFA assessments “if the assessed subnational government does not control or own any share in a public corporation, the dimension will be NA”.

167. **The score for this dimension is N/A.**

²³ Public corporations for the purpose of this indicator are defined in accordance with GFS 2014. In this regard it is possible that certain institutional units that are legally constituted as corporations may not be classified as corporations for statistical purposes if they do not charge economically significant prices. Assessors should refer to the GFS manual for further guidance and application.

10.2 Monitoring of subnational government (SNG)

Performance level and evidence for scoring the dimension

168. **The lower-tier subnational governments of the Iziaslavskiyi rayon (one city and 29 villages) prepare annual financial reports, which are consolidated by the State Treasury Service Department.** All individual bodies (i.e., lower-tier subnational governments) in the rayon administration prepare annual financial statements which are submitted to the respective council and the State Treasury Office. The latter consolidates all individual financial statements which are published at the Iziaslavskiyi RSA website page in a special section at <https://izadm.gov.ua/budget.html>. Reports for three years 2016, 2017 and 2018 were first published on October 1, 2019.

169. **The State Audit Services²⁴ is responsible for controlling the local budgets by conducting the combined state financial audit, during which all budget process stages are audited.** The correctness of the accounting and the reliability of the annual financial statements are subject to such audits, which are undertaken in compliance with the rules and procedures stipulated by the law. In 2018, SAS has not audited any lower tier SNGs with direct financial relationship to Iziaslavskiyi rayon.

170. **The score for the dimension is D.**

10.3 Contingent liabilities and other fiscal risks

Performance level and evidence for scoring the dimension

171. **This dimension assesses monitoring and reporting of the subnational government explicit contingent liabilities from its own projects and programs, including those of extrabudgetary units.** The calibration of this dimension is based on the extent to which the subnational governments quantify significant contingent liabilities in their financial reports. As stated in the PEFA 2016 Framework (p. 34) significant contingent liabilities are defined as those with a potential cost in excess of 0.5 percent of total budgetary subnational government expenditure and for which an additional appropriation by the legislature will be required.

172. **Iziaslavskiyi rayon does not have significant contingent liabilities as defined by the PEFA framework.** It does not use special financing instruments such as Public-Private Partnership (PPP), nor umbrella state guarantees for various types of loans or state insurance schemes, or issue guarantees to state-owned enterprises. Since social transfers are financed through the intergovernmental transfers from the state budget, this kind of fiscal risk cannot arise for the rayon.

173. **This dimension is not applicable (N/A).**

²⁴ According to the national legislation, the integral components of the state financial control system are the i) SAS bodies (government control) authorized by the Cabinet to perform state financial control, ii) Accounting Chamber, that conducts state financial control on behalf of the Parliament (Parliamentary control), and sub-divisions on internal audit of the key spending units. In the system of state financial control, each of the above-listed bodies executes controlling functions within the sphere of its authorities specified by the legislation. According to the part 1 of the Clause 1 of the Law "On Accounting Chamber", the Accounting Chamber on behalf of the Parliament executes control over the revenues to the State Budget and their use. Thus, as per this Law, the Accounting Chamber is not authorized to conduct financial control and audit of local budgets' funds. On the other hand, SAS as set forth in the Clause 2 of the Law "On basic principles for conducting state financial control in Ukraine" is authorized to control over the use of the local budget funds. Such control is executed, in particular, via revisions of local budgets and budget institutions, that are maintained on the account of the local budget funds, audits of local budgets, of execution of budget programs and regional target programs.

PI-11. Public investment management

General description of the characteristics of the indicator within the scope covered

174. This indicator evaluates the economic analysis, selection, cost calculation and monitoring of public investment projects by the subnational government with a focus on the largest and most significant projects. The evaluation is based on fiscal year 2018 and covers SNG.

Summary of scores and performance table

Indicator/ dimension	Score 2019	Minimum requirements (Scoring Method M2)
		Brief justification for score
PI-11. Public investment management	D	
11.1. Economic analysis of investment projects	D	Economic analysis was not conducted to assess the major investment project
11.2. Investment project selection	C	Standard selection criteria for investment projects have not been approved. When selecting major investment project, the Economics Directorate applied the priorities set by sectoral policies
11.3. Investment project costing	D	Expenditures for implementing the major investment project were calculated for three years, but they were not included into the budget documentation
11.4. Investment project monitoring	D	Formalized annual reports on the implementation of the major investment project in terms of financial component and physical progress are not prepared

175. **The BCU does not contain a term “major investment project”.** According to the PEFA methodology, “major investment projects” are defined as projects meeting the following two criteria: (i) the total investment cost of the project amounts to 1 percent or more of the total annual budget expenditure; and (ii) the project is among the largest 10 projects (by total investment cost) for each of the 5 largest subnational government units, measured by the units’ investment project expenditure. In 2018, one investment project can be identified as the major investment project based on the PEFA methodology: “Reconstruction of the roof of Novosilsk category I-III secondary school, located at Heroiv Nebesnoi Sotni Str. 31 Nove village, Iziaslavskiyi rayon of Khmelnytskyi oblast” with a cost of UAH 3.6 million. The other two investment projects implemented in 2018 are small. One of them is related to the preparation of design estimates; the other to the reconstruction of the roof of the children’s sports school paid from subventions from the state budget. Compliance of investment projects implemented in 2018 with good practices at the main stages of the project life cycle are presented in table 11.1. All three noted public investment projects had the same approach at each of the stages assessed in each dimension of this indicator.

Table 11.1. Compliance of investment projects implemented in 2018 with good practices at main stages of the project life cycle

Investment projects	Total cost	2018 budget	Economic analysis	Selection	Costing	Monitoring
Department of Education, Youth and Sports of the RSA	4,170.2	3,419.0				

Investment projects	Total cost	2018 budget	Economic analysis	Selection	Costing	Monitoring
Reconstruction of the roof of Novosilsk category I-III secondary school, located at: Heroiv Nebesnoi Sotni Str. 31 Nove village, Izyaslavskiy rayon	3,575.2	3,303.0	-	-/+	-	-
Reconstruction of the roof of the Izyaslavskiy sport school on the street. Vokzalna 11, in Izyaslav city, Izyaslavskiy rayon	515.0	36.0	-	-/+	-	-
Preparation of design and estimate documentation for the reconstruction of the roof of the Belevsky kindergarten on the street Ivana Franca, 2, village Bileve, Izyaslavskiy rayon	80.0	80.0	-	-/+	-	-

11.1 Economic analysis of investment projects

Performance level and evidence for scoring of the dimension

176. **There are no established guidelines and standard forms for economic analysis of public investment projects.** Spending units and recipients of budgetary funds submit their issues to the KSU in no particular format. The KSU discusses with the RSA and the RC the possibility of solving the issue through correspondence, which includes description of the problem and a general proposal for its solution. If the RSA and the RC agree on the need to address the problem in the suggested manner, then the rayon budget will allocate funds for the project design without conducting economic analysis.

177. **Economic analysis of the major investment project was not conducted.**

178. **The score for the dimension is D.**

11.2 Investment project selection

Performance level and evidence for scoring of the dimension

179. **The budget includes investment projects, which are defined by the program of socio-economic development for the respective year.** The projects are included in the budget after approval as amendments since during the last three years capital expenditures were not in practice planned in the original budget (see PI-2.2), which may affect the limited time on the project selection procedure.

180. **KSU submit proposals for the implementation of investment projects during the current year in the form of a list with an annual amount of expenditures for the implementation of the project to the Economics Directorate, which prepares the draft program of socio-economic development.** Description and calculations for the project are not provided.

181. **Standard selection criteria for investment projects have not been approved.** The Department of Economic Development, Trade and Infrastructure of RSA incorporates investment projects into the draft program of socio-economic development using the priorities defined by sector strategies. Thus, if projects meet the steps and measures identified by the relevant sector strategy and have a positive opinion of the KSU, then they will be included in the draft program of socio-economic development. The total amount of projects is formed within the available resource. During consideration of the draft program at the RC, the list of investment projects may be amended, however, any project can be included in the program only with the

approval of the Directorate of Economics. This agreement process provides for the aforementioned use of the priorities set by industry policies and verification of availability of a positive conclusion of the KSU.

182. **The Department of Economic Development, Trade and Infrastructure of RSA prioritized major investment projects before their inclusion in the budget.**

183. **The score for the dimension is C.**

11.3 Investment project costing

Performance level and evidence for scoring of the dimension

184. **Projections of the total capital cost of the major investment project was not included in budget documentation.** The program of socio-economic development of the Iziaslavskiy rayon defines the amount of expenditures necessary for the implementation of the investment project for the respective year but without total capital cost.

185. **The score for the dimension is D.**

11.4 Investment project monitoring

Performance level and evidence for scoring of the dimension

186. **Financial components of major investment projects were monitored during the preparation of monthly, quarterly and annual budget reporting.** Physical progress was monitored in accordance with the law²⁵ during technical supervision by a person holding a qualification certificate issued by the architectural and construction certification committee. Such supervision is carried out regarding conformity of volume and quality of completed construction and installation works in accordance with the design and estimate documentation. The technical supervisor reports the monitoring results to the customer (developer) only if deviations from the design solutions made during the construction of the facility are detected and the contractor refuses to eliminate them. The results of this analysis are not published.

187. **Every Monday, the Deputy Chair of the RSA for Economic Affairs is presented with an oral report on the progress of works on the implementation of the major investment project.** The Deputy Chair also visits the sites during construction regularly.

188. **Formalized complex annual reports on the implementation of major investment projects in terms of finances and physical progress are not prepared.**

189. **The score for the dimension is D.**

PI-12. Public asset management

General description of the characteristics of the indicator within the scope covered

190. **This indicator assesses the management and monitoring of subnational government assets and transparency of asset disposals.** The assessment is based on the last completed fiscal year, 2018. Coverage for dimension 12.1 is budgetary and extrabudgetary units of the subnational government, for dimension 12.2 it is budgetary unit of the subnational government, and for dimension 12.3 it is budgetary and extrabudgetary units of the subnational government for financial assets, and budgetary units of subnational government for nonfinancial assets.

²⁵ Resolution of the Cabinet dated 11.07.2007 No. 903 "On designer and technical supervision during construction of architectural objects."

Summary of scores and performance table

Indicator/ dimension	Score 2019	Scoring Method M2 AV
		Brief justification for score
PI-12. Public asset management	C	
12.1. Financial asset monitoring	N/A	The records on the financial holdings are maintained by the State Treasury Office, with no control from the Iziaslavskiyi rayon.
12.2. Non-financial asset monitoring	N/A	The records on nonfinancial assets are maintained by the central government with no control from the Iziaslavskiyi RSA.
12.3. Transparency of asset disposal	C	Procedures and rules for the transfer and disposal of nonfinancial assets are established, including information to be submitted to the legislature for approval. Each spending unit reports on disposal assets as part of annual financial reporting. However, there is no acknowledgment of no disposal or transfer of assets in the budget documents or other reports.

12.1 Financial asset monitoring**Performance level and evidence for scoring the dimension**

191. **The major categories of the financial assets held by Iziaslavskiyi rayon as stated in the annual financial statements prepared by State Treasury Office include cash flow and receivables.** All financial assets are listed at fair value.

192. **All key spending units prepare quarterly budget execution reports which include information on the financial assets.** The State Treasury Office consolidates and prepares the annual financial statement at the rayon level which lists all financial assets. The consolidated report is published annually at the Treasury website.

193. **The records on the financial holdings are maintained by the State Treasury Office, with no control from the Iziaslavskiyi RSA.**

194. **Therefore, as per PEFA Supplementary guidance for SNG assessment, this dimension is not applicable (N/A).**

12.2 Non-financial asset monitoring**Performance level and evidence for scoring the dimension**

195. **Records on nonfinancial assets of the Iziaslavskiyi rayon are maintained by the central government with no control from the rayon.** The State Property Fund maintains the Consolidated Register of State Property, which is produced with the participation of the authorized government management entities following the standardized methodology developed by the fund for the collection of information about the fixed assets. The consolidated register contains information about the main state assets²⁶, (e.g. buildings, constructions, equipment, pipelines, gas pipelines, autobahns, electric grids, main heating systems, communications network, railway, etc.) in the ownership of both central and local administration bodies. It is the only register that holds information on the state assets and legal entities that administer them.

²⁶ The Consolidated Register of Property Objects contains information about more than 1 million state property objects.

196. **As stated in the supplementary guidance for subnational PEFA assessments “if the records are maintained by a higher level of government with no control from the subnational government, this dimension is not applicable”.**

197. **The score for this dimension is not applicable.**

12.3 Transparency of asset disposal

Performance level and evidence for scoring the dimension

198. **The procedures and rules for the transfer or disposal of nonfinancial assets established at the national level are also applicable at the subnational level.** An important law “On Privatization of State and Municipal Properties” was adopted on January 18, 2018 #2269-VIII, by the Parliament. On May 10, 2018, the government approved a number of by-laws aimed at the implementation of the law “On Privatization of State and Municipal Property” (#386 “On approval of the procedure for the sale of objects of large privatization of state property”, #387 “On approval of the Procedure for Submitting Proposals for the Inclusion of Objects of State Owned Property to the List of Objects to be Privatized”, #358-r “On approval of the list of objects of large privatization of state property subject to privatization in 2018”, #432 “On approval of the procedure for conducting electronic auctions for the sale of small-scale privatization objects and the definition of additional terms of sale”, #433 “On approval of the Procedure for selection of operators of electronic platforms for the organization of electronic auctions for the sale of small privatization objects, authorization of electronic platforms and the definition of the administrator of the electronic trading system”, #389 “On approval of the Procedure for the Transfer (Return) of Functions for the Management of the Property of State-Owned Enterprises, the Management of Shareholding (Share) in connection with the adoption of the decision on privatization or the termination of the privatization of the privatization object”, #351 “On Approval of the Procedure for Monitoring the Effectiveness of Asset Management”).

199. **In addition, Iziaslavskiy RC on January 9, 2009 issued the decision on “On approval of the regulations on the procedure for alienation and foreclosure of property which is jointly owned by the territorial communities of Iziaslavskiy rayon”.**

200. **There is no acknowledgment of no transfer or disposal of assets in the rayon budget documentation and other reports.** As stated in the supplementary guidance for the subnational PEFA assessments “When there is no disposal or transfer of assets, the second requirement for an A and a B score would be fulfilled if the absence of disposal (or transfers) is acknowledged. If there is no such acknowledgment, the score could be C.”

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

PI-13. Debt management

General description of the characteristics of the indicator within the scope covered

202. **This indicator assesses the management of domestic and foreign debt and guarantees.** It seeks to identify whether satisfactory management practices, records, and controls are in place to secure efficient and effective arrangements. The period of assessment for dimension 13.1 is at time of assessment; for dimension 13.2 the last completed fiscal year, 2018; for dimension 13.3 at time of assessment, with reference to the last three completed fiscal years, 2016-2018; coverage is subnational government.

203. **Rayon councils are neither allowed to borrow nor to issue local guarantees.** As of January 1, 2019, only the Autonomous Republic of Crimea (ARC) and cities were eligible for local borrowing and issuing local guarantees. Amendments to the BCU of November 22, 2018 allowed the oblast councils to also provide local guarantees and make local external borrowing by obtaining credits (loans) from international financial institutions.

Summary of scores and performance table

Indicator/ dimension	Score 2019	Minimum requirements (Scoring Method M2)
		Brief justification for score
PI-13. Debt management	N/A	
13.1. Recording and reporting of debt and guarantees	N/A	Rayon councils are neither allowed to borrow nor to issue local guarantees
13.2. Approval of debt obligations and total guarantees	N/A	Rayon councils are neither allowed to borrow nor to issue local guarantees
13.3. Debt management strategy	N/A	Rayon councils are neither allowed to borrow nor to issue local guarantees

13.1 Recording and reporting of debt and guarantees**Performance level and evidence for scoring the dimension**

204. **During the evaluated period, RCs had no right to borrow and issue local guarantees therefore Iziaslavskyyi rayon did not participate in such transactions.** According to Art. 16 of the BCU only oblast councils have the right to borrow from IFIs; City of oblast significant councils can borrow externally and all cities can borrow internally. According to Article 17 of the BCU, only oblast and city councils are entitled to provide local guarantees.

205. **This dimension is not applicable.**

13.2 Approval of debt obligations and total guarantees**Performance level and evidence for scoring the dimension**

206. **Since rayon councils have no right to borrow and issue local guarantees, Iziaslavskyyi rayon did not have such transactions.**

207. **This dimension is not applicable.**

13.3 Debt management strategy**Performance level and evidence for scoring the dimension**

208. **Given that rayon councils have no right to borrow and issue local guarantees, Iziaslavskyyi rayon has no debt management strategy and no target levels for borrowing.**

209. **This dimension is not applicable.**

PILLAR FOUR: Policy Based Fiscal Strategy and Budgeting

PI-14. Macroeconomic and fiscal forecasting

General description of the characteristics of the indicator within the scope covered

210. This indicator measures the ability of a country to develop robust macroeconomic and fiscal forecasts, which are crucial to developing a sustainable fiscal strategy and ensuring greater predictability of budget allocations. It also assesses the government's capacity to estimate the fiscal impact of potential changes in economic circumstances. Macroeconomic and fiscal forecasting should support the achievement of the government's fiscal policy objectives including achievement of planned subnational 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. The time period is the last three completed fiscal years. The coverage is for dimension 14.1: whole economy and for dimensions 14.2 and 14.3 subnational government.

Summary of scores and performance table

Indicator/ dimension	Score 2019	Scoring Method M2 AV
		Brief justification for score
PI-14. Macroeconomic and fiscal forecasting	B	
14.1. Macroeconomic forecasts	N/A	RSA has no capacity to forecast GDP for the rayon level. Central government issues forecasts of inflation and interest rates
14.2. Fiscal forecasts	B	The budget prepared by the Finance Department and submitted to the council includes expenditure and revenues by type and balance for the budget and the following two years. The underlying assumptions are documented
14.3. Macrofiscal sensitivity analysis	N/A	Three scenarios are developed at the national level as part of the budget process: optimistic, no changes and realistic (core one). RSA prepares one scenario based on recommended scenario by central government. However, the RSA does not forecast GDP growth within its macroeconomic forecasts. Forecast on inflation and interest rates are prepared at the central government level

14.1 Macroeconomic forecasts

Performance level and evidence for scoring the dimension

211. Macroeconomic forecasts related to the Iziaslavskiy rayon budget were prepared by the Department of Economic Development, Trade and Infrastructure of the RSA and cover the budget year and the two following fiscal years. The main source of revenues for the rayon, other than inter-governmental transfers, is a share of personal income tax collected in the rayon. Economic performance in the rayon territory is a key determinant of the revenues from this tax. The department carries out analysis of economic activity in the rayon along with the Department of Agriculture to generate forecasts of key indicators relevant to the estimation of the tax revenues in the preparation of the budget. These are shown in Table 14.1.

212. **The revenue part of the rayon budget for 2019 is prepared based on the current Tax and BCU and other regulations, taking into account actual tax base.** When preparing a forecast for the revenue of the rayon budget for 2019 the following were taken into account:

- Statistical indicators were used for calculation of the forecast tax and levies revenues, in particular for 2017, expected macro indicators of the Ministry of Economic Development for 2018 and forecast indicators for 2019-2020, approved by the Decree of the Cabinet from November 7, 2018 No 546;
- Amendments to the taxes;
- Actual fulfillment of the revenue part of the budget;
- Present tax base for 2018.

Table 14.1. Forecast indicators of rayon social and economic development for 2019

Name of the indicator	2019
Volume of industrial products sold at current prices (UAH million)	225.0
Index of agricultural output in % compared to the previous year	2.5
Fund for the remuneration of workers employed in types of economic activity (including employees of small enterprises) (UAH million)	384.2
Average monthly wage per staff member (UAH)	8,428.0

Source: Rayon Budget 2019.

213. **The forecasts for the current budget year are used to project the indicators for the following two years.** The forecasts for each of the three years are included in the budget documentation along with the underlying assumptions. The overall forecasts are reviewed by the rayon Finance Department and by the Ministry of Finance as part of the budget preparation process. However, the RSA does not forecast GDP for the rayon level, using GDP growth, inflation and interest rates forecasted by the MoE.

214. **This dimension is not applicable.**

14.2 Fiscal forecasts

Performance level and evidence for scoring the dimension

215. **The budget prepared by the Finance Department and submitted to the RC includes expenditure and revenues for the budget and the following two years (2019, 2020 and 2021).** Revenues are presented by type – transfers, personal income tax and fees and charges which are the only sources of rayon revenue. The budget balance is presented as the difference between revenues and expenditure. The underlying assumptions are documented; changes from the previous year’s forecast and realization are not addressed.

216. **The revenue part of the draft rayon budget for 2019 was developed based on the norms of the current Tax and Budget codes of Ukraine and other legislative acts, taking into account the actual tax base.** In forecasting the revenue part of the district budget for 2019, the following were taken into account: statistical indicators used in the calculation of estimated tax revenues and fees, in particular for 2017, expected macroeconomic indicators for 2018 and forecast for 2019-2021 years under the first scenario, approved by the Cabinet of Ministers resolution of November 7, 2018 №546; actual implementation of the revenue part of the budget according to the results of 2015 – 2017 and receipt of the current year, available tax base 2018.

217. **The main tax of the budget is the personal income tax (98% of the total) which is estimated on the basis of actual revenues for 2015 -2017 years 11 months in 2018 and expected revenues in 2018 year, taking into account the application of a single rate (18%) of personal income tax; the raising of the minimum wage; increase of the wage bill according to the main indicators of economic and social development of the district; and an increase on the personal income tax on other activities, including shares.** The calculation of

the forecast indicator of rent payment for special use of forest resources (the other significant revenue element) was made on the basis of the provided calculation of SOE “Izyaslavsky Forestry” regarding the payment in 2019 of the tax in the part of timber harvested in order of logging for the special use of forest resources.²⁷

218. **The score for the dimension is B.**

14.3 Macrofiscal sensitivity analysis

Performance level and evidence for scoring the dimension

219. **The Ministry of Finance 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 MoE website. In addition, materials of consensus forecast are also available online (www.me.gov.ua). The Ministry of Finance, in its budget preparation instruction to the RSA, indicates which of these scenarios it should use in its budget which forms the basis for its own forecasts (PI-14.1).

220. **One scenario is developed as part of the budget process.** The central government develops three scenarios (optimistic, no change and realistic (core one)) and provides the subnational governments with instructions on which one to use. Based on the recommended scenario, the RSA prepares macroeconomic forecast for the budget that is included into the budget documentation. When calculating forecast, the RSA considers a national level macroeconomic forecast by applying its assumptions for factors relevant to the rayon.

221. **The RSA does not forecast GDP growth within its macroeconomic forecasts.** Forecast on inflation and interest rates are prepared at the central government level.

222. **This dimension is not applicable.**

PI-15. Fiscal strategy

General description of the characteristics of the indicator within the scope covered

223. **This indicator provides an analysis of the capacity to develop and implement a clear fiscal strategy.** It also measures the ability to develop and assess the fiscal impact of revenue and expenditure policy proposals that support the achievement of the government’s fiscal goals. The time period for dimension 15.1 is the last three completed fiscal years, 2016-2018, and for dimensions 15.2 and 15.3: the last completed fiscal year, 2018. Coverage is subnational government.

Summary of scores and performance table

Indicator/ dimension	Score 2019	Scoring Method M2 AV
		Brief justification for score
PI-15. Fiscal strategy	B	
15.1. Fiscal impact of policy implementation	D	The impact of changes in policy relating to revenues is quantified for the budget year and the following two years. The evidence indicates that the impact of changes in wages policy such as an increase in the minimum wage is similarly calculated. Other policy changes relating to programs are only quantified within the total rather than estimated individually

²⁷ From the budget of Izyaslavsky rayon.

Indicator/ dimension	Score 2019	Scoring Method M2 AV
		Brief justification for score
15.2 Adoption/ approval of fiscal strategy	A	The rayon cannot borrow to finance a fiscal deficit and must have a balanced budget (or a budget surplus). This equates to a fiscal rule for the rayon. The published budget passed by the Council includes the fiscal balance for the budget year and the subsequent two years
15.3 Reporting of fiscal results	A	The RSA prepares and publishes a budget execution report which is submitted to the Council. This includes details of the fiscal balance

15.1 Fiscal Impact of policy proposals

Performance level and evidence for scoring the dimension

224. **The impact of changes in policy relating to revenues is quantified for the budget year and the following two years.** The evidence provided by the RSA indicates that the impact of changes in wages policy such as an increase in the minimum wage is similarly calculated, but other policy changes relating to programs such as health and education are only quantified within the total for the program rather than estimated individually.

225. **The score for the dimension is D.**

15.2 Fiscal strategy adoption

Performance level and evidence for scoring the dimension

226. **The rayon²⁸ cannot borrow to finance a fiscal deficit and must have a balanced budget (or a budget surplus).** This equates to a fiscal rule for the rayon. The budget preparation process provides for detailed and quantifiable information on revenue and expenditure and the resultant fiscal balance for the budget year and the subsequent two years. This information is included in the budget that has been adopted by the RC.

227. **The score for the dimension is A.**

15.3 Reporting of fiscal results

Performance level and evidence for scoring the dimension

228. **The RSA prepares and publishes a budget execution report which is submitted to the RC.** This includes details of the fiscal balance.

229. **The score for the dimension is A.**

PI-16. Medium-term perspective in expenditure budgeting

General description of the characteristics of the indicator within the scope covered

230. **This indicator examines the extent to which expenditure budgets are developed for the medium-term within explicit medium-term budget expenditure ceilings.** It also examines the extent to which annual budgets are derived from medium term estimates and the degree of alignment between medium term budget estimates and strategic plans. Assessment is based on, for dimensions 16.1, 16.2 and 16.3, the last budget submitted to the legislature, budget 2019. For dimension 16.4, last budget submitted to the legislature, budget 2019, and the current budget 2019. The coverage is budgetary subnational government.

²⁸ Along with villages (according to the Article 16 only oblast level in the part of IFOs credits), cities of oblasts significance in part of external borrowing and all cities in part of domestic borrowing have the right to borrow).

Summary of scores and performance table

Indicator/ dimension	Score 2019	Scoring Method M2 AV
		Brief justification for score
PI-16. Medium term perspective in expenditure budgeting	D+	
16.1. Medium-term expenditure estimates	D	Key spending units compile detailed calculations of mid-term expenditure by all budget classifications. Annual budget does not include estimates for the two outer years by administrative, programmatic and economic classifications
16.2. Medium-term expenditure ceilings	D	Expenditure ceilings for the budget year and indicative ceilings for the following two years by spending unit are included in the budget circular. However these are not approved by the RSA at the time of the circular but only at the time of the finalization of the budget
16.3. Alignment of strategic plans and medium-term budgets	C	Each service delivery unit's program – both financial and non-financial elements – is based on a departmental strategy to realize the rayon's overall development strategy. Program proposals are used for annual budget estimates
16.4. Consistency of budgets with previous year's estimates	N/A	No medium-term budget has been adopted during the assessed period

16.1 Medium-term expenditure estimates

Performance level and evidence for scoring the dimension

231. **The first year of annual budget relates to the upcoming budget year and the following two years.** The budget document has supporting documents for each spending unit that details expenditure classified by programs and their economic categories. The budget document provides expenditure details of programs and economic categories by each spending unit (Education Youth and Sports, Health Care, etc.) for the planning year. It projects spending by functions to the following two years, annually. The 2019 budget covers spending indicators for 2019, 2020 and 2021. The annual budget does not include indicators for the next two years by administrative, program and economic classification.

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

16.2 Medium-term expenditure ceilings

Performance level and evidence for scoring the dimension

233. **Expenditure ceilings for the budget year and indicative ceilings for the following two years by spending unit are included in the budget circular.** However, these are not approved by the RSA at the time of the circular but only at the time of the finalization of the budget.

234. **The score for the dimension is D.**

16.3 Alignment of strategic plans and medium-term budgets

Performance level and evidence for scoring the dimension

235. **Medium term budget programs are key elements of performance program budgeting, which was introduced in the rayon according to the BCU.** Programs’ structure specifies Key Performance Indicators (see PI-8). Annual expenditure is allocated to all programs individually broken down by economic categories that are the input costs to realize the outputs and outcomes. Each service delivery unit’s program – both financial and non-financial elements – is based on a departmental strategy that outlines the priorities (summarized in the budget) to realize the rayon’s overall development strategy. These departmental strategies are prepared for all KSUs and cover all the expenditure policy proposals in the annual budget estimates that align with the strategies.

236. **The scoring of this dimension follows the PEFA guidance:** Countries that have introduced multiannual program or performance-based budgeting may use different terminology and methods for developing, costing, and implementing medium-term plans. This dimension measures the extent to which approved expenditure policy proposals align with costed strategic plans. Despite the development KSUs’ mid-term budget programs, there were no approved mid-term budgets.

237. **The score for the dimension is C.**

16.4 Consistency of budgets with previous year’s estimates

Performance level and evidence for scoring the dimension

238. **A medium-term budget was not approved during the period covered by the assessment.**

239. **This dimension is not applicable.**

PI-17. Budget preparation process

General description of the characteristics of the indicator within the scope covered

240. **This indicator measures the effectiveness of participation by relevant stakeholders in the budget preparation process, including political leadership, and whether that participation is orderly and timely.** The period of assessment for dimensions 17.1 and 17.2 is the last budget submitted to the legislature, budget 2019; for dimension 17.3: the last three completed fiscal years 2016-2018; coverage is subnational government.

Summary of scores and performance table

Indicator/ dimension	Score 2019	Minimum requirements (Scoring Method M2)
		Brief justification for score
PI-17. Budget preparation process	D+	
17.1. Budget calendar	C	A budget calendar is in place. The budget letter is issued in November and spending units are provided less than four weeks to prepare their budgets. All KSUs are able to prepare their detailed calculations on time
17.2. Guidance on budget preparation	C	The budget letter is communicated to all the KSUs and contains the spending limits by administrative classification as well as the total budget estimates are approved by the rayon administration after KSUs fill in their budget requests

Indicator/ dimension	Score 2019	Minimum requirements (Scoring Method M2)
		Brief justification for score
17.3. Submission of the draft budget to the legislature	D	The draft budget at was submitted to RC less than a month before the beginning of fiscal year in each of the last three years.

17.1 Budget calendar

Performance level and evidence for scoring the dimension

241. **A budget calendar is in place and is generally adhered to.** The key deadlines of the budget calendar for 2019 are given in Table 17.1.

Activity	Planned date	Actual date
The development of the instruction for the preparation of budget requests for the draft rayon budget for 2019 and providing KSUs with it	September – October, 2018	October 16, 2018
Submission to the Finance Department of revenue forecast calculations for 2019 and 2020-2021 by taxes and fees to general and special funds	October 1, 2018	September 24, 2018
Submission to Finance Department the information on the own revenues of budgetary institutions forecast for 2019 and two subsequent budget periods (2020-2021) with detailed justification	October 1, 2018	September 24, 2018
Submission to the Finance Department of preliminary information on the socio-economic situation of the rayon and its development forecast for 2019 and 2020-2021	November 1, 2018	October 19, 2018
Providing KSUs with budget ceilings and budget circular	November, 2018	November 28, 2018
Budget requests submission to the Financial Department	December, 2018	December 3 – 7, 2018
Conducting conciliation meetings with the KSUs to consider proposals for the draft rayon budget for 2019	December, 2018	December 11 – 13, 2018
Preparation of the draft decision on the rayon budget and budget forecast for the following two years and its submission to the RSA	December, 2018	December 7 – 13, 2018
Submission of the draft decision on the rayon budget and budget forecast for the following two years, approved by the RSA, to the RC	December, 2018	December 14, 2018

242. **The budget letter is issued in November and spending units are provided with less than four weeks to prepare their budgets.** After the KSUs submit their cost proposals, the finance department meets with each KSU and the budget is determined based on the final agreed limits. Thereafter, a draft budget is formulated and approved by the rayon administration. In preparation for the budget cycle, each KSU looks at past performance to help identify budget proposals.

243. **The score for the dimension is C.**

17.2 Guidance on budget preparation

Performance level and evidence for scoring the dimension

244. **In addition to threshold expenditures, the RSA Finance Department provides information to KSUs about the key indicators relating to the budget, including ceilings by administrative classification.** The letter defines the broad areas of budgetary policy to be followed in the budget process, as well as the overall budget. So, when preparing the budget for 2019, the letter contained data for the planned year and the next two years regarding the minimum wage of employees of budgetary institutions, the salary of the employee of the 1st wage category under the Unified Tariff Grid, the subsistence minimum, consumer prices growth index, growth rates for utilities and energy. On the basis of these data, the key spending units will make detailed calculations in the context of each budgetary institution by economic classification codes. Budget estimates are approved by the rayon administration after KSUs fill in their budget requests. The guidelines on preparation of budget requests are approved annually by the Department of Finance of the RSA.

245. **The score for the dimension is C.**

17.3 Submission of the draft budget to the legislature

Performance level and evidence for scoring the dimension

246. **Pursuant to Article 75 of the BCU, within a week of the adoption of the draft law on the state budget at the second reading, the Cabinet sends to local state administrations and local executive authorities information relating to budgets.** The information includes the amount of intergovernmental transfers for relevant budgets and articles with text, as well as organizational and methodology requirements for drawing up local budgets. This information is the basis for local state administrations and local executive bodies to develop local budgets and draft decisions on relevant local budgets.

247. **The draft laws on the state budget for the following years were adopted in the second hearing (and entirely) in 2016 on December 21, in 2017 - on December 7, in 2018 - on November 23²⁹.** The rayon administration submitted budgets to the RC depending on these dates, except for 2016, when the state administration submitted the draft budget earlier, due to a significant delay in the adoption of the state budget in the second hearing.

248. **Actual dates of the budget submission to the RC for last three completed fiscal years are shown in the table 17.3.**

Table 17.3. Actual dates of budget submission for the last three completed fiscal years

FY	Actual date of submission
2016	December 19 (2017 budget)
2017	December 15 (2018 budget)
2018	December 14 (2019 budget)

249. **The score for the dimension is D.**

Recent or ongoing reform activities

250. **In accordance with the amendments to the BCU of November 22, 2018, new requirements are set for drafting of the local budget forecast, which can contribute to the increase in the score under dimensions 17.1 and 17.2 to "A".** This is because this forecast will contain expenditure thresholds for the key spending units and will be approved by the rayon administration before August 15 of the year, which precedes the planned one. This deadline will allow the KSUs to begin drafting budget requests more than six weeks before

²⁹ According to Art. 158 of the Rules of Procedure of Parliament (Law No.1861 of Feb. 10, 2010) the draft law on the State Budget for the next year shall be adopted at the 2nd hearing no later than Nov 20 of the year preceding the planned one.

submission. At the same time, in order to receive a high score, the rayon administration must also timely submit additional information required by the KSU for making calculations during development of budget requests.

251. **The BCU stipulates that such local budget forecasting rules will apply as of January 1, 2020.**

PI-18. Legislative scrutiny of budgets

General description of the characteristics of the indicator within the scope covered

252. **This indicator assesses the nature and extent of legislative scrutiny annual budgets.** It considers the extent to which the legislature carefully scrutinizes, discusses and approves the annual budget, including how clearly the legislative body's procedures for scrutiny are established and followed. Time period: Last completed fiscal year (FY2018) for dimension 18.1, 18.2 and 18.4. For dimension 18.1 - last three completed financial years (2016, 2017 and 2018); coverage is subnational government.

Summary of scores and performance table

Indicator/ dimension	Score 2019	Minimum requirements (Scoring Method M1)
		Brief justification for score
PI-18. Legislative scrutiny of budgets	B+	
18.1. Scope of budget scrutiny	A	The Standing Committee on Budget, Finance and Social Protection of the Iziaslavskiy RC reviews in detail the estimates for the planning year prepared for the draft budget. In the course of discussion, the referred commission is also considering forecasts and priorities for the medium term
18.2. Legislative scrutiny of budgets	B	The procedures for reviewing draft rayon budgets in the RC are established by the Council's rules of procedure and regulations on the standing committees of the Council and are followed. The procedures do not require public hearings
18.3. Timing of budget approval	A	The rayon budget in each of the previous three years was approved before the beginning of the fiscal year
18.4. Rules for budget adjustments by the executive government	B	In some cases, the BCU allows redistributing the expenditure without amending the state budget law during a year. There are clear limits to this redistribution that are always respected. At the same time, there are no clear limits of the scope of the adjustments, so significant administrative reallocations may be permitted

18.1 Scope of budget scrutiny

Performance level and evidence for scoring of the dimension

253. **In reviewing the revenue component of the draft budget, the Standing Committee on Budget, Finance and Social Protection considers the detailed calculations by type of revenue included in the explanatory note to the draft budget.** Revenue forecasts in the medium term are also considered.

254. **The Standing Committee on Budget, Finance and Social Protection also considers the detailed calculations of KSU expenditure for the planning year by economic classification prepared for the draft budget.** An unreasonable increase in expenditures is not allowed, for example, if the institution's parameters remain unchanged. In the course of this review, the commission also discusses the issue of a mid-term forecast with the KSU.

255. **State and local authorities at the rayon level do not have enough autonomy to formulate fiscal policy.** Tax rates are set at the national level, and rayon councils do not have the authority to borrow.

256. **The score for the dimension is A.**

18.2 Legislative scrutiny of budgets

Performance level and evidence for scoring of the dimension

257. **The procedures for budget scrutiny were set by the rules of procedure of Izyaslavskiy RC of the 7th convocation, approved by the RC on October 12, 2015 which do not provide for public hearings.** At the same time, Article 78 of the rules stipulates that the representatives of the media may be invited to the meetings of the Standing Committees and the meetings shall be open. Also, Article 32 of the regulation stipulates that citizens of Ukraine who have been registered with the secretariat of the session may be present at an open meeting of the Council session (which includes meetings regarding draft budget decisions). The floor at the meeting may be given to participants after their written request sent to the session secretariat not later than three days before the meeting and if the simple majority of the registered council members agree.

258. **Article 27 of the rules of procedure found that the standing committees exercise preliminary consideration of issues which have been entered into the agenda of the council session.** Pursuant to Article 78 of the rules of procedure, standing committees shall draw up conclusions and recommendations, which shall be adopted by a majority of the members of the committee and signed by the chairman. Articles 33-36 of the rules set out the general procedure for the consideration of issues at a session of the council. These rules also apply to the consideration of the draft budget decision. These rules also apply to the consideration of the draft budget decision.

259. **Article 78 of the rules also established that organizational, technical and financial support of the committee is done by the executive staff of the council.**

260. **The Standing Committee Regulations³⁰ of Izyaslavskiy RC define their powers which establish budget scrutiny procedures.** The sectoral standing committees are empowered to prepare conclusions and recommendations for draft rayon budgets, and the standing committee on budget, finance and social protection - to summarize these proposals and submit appropriate conclusions and recommendations to the council. These procedures are followed in practice. Sectoral committees consider the draft budget decision at their meetings, after which they provide their conclusions and recommendations at a joint meeting with the Budget Committee. The opinion of the Budget Committee is the main reason for adoption of the decision or its rejection. The work of the committee is scheduled for six months and consists of a list of issues that include consideration of the draft budget decisions. The dates of meetings of committees and the list of issues to be considered shall be approved by the orders of the RC convening the relevant session of the RC. In 2018, the procedures were followed.

261. **The budget scrutiny procedures do not involve public hearings.**

262. **The score for the dimension is B.**

18.3 Timing of budget approval

Performance level and evidence for scoring the dimension

263. **The rayon budget in each of the three assessed periods were adopted by the RC before the commencement of the fiscal year.** Actual dates of approval for last three completed fiscal years are provided in Table 18.3.

³⁰ Approved by the decision of Izyaslavskiy RC on December 10, 2015, No. 6.

Table 18.3. Actual dates of budget approval for the last three completed fiscal years

FY	Actual date of approval
2016	December 23 (2017 budget)
2017	December 22 (2018 budget)
2018	December 22 (2019 budget)

264. **The score for the dimension is A.**

18.4 Rules for budget adjustments by the executive government

Performance level and evidence for scoring of the dimension

265. **The BCU allows local financial authorities to redistribute budget allocations throughout the year without modifying the budget in certain defined circumstances.** Some of these changes should be agreed by the Standing Committee on Budgets and Finance. The local financial authority may amend the expenditure part of the budget without amending the budget in the following circumstances:

- Increase of own revenues and expenditures of budgetary institutions (carried out by the local financial authority upon a justified request of KSUs).
- Transfer of powers to make expenditures from one key spending unit to another one in accordance with the law (transfer is conducted by decision of the RSA coordinated with the Standing Budget Committee);
- Redistribution of budget allocations approved in the budget breakdown and estimate by economic classification of budget expenditure (by lending classification for granting loans from the budget) within the total budget allocations for the key spending units under the budget program (conducted by the local financial authority upon the reasoned request of key spending units);
- Redistribution of budget expenditures and issuance of loans from the budget under budget programs within a total amount of budget allocations of key spending units (conducted by decision of the RSA coordinated with the Standing Budget Committee);
- Distribution of expenditures of the budget's reserve fund (other undistributed budget allocations), additional subsidies and subventions as well as an increase in development expenditures by reducing other expenditures (conducted with a decision of the RSA coordinated with the Standing Budget Committee).

266. **In other cases, changes to budget allocations require changes to the local budget by the appropriate local council (see dimension 21.4).**

267. **However, there are no clear limits of the scope of the adjustments, so significant administrative reallocations may be permitted.** The BCU only sets out a list of expenditures that cannot be increased. It includes budget allocations for salary made by reducing other expenditures; and expenditures on budget programs, related to the functioning of state authorities, by reducing expenditures of other budget programs.

268. **The score for the dimension is B.**

PILLAR FIVE: Predictability and Control in Budget Execution

PI-19. Revenue administration

General description of the characteristics of the indicator within the scope covered

269. This indicator relates to the entities that administer subnational government revenues, which may include tax administration, customs administration, social security contribution administration, as well as agencies administering revenues from other significant sources such as natural resources extraction: which may include public enterprises that operate as regulators and holding companies for government interests, in which case the assessment will require information to be collected from entities outside the government sector. The indicator assesses the procedures used to collect and monitor subnational government revenues. The assessment period for dimension 19.1 and 19.2: Time of assessment. For dimension 19.3 and 19.4: Last completed fiscal year, 2018. Coverage is subnational government.

270. The supplementary guidance for subnational PEFA assessments indicates that indicator 19 is applicable when:

- the subnational governments raise revenues according to their own administrative arrangements,
- the subnational revenues are collected on behalf of the subnational government by a higher level revenue authority if the subnational government has full control of the revenues and of how the overall revenue management is carried out,

and is not applicable when:

- the subnational government raises revenue through only user fees and charges that are related to a specific service provided by the subnational government (without exceeding the costs of this service)
- the central (or other higher-level) government collects revenues through its revenue authority and has sharing arrangements with the subnational revenue authority.

271. SFS collects and administers revenues in Ukraine, including major revenues of local governments. Based on the Cabinet's Resolution # 106 dated February 16, 2011, the SFS Office controls the collection of 92.8 percent of the rayon budget. There is a sharing arrangement with the central government and oblasts and rayons with respect to the significant number of revenues, including personal income tax and corporate tax. The rayon does not collect a property tax. Property tax and land tax and fees from rent and licenses which are related to rayons and ATCs are also collected by the SFS. This indicator is not applicable.

Summary of scores and performance table

Indicator/ dimension	Score 2019	Scoring Method M2 AV
		Brief justification for score
PI-19. Revenue administration	N/A	
19.1. Rights and obligations for revenue measures	N/A	Administered by SFS
19.2. Revenue risk management	N/A	Administered by SFS
19.3. Revenue audit and investigation	N/A	Administered by SFS
19.4. Revenue arrears monitoring	N/A	Administered by SFS

19.1 Rights and obligations for revenue measures

Performance level and evidence for scoring the dimension

272. The dimension is not applicable.

19.2 Revenue risk management

Performance level and evidence for scoring the dimension

273. The dimension is not applicable.

19.3 Revenue audit and investigation

Performance level and evidence for scoring the dimension

274. The dimension is not applicable.

19.4 Revenue arrears monitoring

Performance level and evidence for scoring the dimension

275. The dimension is not applicable.

PI-20. Accounting for revenue

General description of the characteristics of the indicator within the scope covered

276. This indicator assesses the procedures for recording and reporting revenue collections, consolidating revenues collected, and reconciling the tax revenue accounts. It covers both tax revenues and non-tax revenues collected by the subnational government. The assessment period is at time of the assessment.

Summary of scores and performance table

Indicator/ dimension	Score 2019	Scoring Method M1 WL
		Brief justification for score
PI-20. Accounting for revenue	N/A	
20.1. Information on revenue collections	N/A	There is a monthly revenue report to the RSA detailing the revenue statistics with an explanation
20.2. Transfer of revenue collections	N/A	Tax revenue is paid into the rayon's revenue sub account daily
20.3. Revenue accounts reconciliation	N/A	The SFS carries out reconciliation on the fourth day of each month of transfers to the TSA. In addition, it operates a Digital Taxpayer Account and this allows both the taxpayer and the SFS to assess whether payments have been credited in line with payment schedules

20.1 Information on revenue collections

Performance level and evidence for scoring the dimension

277. **Each rayon budget has a revenue sub-account in the TSA.** The State Fiscal Service prepares a report every month on tax payments made into that account. In addition to tax revenue, the rayon receives transfers from the central government. There is a monthly report to the RSA detailing the revenue statistics with an explanation provided as part of the report. The reports cover all the revenues and the data is complete. The reporting includes data disaggregated by type of revenue and period of collection and the data is consolidated into a single report.

278. **The information on most of the revenue is available to the RSA in real time.** The consolidated tax report satisfies the requirement for *all* rayon budget revenue.

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

20.2 Transfer of revenue collections

Performance level and evidence for scoring the dimension

280. **Tax revenue is paid into the rayon's revenue sub account daily.** The management software for revenue by the State Fiscal Service is such that it can identify the code of revenue classification, the location of the taxpayer and then transfer the share of the tax received to the rayon where the taxpayer is registered. in

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

20.3 Revenue accounts reconciliation

Performance level and evidence for scoring the dimension

282. **The SFS is legally obliged to carry out reconciliation on the fourth day of each month of transfers to the TSA.** This reconciliation follows set procedures using software and is implemented as intended. In addition, the SFS operates a digital taxpayer account and this allows it to assess whether payments that have been assessed have been paid according to the required payment schedule. Taxpayers, in turn, can ascertain if payments have been credited to their account as they have full access to it.

283. **The score for the dimension is A.**

PI-21. Predictability of in-year resource allocation

General description of the characteristics of the indicator within the scope covered

284. **This indicator assesses the extent to which the subnational Department of Finance is able to forecast cash commitments and requirements and to provide reliable information on the availability of funds to budgetary units for service delivery.** Time period: at time of assessment for PI-21.1 and for PI-21.2 to 4 the last completed fiscal year. Coverage is budgetary subnational government.

Summary of scores and performance table

Indicator/ dimension	Scoring Method M2 AV	
	Score 2019	Brief justification for score
PI-21. Predictability of in-year allocation	B	
21.1. Consolidation of cash balances	A	The rayon's revenue and expenditure are maintained in sub-accounts of the TSA at the National Bank. All sub-accounts are consolidated daily
21.2. Cash forecasting and monitoring	C	At the start of the financial year the rayon's Finance Department prepares the cash forecast for each month based on estimated revenue and expenditure
21.3. Information on commitment ceilings	A	Spending units receive reliable and timely information about monthly ceilings for expenditure commitments for twelve months, and are able to plan and commit expenditures accordingly
21.4. Significance of in-year budget adjustments	C	In 2018 there were monthly supplementary budgets and these were voted in the council

21.1 Consolidation of cash balances

Performance level and evidence for scoring of the dimension

285. **The rayon's revenue and expenditure are maintained in sub-accounts of the TSA at the National Bank.** Under the TSA, the Treasury consolidates the funds of state and local budgets as well as extra budgetary funds (Social Security Funds) daily.

286. **The score for the dimension is A.**

21.2 Cash forecasting and monitoring

Performance level and evidence for scoring of the dimension

287. **At the start of the financial year the rayon's Finance Department prepares the cash forecast for each month based on estimated revenue and expenditure.** Any additional revenues inform the ceilings (assignments). In case of changes to the revenue and expenditure parts of the budget made at the expense of additional revenues, the Department of Finance of the RSA prepares certificates on amendments to the annual and monthly payment schedule, which are then provided to the Treasury Department in Iziaslavskiy rayon and to the spending units for making corresponding changes, but cash flow is not updated on the basis of actual inflows as they take place.

288. **The score for the dimension is C.**

21.3 Information on commitment ceilings

Performance level and evidence for scoring of the dimension

289. **Following the approval of the rayon budget, the Finance Department apportions the approved budget month by month based on inputs from the line departments.** Based on revenue projections, previous allocations and historical Treasury data, the Finance Department establishes limits for each month of the current fiscal year for expenditures and credits from the general fund for the key spending units. Based on these apportionments, key spending units provide a monthly expenditure plan disaggregated by program and economic classification to the Finance Department. The spending units are provided with and thus know their monthly limits within annual budget within two weeks of approval of the rayon budget. Spending units can

commit funds within their annual budget allocations and make payments within their monthly apportionment limits. The commitment module of the Treasury system ensures that all commitments are controlled within budget allocations. The Treasury controls spending according to the plans and apportionments.

290. **The score for the dimension is A.**

21.4 Significance of in-year budget adjustments

Performance level and evidence for scoring of the dimension

291. **Typically, there are frequent supplementary budgets in a year.** There were twelve in 2018. The supplementary budgets are approved by a vote in the council and this vote also approves any virement than has been made (see PI-18.4). Changes to the budget due to increased intergovernmental transfers from the higher level governments happened almost monthly with the exception of May and September, when there were no changes and October when changes were made twice. The increase of intergovernmental transfers from the higher level governments was 3 percent over the originally approved budget. While own budget sources were increased by 15 percent and changes to the budget were made five times to increase them.

292. **The score for the dimension is C.**

PI-22. Expenditure arrears

General description of the characteristics of the indicator within the scope covered

293. **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.** Time period Dimension 22.1: Last three completed fiscal years (2016, 2017 and 2018). Dimension 22.2: At time of assessment. Coverage is subnational government.

294. **Spending units prepare reports on expenditure arrears in the form established by an order of the Ministry of Finance³¹.** This order also regulates the procedure and the terms of submission of the said reporting.

295. **The Ministry of Finance order³² defines the concept of expenditure arrears and the procedure for writing it off.** In accordance with this procedure, overdue expenditure arrears are defined as the amount of expenditure arrears occurring on the 30th day after the expiration of the mandatory payment deadline in accordance with the agreements entered into. Expenditure arrears are deemed current before this period accordingly. Expenditure arrears whose limitation period has expired are defined as overdue expenditure arrears in respect of which the creditor has lost the right to go to court for the protection of its civil right or interest.

296. **The same procedure has established the quarterly write-off of expenditure arrears whose limitation period has expired by the commission designated by an administrative document of the head of the institution.** That commission should carry out an inventory of calculations in order to determine the expenditure arrears, whose limitation period has expired.

³¹ No. 44 dated 24 January 2012 "On Approval of the Procedure for Preparing Budget Reporting by Spending Units and Recipients of Budget Funds, Reporting by Compulsory State Social and Pension Insurance Funds".

³² No. 372 of 02.04.2014 "On Approval of the Procedure for Accounting of Certain Assets and Liabilities of Budget Units and Amendments to Certain Regulations on Accounting in Budget Units".

Summary of scores and performance table

Indicator/ dimension	Minimum requirements (Scoring Method M1)	
	Score 2019	Brief justification for score
PI-22. Expenditure arrears	B	Scoring Method M1
22.1. Stock of expenditure arrears	B	Stock of total expenditure arrears during two of the last three completed fiscal years was less than 6 percent
22.2. Expenditure arrears monitoring	B	Data on expenditure arrears is formed on a monthly and annual basis. The Treasury draws up and submits such monthly reports to the Finance Department within a maximum term of eight weeks from the end of the quarter (no later than the 1st day of the second month following the reporting period)

22.1 Stock of expenditure arrears

Performance level and evidence for scoring of the dimension

297. In 2016 and 2017, expenditure arrears accounted for 4.7 percent of total expenditures of the rayon budget, whereas in 2018 the stock was 1.7 percent (see Table 22.1). Arrears are accounted for at the level of each spending unit, budget programs and economic classification of expenditure.

Table 22.1. Stock of expenditure arrears (UAH million)

	2016 FY	2017 FY	2018 FY
i) Stock of expenditures arrears	14.4	21.2	8.5
ii) Total actual expenditure	309.5	452.6	502.6
Ratio of arrears to expenditures (i) / (ii), %	4.7	4.7	1.7

Source: Annual Budget Execution Reports.

298. The expenditure arrears were less than 6 percent of total expenditure in two of the last three completed financial years.

299. The score for the dimension is B.

22.2 Expenditure arrears monitoring

Performance level and evidence for scoring of the dimension

300. In accordance with order of the Ministry of Finance No. 44 dated January 24, 2012, reporting on expenditure arrears is monthly, quarterly and annually. The reporting presents the expenditure arrears as of the beginning of the reporting year, as of the end of the reporting period, in which the overdue arrears have been allocated, and the arrears whose due date has not occurred. Thus, reporting allows tracking the age of arrears. The reporting also reflects the arrears written off from the beginning of the reporting year.

301. In accordance with the same order, spending units generate and submit annually to the Treasury a statement about the reasons for the occurrence of overdue expenditure arrears of the general fund, which contains detailed information on the reasons for the occurrence of such arrears. Separately, they form and submit to the Treasury a certificate of expenditure arrears for transactions that are not reflected in the statement of budget arrears. These are arrears of payment of benefits and allowances to citizens; settlements for intra-department transfer of stocks; settlements for deposit operations; other arrears; other calculations as well as accounts payable for budget commitments not recorded by Treasury bodies. These transactions, except

for accounts payable under the budget liabilities not recorded by the Treasury, are considered temporary arrears arising from the features of accounting or payment features and may not create an additional burden on the budget. While accounts payable under budgetary liabilities, not recorded by the Treasury bodies, will lead to an increase in accounts payable after taking them into account. Their actual estimate is not known, since the Treasury does not prepare aggregated data on such liabilities, given that they will be included in the next monthly payables report. Considering that there is a “margin” for a B score under 22.1, in almost the same amount as recorded accounts payable (about 3% of total expenditures), this data will not reduce the score.

302. In order to analyze the expenditure arrears, spending units quarterly and annually formulate and submit an explanatory note to the Treasury together with the reports, indicating and describing: (i) the reasons for the occurrence of expenditure arrears; (ii) the dynamics of expenditure arrears, including overdue ones, and the reasons for their increase or decrease; (iii) the reasons for the existence of remuneration arrears and arrears of payment for utilities and energy sources; (iv) the reasons for the presence of expenditure arrears for budget commitments not registered by Treasury bodies; (v) the reasons for the occurrence of overdue expenditure arrears³³ and the grounds for their decrease (write-off due to expiry of the limitation period³⁴, by court order, etc.) (in the annual budget reporting); and (vi) the reasons for assuming commitments without relevant budget allocations or exceeding the powers established by the BCU, law on the state budget, the local budget, and the measures taken.

303. The Treasury Department prepares and issue monthly and annual financial reports on expenditure arrears. Such monthly reports, in accordance with the second paragraph of Article 59 of the BCU, shall be submitted no later than the 1st day of the second month following the reporting period (within a period not exceeding eight weeks after the end of the quarter).

304. The Treasury generates and submits reports on expenditure arrears over a period of more than four weeks, but within eight weeks after the end of the quarter.

305. The score for the dimension is B.

PI-23. Payroll controls

General description of the characteristics of the indicator within the scope covered

306. This indicator is concerned with the payroll for public servants only: how it is managed, how changes are handled, and how consistency with personnel records management is achieved. Wages for casual labor and discretionary allowances that do not form part of the payroll system are included in the assessment of nonsalary internal controls, PI-25. Time period of assessment for dimensions 23.1, 23.2 and 23.3: at time of assessment, for dimension 23.4: the last three completed fiscal years (2016, 2017 and 2018). Coverage is subnational government.

307. There are major regulatory documents governing the organization of the primary personnel record-keeping, the number of employees and time used. These include decrees of the State Committee of Statistics of September 28, 2005 No. 286 “On approval of the Guidance on keeping statistical records on the number of employees” and of December 5, 2008 No. 489 “On approval of standard forms of primary accounting records for labor statistics.” The first one identifies the need for existing primary records to determine the quantitative composition of employees, and the second - establishes standard forms of such documentation based on the list, which are not regulated by the legislation. In particular, there have been developed standard forms of the order (instruction) for hiring, the time sheet for working time, the payment statement of the employee, and the payment statement (consolidated). The use of these forms is recommended.

³³ Overdue expenditure arrears are defined as the amount of expenditure arrears occurring on the 30th day after the expiration of the mandatory payment deadline in accordance with the agreements entered into. Expenditure arrears are deemed current before this period accordingly.

³⁴ Expenditure arrears whose limitation period has expired are defined as overdue expenditure arrears in respect of which the creditor has lost the right to go to court for the protection of its civil right or interest.

308. **The legislation establishes the need for matching the number of employees of the institution, which is determined by the staff structure, and a predetermined payroll fund.**³⁵ Staff structure, together with the budget of the spending unit, shall be approved by the head of the higher level unit. The payroll fund defined by the staffing structure is always within the scope of the unit's payroll fund expenditure. The staff structure, the format of which is established by the Order of the Ministry of Finance dated January 28, 2002 No. 57 "On Approval of the Documents Used in the Budget Execution Process", contains, in particular, the names of the unit, the number of positions, salaries, and the payroll fund based on the pay grades. The standard form of staffing structure additionally contains the number of full-time employees, surcharges and allowances set for each of the designated employees in accordance with the law, and the monthly payroll fund.

Summary of scores and performance table

Indicator/ dimension	Minimum requirements (Scoring Method M1)	
	Score 2019	Brief justification for score
PI-23. Payroll controls	C+	
23.1. Integration of payroll and personnel records	C	Information on manning tables, personnel and labor remuneration is accounted for separately. Reconciliation of payroll fund and personnel records is carried out monthly in calculating the advance pay and wages. These calculations are made taking into account all personnel changes. Hiring and any promotion are done within the available budget
23.2. Managing changes in payroll	A	Responsible departments update the payroll to reflect changes in personnel information as soon as the order is approved. Retrospective adjustments to the payroll are not made
23.3. Internal control of payroll	A	Budgetary institutions have clear and detailed rules and procedures for making changes to the information on staff and payroll, which include the requirement for signatures of authorized persons. Changes made to the payroll provide for a clear audit trail
23.4. Payroll audit	C	During 2016-2018, the SAS carried out one audit in institutions financed by the rayon budget, in the Central Rayon Hospital (CRH). The revealed violations in the payment of wages are 0.01 percent of the total expenditure for the salary of the CRH for the relevant period. Rayon-level internal audit units were not created at the time of the assessment. Partial payroll checks have been conducted over the last three financial years

23.1 Integration of payroll and personnel records

Performance level and evidence for scoring of the dimension

309. **Information on manning tables, personnel and labor remuneration is accounted for separately.** Individual units are responsible for keeping records of their employees' payroll, for some units this is made by a higher-level unit, and the unit is only responsible for keeping personnel records. Record-keeping for personnel and staffing tables is made manually in MS Excel. Payroll accounting is done both in the automated system and manually in MS Excel. The HR unit is responsible for employee record-keeping and the accounting department for accounting for all employee payments in accordance with the staffing table. Small units do not have HR departments, in which case the record-keeping function is assigned to the clerk.

310. **Any hiring or promotion of an employee of the institution is carried out on the basis of the order of the head of the respective institution, and in case of hiring of the head - based on the order of the RC.** As a rule, hiring or promotion order specifies, among other things, that the salary of the employee in question

³⁵ Resolution of Cabinet of 28.02.2002 No. 228 "On Approval of the Procedure for Drawing up, Review, Approval and Basic Requirements for the Execution of Budgetary Units' Budgets".

is set in accordance with the staffing structure, which is approved within the available budget (estimate). If necessary, the salary allowances are also set within the budget.

311. **The HR unit (or clerk in the absence of such a unit) prepares a draft assignment order (promotion).** The manager of the institution verifies the information contained in the draft order with the staff structure and signs it.

312. **Upon the submission of the spending unit, the head of the higher-level institution approves the payroll within the staffing structure and within the limits of the available payroll expenditure of the institution.** The staffing structure and the annex thereto are prepared by the unit responsible for accounting by checking it for compliance with the budget.

313. **Reconciliation of payroll fund and personnel records is carried out monthly in calculating the advance pay and wages.** Twice a month, each employee fills out the time sheet containing information about his position and submits it to the HR (clerk). The HR unit (clerk) verifies the time sheet of work hours with the information contained in the personnel file and submits the data sheets to the accounting department (accountant). The Accounting Department (accountant) verifies the information contained in the information table from the payroll account when calculating the advance payment and the salary. These calculations are made considering all personnel changes.

314. **The score for the dimension is C.**

23.2 Managing changes in payroll

Performance level and evidence for scoring of the dimension

315. **No retrospective adjustments to the payroll are made.** HR unit, and in small organizations - the person in charge of record keeping, makes changes to personal information about employees, and the department of accounting - to the information on salaries on the basis of the relevant orders of the head of as soon as the order is accepted.

316. **The score for the dimension is A.**

23.3 Internal control of payroll

Performance level and evidence for scoring of the dimension

317. **Budgetary institutions have clear and detailed rules and procedures for making changes to the information on staff and payroll, which include the requirement for signatures of authorized persons.** Changes to staff and payroll data are made at the highest level of management of each budgetary institution. Changes made to the payroll provide for a clear audit trail.

318. **Only authorized staff members of the personnel or accounting departments (or clerk in the absence of HR) may make changes to the information regarding the staff and salary specified in job descriptions of those persons.** If the information is accounted for in the relevant information system, the administrator gives the authorized employees the corresponding user rights to access it. The information about changes is stored both in terms of information recorded in the automated the systems and information about payroll accounting, which is recorded manually. All budgetary institutions store data on paper media that can be checked.

319. **The score for the dimension is A.**

23.4 Payroll audit

Performance level and evidence for scoring of the dimension

320. **From 2016-2018, the SAS carried out one audit in institutions financed by the rayon budget at the Central Rayon Hospital (CRH).** The audit did not identify any instances of non-compliance with the law when establishing position salaries, tariff rates, salaries for a special rank, allowances and surcharges. The revealed violations in the payroll were 0.01 percent of the total expenditure for the salary of the CRH for the relevant period. Rayon-level internal audit units were not created at the time of the assessment.

321. **Staffing checks at health institutions are carried out every 2-3 years during the accreditation of health care institutions.** Such regularity is observed in accordance with the Resolution of the Cabinet dated July 15, 1997 No. 765 “On Approval of the Procedure of Accreditation of a Health Care Institutions”, which stipulates that the validity period of an accreditation certificate should not exceed three years.

322. **Once a year, the Social Insurance Fund checked the correctness of accrual of the insurance premiums to this fund for all employees in educational establishments.**

323. **Partial payroll checks have been conducted over the last three financial years.**

324. **The score for the dimension is C.**

PI-24. Procurement

General description of the characteristics of the indicator within the scope covered

325. **This indicator examines key aspects of procurement management. It focuses on transparency of arrangements, emphasis on open and competitive procedures, monitoring of procurement results, and access to appeal and redress arrangements.** Time period: Last completed fiscal year, 2018. Coverage is subnational government.

Summary of scores and performance table

Indicator/ dimension	Minimum requirements (Scoring Method M1)	
	Score 2019	Brief justification for score
PI-24. Procurement	A	
24.1. Procurement monitoring	A	Databases are maintained for all contracts including on what has been procured, value of procurement, and who has been awarded contracts. All rayon contracts are procured through the national ProZorro electronic procurement platform and each spending unit of the rayon is responsible for accuracy and completeness of information
24.2. Procurement methods	A	100 percent of the value of the contracts in the rayon in 2018 was conducted using competitive methods
24.3. Public access to procurement information	A	Information is available and exceeds the requirements for the criteria
24.4. Procurement complaints management	A	The complaint settlement framework meets all the dimension criteria

24.1 Procurement monitoring

Performance level and evidence for scoring the dimension

326. **Databases or records are maintained for all contracts including data on what has been procured, value of procurement, and who has been awarded contracts.** All government contracts including the rayon's contracts are procured through the national ProZorro electronic procurement system and each spending unit of rayon budget is responsible for accuracy and completeness of information.

327. **The score for the dimension is A.**

24.2 Procurement methods

Performance level and evidence for scoring the dimension

328. **Public procurement legislation applies at any level of governance to all public contracting authorities with some exceptions, provided that (a) the value of goods or services to be procured equals or exceeds UAH 200,000, and the value of works to be procured equals or exceeds UAH 1,500,000, and (b) for contracting authorities operating in certain areas of economic activity the value of goods or services equals or exceeds UAH 1,000,000, and the value of works equals or exceeds UAH 5,000,000³⁶.** Contracting authorities may use e-procurement system for the purpose of selection of the supplier, provider and contractor for lower value procurements.

329. **The main determinant of compliance for this dimension is to assess the actual use of competitive methods in the procurement process.** The following procurement procedures are envisaged for the procurement whose value exceeds the thresholds of LPP: (1) open bidding, (2) competitive dialogue, (3) negotiated procedure, and (4) procurement under framework agreements. In addition, a special law establishes the procedure for entering into energy service agreements through the ProZorro electronic procurement system.

330. **In 2018 there were 61 bidders for the 20 contracts which were above the threshold.** Table 24.1 details the number and value of contracts.

Table 24.2. Statistics on procurements for Iziaslavskyi rayon in 2018

Title	All contracts	Contracts procured through use of competitive methods	
		Number	%
Number of contracts	20	20	100
Value of contracts, UAH	10,038,642	10,038,642	100

331. **All of the contracts in the rayon in 2018 were conducted using competitive methods.** There were no waivers.

332. **The score for the dimension is A.**

24.3 Public access to information about procurement

Performance level and evidence for scoring the dimension

333. **Public procurement information is in public domain on the public procurement website .**

³⁶ An average foreign exchange rate of Ukrainian hryvnia to 1 US dollar was 27.20437875 in 2018.

334. **Public procurement information is in public domain on the public procurement website.** Article 9 of the LPP provides for public control in the field of public procurement. The public has free access to all information about public procurements according to the law. The customers and all participants to procurement procedures including the purchaser, and the authorized body promote the involvement of the public in the procurement control in accordance with the laws “On Civic Associations”, “On Public Appeals” and “On Information”. The following information is made public in accordance with the LLP:

- The annual procurement plan;
- Announcements of procurement procedures and tender documentation;
- Amendments to the tender documentation and explanations to it (if any);
- Announcements of the details of concluded framework agreements (where applicable);
- Submitted bids after their disclosure;
- Minutes of bid consideration;
- Notice of intent to enter into a contract;
- Information on the rejection of bids;
- Procurement contracts;
- Notices of amendments to the contract;
- Reports on execution of the contract;
- Reports on low-value contracts;
- Complaints about the terms of a procurement or customers’ decisions;
- Decisions of the appeal body following the results of complaint consideration;
- Information on the start of monitoring the procurement procedure, requests and clarifications provided during monitoring, decisions of the SAS following the monitoring findings, and information on reviews.

335. **The legal and regulatory framework for procurement is published on the website of the MoE³⁷.** Periodic procurement statistics are made available to the public in the format of quarter, semi-annual and annual reports on the MoE website³⁸. The web portal also contains information about policy, professionalization of public procurement, international cooperation, etc.

336. **Media representatives and duly authorized representatives of civic associations can monitor the course of an electronic auction online.** At the same time, individuals and civic organizations as well as their unions have no right to interfere with a procurement procedure. Transparency International Non-governmental organization has created a monitoring portal <https://dozorro.org/>. Individuals or business representatives can post and report signs of abuse or abuse of procurement procedures.

337. **The score for the dimension is A.**

24.4 Procurement complaints management

Performance level and evidence for scoring the dimension

338. **According to LPP, participants to procurement procedures can submit a complaint to an independent appeal body, the Antimonopoly Committee of Ukraine (AMC).** A fee of UAH 5,000 is charged for filing an appeal for goods or services and UAH 15,000 for works³⁹. The amount of the fee is not a barrier for economic entities.

³⁷ <http://www.me.gov.ua/LegislativeActs/List?lang=uk-UA&id=6e190ba6-3c35-4244-8a3f-bc8733ca97de&tag=NormativnaBaza&pageNumber=1>

³⁸ <http://www.me.gov.ua/Documents/List?lang=uk-UA&id=ca5d0012-c7f9-4750-b1f8-cf5550ecb270&tag=Zviti>

³⁹ An average foreign exchange rate of Ukrainian hryvnia to 1 US dollar was 27.20437875 in 2018.

339. **A good practice is that complaints are reviewed by a body which exercises its independence in several important ways:** (1) is not involved in any capacity in procurement transactions or in the process leading to contract award decisions, (2) does not charge fees that prohibit access by concerned parties, (3) follows processes for submission and resolution of complaints that are clearly defined and publicly available, (4) exercises the authority to suspend the procurement process, (5) issues decisions within the timeframe specified in the rules/regulations, and (6) issues decisions that are binding on every party (without precluding subsequent access to an external higher authority).

340. **Complaints are filed exclusively through the ProZorro electronic procurement system.** The Antimonopoly Committee (AMC) is an independent body for consideration of all public procurement complaints. The complaint process has the following characteristics:

- (i) Members of the AMC Complaint Board do not participate in procurement procedures and in the process of decision-making on determining a tender winner.
- (ii) Payment for consideration of a complaint is not so significant as to deter bidders from filing complaints, as evidenced by an increase in the number of complaints filed.
- (iii) Complaints are provided electronically through the ProZorro electronic procurement platform. Processes for submission and resolution of complaints are clearly defined and publicly available. When receiving a complaint, the electronic procurement system automatically suspends the procurement procedure until the appeal body makes a decision on the complaint.
- (iv) The time for consideration of a complaint does not exceed 15 business days.
- (v) The AMC Complaint Board adopts decisions that are binding upon all parties (without limiting further access to higher level institutions). A decision adopted by the Board may be challenged in court.

341. **There were no complaints to the Antimonopoly Committee relating to procurement in the rayon in 2018.**

342. **The score for the dimension is A.**

Recent or ongoing reform activities

343. **According to latest LPP amendments⁴⁰, simplified procedure of procurements for supplies or services with the value from UAH 50,000 to 200,000⁴¹, and works with the value from UAH 50,000 to 1,500,000⁴² must be conducted through the e-procurement system.** New edition of the LPP also establishes requirements to make public procurement information for contracts with value below UAH 50,000 (before amendments such requirement existed for contracts with value above UAH 50,000).

PI-25. Internal controls on non-salary expenditure

General description of the characteristics of the indicator within the scope covered

344. **This indicator measures the effectiveness of overall internal controls on non-salary expenditure.** Specific controls over payroll expenditure for civil servants are discussed in PI-23. Time period: At time of assessment. Coverage is subnational government.

345. **Requirements to ensure that all budgetary institutions have internal controls are set by Article 26 of the BCU.** Internal control includes, in particular a set of measures to ensure the legality and efficiency of budgetary use.

⁴⁰ Law No. 114-IX dated September 19, 2019.

⁴¹ Before amendments the threshold for procurements of supplies and services conducted through the e-procurement system was from UAH 200,000.

⁴² Before amendments the threshold for procurements of works conducted through the e-procurement system was from UAH 1,500,000.

346. **Recommendations on the organization of internal control for spending units approved by the Ministry of Finance Order No. 995 of September 14, 2012.** These guidelines prescribe that internal controls in an institution shall be based on the principle of responsibility and sharing of powers, which means sharing of duties between the management of the institution and its employees, establishing boundaries of their responsibility in the decision-making process or when performing other actions. According to this order, control measures should be implemented based on rules and procedures at all levels of the institution's activities and on all functions and tasks, the most common of which are: (i) authorization and confirmation are done by obtaining permission of the responsible persons for carrying out operations through the procedures of signing, approval, or confirmation; (ii) sharing of duties and powers, and rotation of staff in order to reduce the risks of errors or losses.

347. **Ministry of Justice Order No. 1000/5 of June 18, 2015 "On Approval of the Rules for Organization of Records Management and Archival Storage of Documents at Central, Local Self-Government Bodies, Enterprises, Institutions and Organizations" established the need for sharing of responsibilities when signing management documents.** Thus, the internal agreement of the draft contract following the results of procurement should be performed by the employee who prepared the document, the head of the structural unit where it was created, financial unit or Chief Accountant (accountant), Head of Legal Service (lawyer). In accordance with Article 9 of the Law "On Accounting and Financial Reporting", original documents are the basis for accounting of business operations. The same article stipulates that the original documents (certificate of completion of works (rendered services)) must be signed by the person who participated in conducting that business operation. The procedure of clearing and signing of certain types of documents should be indicated in the workflow schedule.

Summary of scores and performance table

Indicator/ dimension	Minimum requirements (Scoring Method M2)	
	Score 2019	Brief justification for score
PI-25. Internal controls on non-salary expenditure	B+	
25.1. Segregation of duties	C	For some procedures, the segregation of duties is regulated at the legislative level, and for the rest of the procedures such segregation must be regulated at the institution level. For some budget spending responsibilities, a more accurate definition may be required. It requires a clearer definition of the distribution of responsibilities in the preparation of bids and in determining the successful bidder. There is no summarized information on the compliance of internal control in all rayon level institutions with the recommendations regarding its organization
25.2. Effectiveness of expenditure commitment controls	A	In accordance with internal procedures, spending units make sure that budget commitments are made only within the limits of estimates and monthly budget allocations. The Treasury Information System applies to public authorities at all levels and includes a module that provides for the registration of all budgetary commitments and their recording only when they are within the budget appropriations of the relevant 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. The Finance Department and KSUs adjust monthly allocations in compliance with the cash availability

Indicator/ dimension	Minimum requirements (Scoring Method M2)	
	Score 2019	Brief justification for score
25.3. Compliance with payment rules and procedures	A	There is a link between accounting of commitments and payments. Treasury make payments based on a payment order within the balance of the account for opened appropriations if budget commitment registered by Treasury. Exceptions are not allowed. The violations of budget legislation that spending units and recipients of local budgets made when submitting payment orders to the Treasury in January-June 2019 accounted for only 0.01 percent of expenditure of local budgets during this period

25.1 Segregation of duties

Performance level and evidence for scoring of the dimension

348. **Segregation of responsibilities during coordination and approval process is in place, however, for certain important responsibilities at the procurement stage, a clearer definition is required.** In the procurement process, responsibilities are defined both in the ToRs of the tender committee, its composition⁴³ and job descriptions of the staff of the institution. Currently, there is a practical approach in which the selection of the successful bidder is carried out by the staff who prepared the relevant bid. The lawyer prepares and clears the contract, and the manager checks the contract for compliance with the budget and signs it. Managers sign contracts within the limits of their powers, defined in the regulations (charter) of the institution, Terms of Reference (ToRs) of structural units, job descriptions, and administrative documents on the segregation of duties between the manager and his deputies.

349. **The accounting responsibilities are established by the accounting service ToRs approved by the institution and the job descriptions of its employees.** The legislation sets model responsibilities of the accounting department of a budgetary institution⁴⁴ the main tasks of which include accounting for financial and economic activities of a budgetary institution and preparation of reports. Each institution develops and approves an internal document based on the aforementioned document.

350. **The responsibilities for storage and disposal of assets are determined by the internal documents of the institution:** the regulations on structural units and job descriptions, orders for the commissioning of fixed assets, which, in particular, determine the materially liable person.

351. **Verification is made to comply with the requirements of the legislation⁴⁵ which established that in order to ensure the accuracy of accounting and financial statements, enterprises are required to make an inventory of assets and liabilities.** During such audits, the availability, condition and valuation of assets and liabilities are verified and documented. The ToRs for performing inventory were approved by the Ministry of Finance.⁴⁶ It specifies, in particular, that all types of liabilities and all assets of an enterprise, regardless of their location, are covered by a complete inventory prior to the preparation of the annual financial statements, and partial inventory in the case of the lease of property, changes in material liability, etc. The ToRs also require the manager to create an inventory committee that includes the representatives of the management staff, the accounting department, and the organization's experienced personnel. The materially liable persons are not included in the committee to check the assets held in their custody.

⁴³ The ToRs are approved by the head of the organization in accordance with the Model Regulation approved by the Ministry of Economic Development and Trade in 2016.

⁴⁴ Resolution of Cabinet No. 59 of January 26, 2011 "On Approval of the Model ToRs on the Accounting Service of a Budgetary Institution".

⁴⁵ Part one of Article 10 of the Law No. 996 of July 16, 1999 "On Accounting and Financial Reporting in Ukraine".

⁴⁶

352. **No internal audit unit was created at the rayon budget level (no internal audit officer was appointed).** The audit of compliance with internal control procedures may be carried out by the SAS, which is the central executive body coordinated through the Cabinet. During the last three financial years, the SAS carried out one audit in institutions financed by the rayon in Iziaslavskiy Central Rayon Hospital (CRH) in 2018. The audit covered the period from January 1, 2016 to July 1, 2018. Violations of the compliance with internal control procedures led to losses of 10 percent from total expenditure of the CRH's (not including payroll, which is assessed in PI-23).

353. **It requires a clearer definition of the distribution of responsibilities in the preparation of bids and in determining the successful bidder.** There is no summarized information on the compliance of internal control in all rayon level institutions with the recommendations regarding its organization.

354. **The score for the dimension is C.**

25.2 Effectiveness of expenditure commitment controls

Performance level and evidence for scoring of the dimension

355. **In accordance with the established procedures, spending units and the Treasury monitor the compliance of commitments and cost estimates with monthly allocations.** At the institution level, control is ensured in accordance with job descriptions and the segregation of duties between the supervisor and his deputies. Before signing, the draft contract is cleared by the person who drafted it. The statement of completion of works (services rendered) shall be signed by the head (deputy) of the head of the organization. Upon signing the relevant document, the spending unit submits it to the Treasury unit for registration.

356. **All budget expenditure is covered by commitment controls that effectively limit commitments to projected cash availability and approved budget allocations.** The Finance department and KSUs adjust monthly allocations in compliance with the cash availability. This ensures all commitments are within cash availability since they cannot exceed monthly allocations as described below.

357. **The bodies of the Treasury are authorized to execute preliminary control at the stage of registration of budget commitments of spending units and budget recipients⁴⁷.** The control over fulfillment of commitments is organized at a high level. The main legislative act defining the procedures of control is the procedure for registration and accounting of budget commitments of spending units and budget recipients in the bodies of the State Treasury Service, approved by the order of the Ministry of Finance on March 2, 2012, No. 309. The Treasury registers budget commitments of spending units and budget recipients only in the presence of budget appropriations approved by the estimate and a passport of the budget program (if used in the budget process of the program-based method). The ex-ante expenditure commitment controls of the Treasury prevent spending units making commitments beyond the in-year spending limits and beyond the budget year. In the case when budgetary commitments are taken by the spending unit based on results of the procurement procedure, the contract, the annual procurement plan and the report on the procurement procedure according to the results of which the contract was concluded shall be checked.

358. **The powers of the Treasury at the stage of preliminary control during the registration of budgetary commitments prevent violation of budgetary legislation by the spending units.** This ensures that no commitments can be made without appropriate budgetary allocations or in violation of the provisions of the budget law for the relevant year and provides for targeted budgeting. Such control allows spending units and recipients of budget funds to eliminate possible violations of budget legislation in a timely manner and prevents such violations in the future.

359. **The score for the dimension is A.**

⁴⁷ MoF Order dated 23.08.2012, No. 938 "On Approval of the Procedure of treasury service of the local budgets."

25.3 Compliance with payment rules and procedures

Performance level and evidence for scoring of the dimension

360. **Organizations make payments only based on a payment order, provided there is a primary document signed in due course.** The payment order is made in the form established by the Ministry of Finance.⁴⁸ According to the National Bank's Instruction on non-cash payments in national currency, two persons shall sign the payment order: the head of the organization and the chief accountant send the payment to the Treasury bodies through an electronic system using electronic signatures.

361. **Thereafter, the Treasury bodies make payments to spending units only if there are registered budget commitments in place.** Thus, the Treasury system, while providing for control of payments, prevents the spending of budgetary institutions exceeding the spending limits during the year and providing for terms longer than the fiscal year. Due to the existing link between accounting for commitments and making payments, it is even more difficult to conceal a payment mismatch than a commitment mismatch.

362. **Treasury making payments based on a payment order within the balance of the account for open appropriations in a case if budget commitment registered by Treasury; exceptions are not allowed⁴⁹.** This is also confirmed at the meetings with the Department of Education, Youth and Sports and Culture division that exceptions are not allowed. Their budget account for 36 percent of the total 2018 original budget.

363. **In January-October 2019, the Treasury bodies, when accepting payment orders, prevented 706 violations of budget legislation by spending units and recipients of funds from all local budgets.** The total amount of such violations was UAH 65.2 million or 0.02 percent of local budget expenditure during this period.

364. **Based on results of the audit carried out by SAS in CRH in 2018 violations of the payment procedures led to losses up to 3 percent of total expenditures of the CRH.**

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

PI-26. Internal audit

General description of the characteristics of the indicator within the scope covered

366. **This indicator assesses the standards and procedures applied in internal audit.** The time period for dimensions 26.1 and 26.2 is at time of assessment; for 26.3 the last completed fiscal year and for 26.4 audit reports used for the assessment should have been issued in the last 3 fiscal years. Coverage is subnational government.

Summary of scores and performance table

Indicator/ dimension	Scoring Method M1 WL	
	Score 2019	Brief justification for score
PI-26. Internal audit	D	
26.1. Coverage of internal audit	D	Internal audit is not operational in the rayon.
26.2. Nature of audits and standards applied	N/A	There have been no internal audits.
26.3. Implementation of internal audits and reporting	N/A	There have been no internal audits.

⁴⁸ MoF Order dated 23.08.2012, No. 938 "On Approval of the Procedure of treasury service of the local budgets."

⁴⁹ MoF Order dated 23.08.2012, No. 938 "On Approval of the Procedure of treasury service of the local budgets."

Indicator/ dimension	Scoring Method M1 WL	
	Score 2019	Brief justification for score
26.4. Response to internal audits	N/A	There have been no internal audits

26.1 Coverage of the internal audit

Performance level and evidence for scoring the dimension

367. **Internal Audit is neither provided by the Iziaslavskiy RSA nor has the SAS conducted any internal audits in the Iziaslavskiy rayon.** The SAS is a national body but carries out internal audit in subnational administrations.

368. **Internal audit is not operational in the rayon.**

369. **The score for the dimension is D.**

26.2 Nature of audits and standards applied

Performance level and evidence for scoring the dimension

370. **As there is no internal audit this dimension is not applicable.**

26.3 Implementation of internal audit and reporting

Performance level and evidence for scoring the dimension

371. **As there is no internal audit this dimension is not applicable.**

26.4 Response to internal audits

Performance level and evidence for scoring the dimension

372. **As there is no internal audit this dimension is not applicable.**

PILLAR SIX: Accounting and Reporting

PI-27. Financial data integrity

General description of the characteristics of the indicator within the scope covered

373. This indicator assesses the extent to which Treasury bank accounts, suspense accounts, and advance accounts are regularly reconciled and how the processes in place support the integrity of financial data. It contains four dimensions and uses the M2 (AV) method for aggregating dimension scores. The time period for dimensions 27.1, 27.2 and 27.3 is at time of assessment covering the preceding fiscal year and for 27.4 at time of assessment. Coverage for 27.1 is subnational government and budgetary subnational government for 27.2, 27.3 and 27.4.

Summary of scores and performance table

Indicator/ dimension	Scoring Method M2 AV	
	Score 2019	Brief justification for score
PI-27. Financial data integrity	B+	
27.1. Bank account reconciliation	A	The State Treasury Service has all transactions into a single system of electronic payments in a TSA (with sub-accounts) the National Bank which allows daily reconciliation
27.2. Suspense accounts	N/A	The Finance Department reports that the rayon does not have any suspense accounts
27.3. Advance accounts	N/A	Pre-payment accounts were initiated for capital projects in May 2019
27.4. 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, unit or team in charge of verifying financial data integrity

27.1 Bank account reconciliation

Performance level and evidence for scoring the dimension

374. **The Treasury is responsible for managing the TSA⁵⁰.** The rayon has sub-accounts in the TSA. There is a State Treasury Unit attached to the rayon that carries out the rayon's financial activities.

375. **The Treasury is a participant in the System of Electronic Payments of the National Bank.** For the rayon all expenditure and revenue transactions are made through Treasury, which stipulates the daily reconciliation of turnover and balances by Treasury authorities to obtain the trial balance.

376. **Information is uploaded to the centralized data storage system.** Once the business day is closed for funds transfer and all the technological procedures determined by the requirements of the regulatory acts and technological regulations of Treasury are performed, the "report" (containing accounting, operational, and management reports, and daily trial balance, daily reports on execution of revenues and other receipts of state and local budgets, etc.) is produced.

⁵⁰ In accordance with Treasury Order No. 122 of June 26, 2002 "Regulation on the Treasury Single Account".

377. **The correctness of the delineation and accumulation of revenues of the state and local budgets is checked on the next business day for funds transfer.** The correctness of generating reports on execution of revenues and other receipts of the state and local budgets is checked. The data of statements of relevant accounts is reconciled in terms of crediting the revenues with the data of the aforementioned report. The adequacy of the data presented in the daily trial balance and the report is checked.

378. **When errors are detected while checking, these are corrected as permitted by the Chief Accountant.** This is done by adjusting the entries and other accounting postings by the date of the current funds transfer business day.

379. **The score for the dimension is A.**

27.2 Suspense accounts

Performance level and evidence for scoring the dimension

380. **The Finance Department reports that the rayon does not have any suspense accounts.** There is a transit account for rejected payments if incorrect details have been entered and these are reconciled and updated daily. This does not constitute a suspense account.

381. **The dimension is not applicable.**

27.3 Advance accounts

Performance level and evidence for scoring the dimension

382. **There is no specific account in the chart of accounts called advance accounts.** Instead, they are reported as accounts receivable (account 3712) by each public sector entity. The balance of such accounts is analyzed every month. Advances (pre-payment) have been established in May 2019 for capital projects in the Iziaslavskiy rayon. Once the advance payments are executed, spending units are required to submit documentation, reporting the use of the advance (i.e., reports on contract execution or management/physical progress) prior to requesting subsequent payments.

383. **Advances (pre-payments) exist in the rayon since 2019.** These however are not covered by the timeframe of this PEFA assessment.

384. **The dimension is not applicable.**

27.4 Financial data integrity process

Performance level and evidence for scoring the dimension

385. **Treasury keeps its records in the automated accounting and reporting system “E-Treasury”.** Access is restricted by a hard-coded password system. Records cannot be created or modified without registration in the electronic checklist. There is a system audit trail relating to usage. Within spending units, payment requests are made by the specialist involved and checked by the Departmental Head and CFO. There is no internal audit function in the rayon (see PI-26) with its inherent risk-based selection of auditing. The First Deputy Head of Administration reviews financial reports of the rayon, but there is no special body, unit or team responsible for the accuracy and completeness of data.

386. **The score for the dimension is B.**

PI-28. In-year budget reports

General description of the characteristics of the indicator within the scope covered

387. **This indicator assesses the comprehensiveness, accuracy and timeliness of information on budget execution.** In-year budget reports must be consistent with budget coverage and classifications to allow monitoring of budget performance and, in necessary, timely use of corrective measures. The time period is last completed fiscal year, 2018. Coverage is budgetary subnational government.

Summary of scores and performance table

Indicator/ dimension	Minimum requirements (Scoring Method M1)	
	Score 2019	Brief justification for score
PI-28. In-year budget report	D+	
28.1. Coverage and comparability of reports	D	The scope of reports and classification of revenue that they contain allow for their direct comparison with the approved budget. Reporting on expenditure is based on economic and functional classifications, but not on administrative classification, what does not allow for their direct comparison with the original budget
28.2. Timing of in-year budget reports	B	During four weeks after the end of the reporting quarter, the Treasury submits quarterly reports to the Finance Department
28.3. Accuracy of in-year budget reports	B	There are no issues with quality. However, the reports provide information on expenditures only at the payment stage (only unpaid commitments are shown)

28.1 Coverage and comparability of reports

Performance level and evidence for scoring the dimension

388. **Classifications used to present expenditures for in-year budget reports do not allow direct comparison to the original budget by the administrative classification.** The Treasury is responsible for accounting of the rayon budget execution operations, consolidation of reports provided by spending units, preparation of budget execution reports and their reliability⁵¹. The rayon budget implementation reports submitted by the Treasury to the RSA Finance Department during the year cover revenues, expenditures, crediting and financing of the budget, budget arrears, use of reserve fund, execution of protected local budget expenditures, provision and use of grants and subsidies by local budgets. They are compiled quarterly (basic information is presented in Table 28.2). Reporting on expenditure is based on functional and economic classifications, but not on administrative classification, what does not allow for their direct comparison with the original budget. Reports on revenue prepared according to revenue classification and allow for their direct comparison with the original budget.

389. **The Treasury also reports quarterly on the financial status (balance sheet) of the rayon budget and on the financial performance of the rayon budget.** The reporting includes both expenditures of all budgetary institutions and recipients of budgetary funds.

390. **The classifications used for in-year budget reports do not allow direct comparison to the original budget by administrative headings.**

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

⁵¹ According to BCU (Articles 56, 58, 78, 80).

28.2 Timing of in-year budget reports

Performance level and evidence for scoring the dimension

392. Pursuant to Article 80 of the BCU, the Treasury submits to the RSA Financial Department quarterly reports within 35 days after the end of the quarter. Data on timely submission of reports on implementation of the rayon budget for 2018 are given in Table 28.2. The report for Q4 is not included in the report since it is counted as an annual report, which is assessed in the PI-29. The Treasury monthly reports to the Finance Department are only on the consolidated budget of the rayon, including the rayon budget, Izyaslavsk municipal budget and village budgets (without segregating the indicators of the rayon budget).

Table 28.2. Timeliness of in-year budget reports in FY 2018

Report coverage period	Actual date of submission
Quarterly reports	
Q1	April 11, 2018
Q2	July 12, 2018
Q3	October 12, 2018

393. The Treasury submits to the Department of Finance only quarterly reports that are made available within four weeks after the end of the reporting quarter.

394. The score for this dimension is B.

28.3 Accuracy of in-year budget reports

Performance level and evidence for scoring the dimension

395. The Treasury's territorial authorities carry out all transactions of the rayon budget that are accounted for in a TSA. This applies to all transactions of the rayon budget (revenues and expenditures) of all spending units. Such mechanisms allow a thorough and regular monitoring and verification of financial information and cash flows (in particular, conducting of cross-checks).

396. The Treasury reports includes both planned (the decision with all amendments) and actual figures according to the cash method. In terms of expenditure and financing, the reports are also compiled according to the budget programs, functional and economic classification. These reports include information at the payment stage and do not contain complex information on budget commitments. The reports provide information about unpaid commitments only⁵². Regarding the revenues and financing, reports are also produced in accordance with the budget classification. Revenue reports only reflect the actual proceeds and do not include information on accrued revenues. The quarterly reports shall contain a clarification regarding the achievement of indicators of the local budgets.

397. The score for the dimension is B.

PI-29. Annual financial reports

General description of the characteristics of the indicator within the scope covered

398. This indicator assesses the extent to which annual financial statements are complete, timely and consistent with generally accepted accounting principles and standards. The period of assessment for dimension 29.1 is the last completed fiscal year, 2018; for dimension 29.2 the last annual financial report submitted for audit; for dimension 29.3 the last three years' financial report, 2016-2018. Coverage is budgetary subnational government.

⁵² Thus the budget execution report includes information on commitments which were not paid at the end of reporting period, but do not include information on applicable commitments during the reporting period.

Summary of scores and performance table

Indicator/ dimension	Scoring Method M1 WL	
	Score 2019	Brief justification for score
PI-29. Annual financial reports	D+	
29.1. Completeness of the annual financial reports	D	The annual financial statements include complete information on assets, liabilities, including long-term, revenue, and cash flow statement. Reporting on expenditure is based on economic and functional classifications, but not on administrative classification, what does not allow for their direct comparison with the original budget
29.2. Submission of reports for external audit	D	Treasury draws up and submits financial statements of the rayon to the rayon and oblast administrations within three months after the expiry of the reporting year. The oblast administration consolidates all the financial statements for all individual entities in the oblast which is submitted to the Ministry of Finance and the Accounting Chamber
29.3. Accounting standards	C	The national public sector accounting regulations (standards) (NPSAR(S)) that apply to all financial statements and are largely consistent with the international standards have been approved and introduced in Ukraine. The standards used in the preparation of annual financial statements and the provisions of accounting policies are presented in the Notes to Financial Statements. However, the differences between the applicable national and international Public Sector Accounting Regulations (Standards) (IPSAS) are not presented at time of assessment

29.1 Completeness of the annual financial reports

Performance level and evidence for scoring the dimension

399. **The Treasury is the body that is responsible for drawing up financial reports for the rayon and is in charge of their reliability**⁵³. Each year, the Ministry of Finance determines certain terms and procedure which the Treasury must follow in drawing up and presenting annual financial statements and these requirements have been met. The annual financial statements contain a comparison of actual figures with the latest version of the rayon budget, which includes all amendments during the fiscal year.

400. **The annual financial statements of the rayon are part of the national annual reporting on budget execution system.** These reports must be produced within three months after the end of the fiscal year⁵⁴. The annual report presents information on financial assets and contains budget revenue, expenditure, lending and financing indicators. Reporting on expenditure is based on economic and functional classifications, but not on administrative classification, that does not allow for their direct comparison with the original budget. The reports also cover: (i) the financial position (balance) of the rayon's Budget; (ii) financial performance of the budget and cash flow; (iii) accounts receivable and payable; (iv) data on the reserve fund expenditure. Annual reports of each spending unit contain all mentioned information plus information on non-financial assets.

401. **The score for the dimension is D.**

⁵³ According to BCU (Articles 58, 80).

⁵⁴ In accordance with the requirements of the BCU.

29.2 Submission of reports for external audit

Performance level and evidence for scoring the dimension

402. **The Treasury is the body responsible for drawing up and reporting on execution of the rayon budget (financial and budget reporting)**⁵⁵. These reports for 2016-2018 were published on the website of the RSA <https://izadm.gov.ua/budget.html> on October 1, 2019. The timetable for Treasury to draw up and submit annual reports is determined by the Ministry of Finance (Article 28 of BCU) which is before March 20 of the year following the reporting year. This has been complied within the last 3 years. The annual financial report is submitted to the rayon and oblast administrations. The oblast administration consolidates all the financial statements for all individual entities in the oblast which is submitted to the Ministry of Finance.

403. **The score for the dimension is D.**

29.3 Accounting standards

Performance level and evidence for scoring the dimension

404. **Accounting and generation of all public sector financial reports are conducted in accordance with the requirements of NPSAR(S) whose norms incorporate most of IPSAS (80+ percent).** NPSAR(S) are consistent with IPSAS in the most important areas. Notes to the Financial Statements reflect the standards that have been applied to draw up financial reports and provisions of accounting policy. However, the differences between applicable national provisions and IPSAS are not presented in the notes to the financial reports. It is also worth mentioning that the World Bank recently issued a report on the results of diagnostics of the current state of the public sector accounting system, which confirmed that the national standards are consistent with the IPSAS in more than 80 percent of standards.

405. **The score for the dimension is C.**

⁵⁵ According to Article 58 of BCU

PILLAR SEVEN: External Scrutiny and Audit

PI-30. External audit

General description of the characteristics of the indicator within the scope covered

406. **This indicator examines the characteristics of external audit.** The time period is last three completed fiscal years for dimensions 30.1, 30.2 and 30.3. Dimension 30.4 is at the time of the assessment. Coverage is subnational government.

407. **The Law (2015) on the Accounting Chamber, supreme audit institution, was adopted by Parliament in a new version on July 2, 2015.** The ACU is an independent body that reports to Parliament.

408. **The Law on the Accounting Chamber specifies the responsibilities and activities of the Accounting Chamber.** These activities follow the main principles of activities of the International Organization of Supreme Audit Institutions (INTOSAI), the European Organization of Supreme Audit Institutions (EUROSAI) and the International Standards of Supreme Audit Institutions (ISSAI) insofar as this does not contradict the Constitution and laws.

409. **Since 2019, ACU's activities have provided for the partial use of ISSAI to improve the compliance of Ukrainian practice with international standards.**

410. **The core powers of the ACU are:**

- To analyze the annual report on execution of the law on the State Budget submitted by the Cabinet, draw up relevant conclusions and evaluate the efficiency of managing state budget funds as well as proposals for the elimination of violations detected and improvement of budget legislation;
- To work out and send out ACU's decisions to auditees, with the former being subject to mandatory consideration, with further analysis of the level of implementing ACU's comments and recommendations to evaluate the effectiveness and efficiency of the measures taken.

411. **Currently ACU conducts audits regulated by its own guidelines developed on the basis of certain provisions of ISSAI.** Plans have been established for 2019 for the partial implementation of ISSAI to switch from a performance audit to a full review of financial statements on budget execution.

412. **With respect to subnational entities, the Accounting Chamber focus is on auditing the transfers from central government and the use of these transfers.**

Summary of scores and performance table

Indicator/ dimension	Minimum Requirements (Scoring Method M1 WL)	
	Score 2019	Brief justification for score
PI-30. External audit	D+	
30.1. Audit coverage and standards	D	While an audit of the transfers from the central government to the rayon would cover all of the budget, such an audit has never been carried out
30.2. Submission of audit reports to the legislature	D	Reports are directed to Parliament and its relevant committees to whom the ACU is related to. Copies go to the Cabinet and the relevant rayon Administration, but these are not statutory obligations
30.3. External audit follow-up	N/A	As there have not been any financial audits, there are no recommendations, nor any follow up

Indicator/ dimension	Minimum Requirements (Scoring Method M1 WL)	
	Score 2019	Brief justification for score
30.4. Supreme Audit Institution independence	B	According to the Law on the Accounting Chamber adopted in 2015, ACU is the body independent of the government in all the following essential aspects: (i) determination and election of ACU members, including the head of the ACU; (ii) independence in planning audits and making public audit findings; and (iii) budget planning and execution. The auditors of ACU are also granted access to all documents and information required for auditing. However, the access to data bases and information produced by financial management information systems is only limited to Board members of the ACU

30.1 Audit coverage and standards

Performance level and evidence for scoring the dimension

413. **ACU conducts audits in accordance with the Guidelines for Financial Audit by ACU as of 2019⁵⁶.** They have been developed based on the requirements and provisions of the International Standards of Supreme Audit Institutions (ISSAI), including the Fundamental Principles of Public Sector Auditing (ISSAI 100), the Fundamental Principles of Financial Audit (ISSAI 200), and the Financial Audit Guidelines (ISSAI 1000-1999). International audit standards are currently being worked out and a format of their implementation and application is being chosen.

414. **The Department for Monitoring Public Administration and Inter Budgetary Relations of the ACU carries out an audit of the transfers and their use from the central government.** The audit is carried out every 2 to 3 years based on a sample of 8 oblasts selected on risk based, on size of transfers and perceptions. Khmelnytskyi oblast (including Iziaslavskyi rayon) has not been part of that sample at any time.

415. **There is provision in the law governing the Accounting Chamber to audit an oblast/rayon if a request is made by members of the oblast/rayon council or by an individual.** There has never been such a request for an audit of the Khmelnytskyi oblast or Iziaslavskyi rayon budget.

416. **While an audit of the transfers from the central government to the Khmelnytskyi oblast or Iziaslavskyi rayon would cover all of the budget, such an audit has never been carried out.**

417. **The score for the dimension is D.**

30.2 Submission of audit reports to the legislature

Performance level and evidence for scoring the dimension

418. **The ACU audit on the transfers from the central government to the subnational governments is primarily an activity of central government.** Reports are direct to Parliament and its relevant committees to whom the ACU is related to. Copies go to the Cabinet and the relevant subnational administration, but these are not statutory obligations.

419. **The score for the dimension is D.**

⁵⁶ Approved by ACU Decision No. 5-5 dated 22 September 2015 (https://rp.gov.ua/upload-files/About/RegulatoryDoc/arp_6.pdf).

30.3 External audit follow-up

Performance level and evidence for scoring the dimension

420. **There have been no audits and therefore no recommendations that can be implemented and followed up.**

421. **The dimension is Not Applicable.**

30.4 Supreme audit institution independence

Performance level and evidence for scoring the dimension

422. **ACU is the body independent of the government in the essential aspects of its activities⁵⁷.** These relate to (i) determination and election of ACU members, including the Head of the ACU, which are appointed and removed by the Parliament; (ii) independence in planning audits and making public audit findings; (iii) ACU's budget planning and execution; and also (iv) access of ACU's representative to the records, documentation and information to conduct audits

423. **The ACU does not submit its budget directly to the legislature as ISSAI requires but submits it to the MoF for including in the state budget based on general procedures established for all KSUs.** In case of disagreements between the ACU and MoF on the proposed allocations, the situation might be reviewed and resolved directly by the Parliament when considering the draft budget. That ensures the ACU's independence with respect to approval of its budget. However, such cases have not occurred in the past three years.

424. **The ACU carried out the execution of its annual budget independently.** The ACU approved a detailed estimate within budget allocations adopted by the State Budget Law and execute it without interference of the central government.

425. **In terms of access to information, according to the article 32 of the ACU's law, ACU's auditors have access to all necessary information required for conducting audits.** However, the access to data bases and information produced by financial management information systems is only limited to Board members of the ACU. This constraint limits the ability of the ACU to build a risk-oriented control system.

426. **Although the ACU reports to the Parliament, it is relevant to the rayon and is applicable in the subnational PEFA context.**

427. **The score for the dimension is B.**

PI-31. Legislative scrutiny of audit reports

General description of the characteristics of the indicator within the scope covered

428. **This indicator focuses on legislative scrutiny of the audited financial reports of subnational government, including institutional units, to the extent that either (a) they are required by law to submit audit reports to the legislature or (b) their parent or controlling unit must answer questions and take action on their behalf.** The time period is for the last three completed fiscal years. Coverage is subnational government.

⁵⁷ According to the Law on the Accounting Chamber adopted in 2015.

Summary of scores and performance table

Indicator/ dimension	Minimum Requirements (Scoring Method M2 AV)	
	Score 2019	Brief justification for score
PI-31. Legislative scrutiny of audit reports	D	
31.1. Timing of audit report scrutiny	D	There were no audit reports submitted to the RC. The legislation does not establish requirements for auditing the local budget reports
31.2. Hearing of audit findings	N/A	There were no audit reports submitted to the RC
31.3. Recommendations on audit by the legislature	N/A	There were no audit reports submitted to the RC
31.4. Transparency of legislative scrutiny of audit reports	N/A	There were no audit reports submitted to the RC

31.1 Timing of audit report scrutiny

Performance level and evidence for scoring the dimension

429. **There were no audit reports submitted to the RC.** However, unaudited financial reports are sent to the RC on an annual basis.

430. **The score for the dimension is D.**

31.2 Hearing on audit findings

Performance level and evidence for scoring the dimension

431. **There are no audit reports on the financial statement for the RC.** The Budget Committee of the RC does examine the annual financial statement (unaudited) and compares performance with the previous year.

432. **This dimension is not applicable.**

31.3 Recommendations on audit by the legislature

Performance level and evidence for scoring the dimension

433. **As there were no audit reports submitted to the RC recommendations cannot be made.** The Budget Committee and Councilors examines the annual financial statement (unaudited). These are discussed and approved and adopted in a council session. Recommendations are made and are contained in the minutes of its meetings. These are communicated to the rayon administration.

434. **This dimension is not applicable.**

31.4 Transparency of legislative scrutiny of audit reports

Performance level and evidence for scoring the dimension

435. **There were no audit reports submitted to the RC.** The discussion on the financial statements by the Council Budget Commission is open to the public and media. All council sessions are recorded using audio/video platforms.

436. **This dimension is Not Applicable.**

4. Conclusions of the analysis of PFM systems

4.1 Integrated assessment across the performance indicators

437. This section examines the indicator assessment in Chapter 3 in terms of its implications for the seven pillars of PFM performance.

Pillar I. Budget reliability: In order for the government budget to be useful for policy implementation, it is necessary that it be realistic and implemented as passed.

438. **The challenges in producing accurate total revenue projections have not been met in recent years.** Actual revenues were significantly greater than estimates (PI-3 'D') due to the RSA's cautious revenue planning of personal income taxation and "windfall" income from own revenues of budgetary institutions. Grants from the central government were also much higher apart from 2018 when they were as budgeted. While the score was for HLG-1.1 was an A, this was because the scoring methodology is not symmetrical between PI-3 and HLG-1.1. Actual total revenues from all sources were much higher than estimated in the planned budget. As a result, the aggregate expenditure side of the budget has scored C (PI-1), with the expenditure composition by function scoring C (PI-2.1) and by economic type scoring D (PI-2.2). This overall result has been achieved by applying virement (PI-18.4 'B') and monthly supplementary budgets (PI-21.4 'C') as these were necessary in terms of frequency and to accommodate the allocation of unplanned revenue increases to spending units for service delivery. The need for supplementary budgets is also reflected in the week budget preparation process (PI-17 'D+') with the unpredictability of grants creating uncertainty as well as the cautious approach to own revenue forecasting. This also impinges on the process of controlling budget allocations to match the availability of cash which has not been supported by effective cash forecasting (PI-21.2 'C'). This aspect has been offset by spending units having certainty in the availability of funds to execute their budgets as planned (PI-21.3 'A'). The stock of arrears is not particularly significant (PI-22.1 'B') which reflects strong commitment control (PI-25.2 'A'). Procurement scores an A overall which indicates good control generating cost savings through competitive tendering (PI-24.2 'A'). Good financial control has also ensured that the allocations, when made, are spent as intended (PI-25 'B+'). There are no material concerns regarding data accuracy. Complete information on expenditure is provided at the payment stage (only unpaid commitments are shown) (PI-28.3 'B'). While the financial statements are produced within three months after the expiry of the reporting year, they not submitted for external audit (PI-29.2 'D'). The absence of the internal audit function (PI-26 'D') and external audit (PIs-30 'D+' and 31 'D') weakens the overall effectiveness of the control and reporting system. However, the good work of the rayon Balance Commission (PI-8.4 'C') in evaluating budget and service delivery performance acts as a partial counterbalance to their absence.

Pillar II. Transparency of public finances: Transparency of information on public finances is necessary to ensure that activities and operations of governments are taking place within the government fiscal policy framework and are subject to adequate budget management and reporting arrangements. Transparency is an important feature that enables external scrutiny of government policies and programs and their implementation.

439. **The Chart of Accounts in Ukraine, which underpins budget preparation, execution and reporting, is comprehensive and consistent with GFS standards.** However, the rayon does not report by administration classification which ensures that a potential A score is downgraded to a D (PI-4). The information that is included in the budget documentation does not support a transparent budget process (PI-5 'D'). The formula for transfers to subnational government under the rayon are determined by the RC (PI-7.1 'A'). Publishing of reports of lower level of government is not timely. These reports for three years 2016, 2017 and 2018 were firstly published on October 1, 2019 and have never been audited (PI-10.2 'D'). Information on performance plans and achievements in service delivery outputs and outcomes in the rayon is very good and reflects the program budgeting system, with performance plans and performance achieved (PI-8.1 and PI-8.2 scored 'A') reflecting the "program budget passport" system. Tracking of resources to service delivery units scores C (PI-8.3) as reporting is at an aggregated level by administrative unit even though the strong accounting and

reporting system does go down to the individual spending unit. Performance evaluation scores C also (PI-8.4) as the results of work of the Balance Commission in evaluation are not published.

440. **Public access to fiscal information is good (PI-9 'B').** Four of all applicable required elements are made available (audited financial statements are not applicable since they do not exist). A citizen's (summary) budget is not available at this level.

Pillar III. Management of assets and liabilities: Effective management of assets and liabilities ensures that risks are adequately identified and monitored, public investments provide value-for-money, financial investments offer appropriate returns, asset maintenance is well planned, and asset disposal follows clear rules. It also ensures that debt service costs are minimized and fiscal risks are adequately monitored so that timely mitigating measures may be taken.

441. **A comprehensive and inclusive process is lacking in managing the public investments (PI-11 'D').** Economic analysis is not carried out for the major investment project and project costing and project monitoring do not meet the basic requirements (Score D). Selection of investments is rated higher at Score C (PI-11.2) reflecting priorities set by sectoral policies for choosing projects. There are no public corporations in the rayon (PI-10.1 N/A). Unaudited reports of the municipalities under the rayon are produced annually within two months after the end of reporting year, but they were not published (PI-10.2 'D'). However, there are no contingent liabilities outside of the public corporations and municipalities so the dimension PI-10.3 is not applicable. Financial (PI-12.1) and non-financial (PI-12.2) asset monitoring are also not applicable as they are managed by the central government. There is no acknowledgment of no disposal or transfer of assets in the budget documents or other reports (PI-12.3 'C'). The rayon has no debt as it is not allowed to borrow (PI-13 'N/A').

Pillar IV. Policy-based fiscal strategy and budgeting: Policy-based fiscal strategy and budgeting processes enable the government to plan the mobilization and use of resources in line with its fiscal policy and strategy.

442. **Some progress has been made towards a comprehensive medium-term expenditure framework.** There is good information on the specification and evaluation of key performance indicators (PI-8 'B'). However, this is not linked in a medium-term approach to expenditure budgeting as the budget is presented for the upcoming year only PI-16.1 'D'). The scores C to D+ of PI-1, PI-2, and PI-3 reflect weaknesses of fiscal strategy and the lack of mid-term budget as well as the situation on uncertainty of all revenues. The overall fiscal strategy focuses on the budget year and following two years (PI-15.2 'A'). The budget does not contain expenditures objectives to be achieved (PI-15.1 'D') but there is reporting against fiscal outcomes in the budget execution report (PI-15.3 'A'). There are no hard ceilings for budget preparation (PI-16.2 'D') and the program proposals are used for annual budget estimates only (PI-16.3 'C'). There is a budget calendar (PI-17.1 'C') but it does not provide spending units adequate time (less than four weeks) to prepare their budgets. The legislature gets less than one month to carry out its scrutiny function (PI-17.3 'D') but it approves the budget on time (PI-18.3 'A'). Nevertheless, the legislature considers fiscal policies and aggregates for the upcoming budget year and the medium term (PI-18.1 'A') and the procedures and timetable for budget scrutiny are respected (PI-18.2 'B').

Pillar V. Predictability and control in budget execution: Predictable and controlled budget execution is necessary to ensure that revenue is collected and resources are allocated and used as intended by government and approved by the legislature. Effective management of policy and program implementation requires predictability in the availability of resources when they are needed, and control ensures that policies, regulations, and laws are complied with during the process of budget execution.

443. **State Fiscal Service is responsible for revenue collection at the time of the assessment on behalf of the rayon.** Revenue collected is well managed in terms of the flow of funds to the Treasury and recording of transactions that are collected on behalf of the rayon. All revenues are paid into the rayon account with the Treasury account (PI-20.2 'A'). All accounts are reconciled on a timely basis. State Fiscal Service can monitor revenues in real time. Payments to the TSA are reconciled on the 4th day of each month (PI-20.3 'A'). A revenue report is prepared monthly for management purposes (PI-20.1 'A').

444. **The consolidation of cash balances in TSA at the National Bank is made daily (PI-21.1 'A').** The Finance Department forecasts the annual cash flow broken down by month but only updates it periodically (PI-21.2 'C'). Spending units know their annual budget within one month of approval of the rayon Budget and can commit funds up to the value of their annual budget allocations and make payments up to the value of their monthly apportionment limits (PI-21.3 'A'). Management of budget releases has been successful in controlling arrears (PI-22.1 'B') but the number of supplementary budgets is monthly (PI-21.4 'C') given the uncertainty of revenues as expected and planned.

445. **Overall the payroll system scores a C+ (PI-23).** Each department is responsible for maintaining its own payroll accounting system. Information on employees, which is accounted for by the Human Resource unit and remuneration by the accounting department, is reconciled (PI-23.1 'C'). Changes to the employee information and on salary are made once they are approved (PI-23.2 'A'). Budgetary institutions have clear and detailed rules and procedures for making changes to staff and payroll information, which include the requirement for signatures of authorized persons and provides a clear audit trail (PI-23.3 'A'). There has been one formal payroll audit (conducted by SAS in the Central Rayon Hospital in 2018), and there are partial audits by different agencies (such as accreditation commission created by the Healthcare department of the Khmelnytskyi oblast state administration, Social Security Fund) for their own purposes (PI-23.4 'C').

446. **The public procurement system (PI-24), which is subordinated to national policy, scores A in all four dimensions.** The score reflects the ProZorro electronic procurement system which has been recognized internationally and has received a number of awards. It also reflects the 100 percent use of competitive tendering above the threshold with no waivers by the rayon.

447. **Internal controls on non-salary expenditure scores a B+ (PI-25) with effective commitment controls (PI-25.2 'A') and compliance with payment rules and procedures (PI-25.3 'A').** Weakness in segregation of duties with clear responsibilities (PI-25.1 'C') reduces the overall score. This achievement is ensured by the management information system ("E-Treasury") that supports the TSA. There is no internal audit function in the rayon which is under the Western Directorate of the State Audit Service. It has not carried out any audits in the rayon based on its risk assessment procedures (PI-26.1 'D').

Pillar VI. Accounting and reporting: Timely, relevant and reliable financial information is required to support fiscal and budget management and decision-making processes.

448. **Accounts reconciliation and financial data integrity are areas of strengths (PI-27 'B+').** The bank reconciliation for the TSA takes place daily (PI-27.1 'A'). There are no Suspense (PI-27.2 N/A) or Advance (PI-27.3 N/A) accounts. Data integrity is good (PI-27.4 'B') as access and changes to records are restricted and recorded, and results in a sufficient audit trail. The system has a senior manager that oversees its operations.

449. **With respect to in-year budget reports, coverage and classification of data partially allows for direct comparison to the original budget.** Treasury reports on expenditure submitted to the RSA are based on economic and functional classifications, but not on administrative classification, that does not allow for their direct comparison with the original budget (PI-28.1 'D'). Information includes all budget estimates for the spending units. Quarterly budget execution reports are issued within 35 days from the end of the quarter to the oblast (PI-28.2 'B') although there is a monthly internal report. There are no material concerns regarding data accuracy. Complete information on expenditure is provided at the payment stage (only unpaid commitments are shown) (PI-28.3 'B').

450. **The situation with respect to the annual financial reports is variable (PI-29 'D+').** The financial statements include complete information on assets, liabilities, including long-term, revenue, and reconciled cash statement. But reporting on expenditure is also based on economic and functional classifications, but not on administrative classification, that does not allow for their direct comparison with the original budget (PI-29.1 'D'). The financial statements are produced within three months after the expiry of the reporting year but are not submitted for external audit (PI-29.2 'D'). The national public sector accounting regulations (standards) that apply to all financial statements are largely consistent with international standards. Notes to the Financial

Statements clearly disclose the accounting framework and standards used in preparing annual financial reports. However, the differences between applicable national provisions and IPSAS are not presented (PI-29.3 'C').

Pillar VII. External scrutiny and audit: Effective external audit and scrutiny by the legislature are enabling factors for holding the government's executive branch to account for its fiscal and expenditure policies and their implementation.

451. **External audit at the rayon level is not carried out as a matter of routine (PI-30 'D+').** As a result, legislative scrutiny of audit reports does not take place (PI-31 'D'). The financial statements are reviewed at the RC.

4.2 Effectiveness of the internal control framework

452. **An effective internal control system plays a vital role across every pillar in addressing risks and providing reasonable assurance that operations meet the control objectives.** The objectives of an internal control framework are: a budget executed in an orderly, ethical, economical, efficient and effective manner; accountability for results; compliance with applicable laws and regulations; and safeguarding of resources against loss, misuse and damage.

453. **The internal control environment, as set out in Annex 2, is generally sound.** The scores in related indicators and dimensions reinforce the assessment that controls associated with the day-to-day transaction of the budgetary subnational government are functioning and result in good data integrity regarding the activities of these entities. The laws and regulations provide the legal framework, and allow for specific roles and responsibilities, segregation of duties, and operating processes. The system embeds access controls and audit trails that support the internal control framework.

454. **The current compliance based approach supports continuous improvement in the control environment.** This is given by the strengths in commitment controls and associated compliance with rules and procedures.

455. **However, there is a gap in the application of the internal audit function.** Risk assessment is an important part of the control framework which is applied through internal audit and analysis. There is no internal audit function in the rayon which is under the Western Directorate of the State Audit Service. It has not carried out any audits in the rayon based on its risk assessment procedures. Similarly, certain activities, such as procurement receive a level of attention in the ex-ante control process. Audits related to payroll, which is a significant expenditure, are only partial although there are regular inspections to monitor the eligibility, timeliness and completeness of salary payments. However, the external audit function is only partial and does not cover the rayon's full financial statements if it were to be applied to the oblast in which the rayon is located.

456. **Control activities are generally strong, in particular regarding reconciliation of accounts.** Segregation of duties requires better definition of responsibilities but there is senior administrator who focuses on financial data integrity processes. Budget rules for supplementary estimates and virement are met.

457. **Information and communication of internal control awareness in Ukraine is continuously promoted through the operation of separate central bodies dedicated to internal control and internal audit.** Monitoring is carried out through the processes of internal and limited external audit, with follow-up improving. However, as noted these have yet to be applied at the rayon.

458. **Budget execution reporting system that provides information on performance relating to service delivery enhances the overall control environment.** The rayon's Balance Commission reviews expenditure performance in relation to service delivery and provides independent evaluation and makes recommendations on service delivery performance.

4.3 Strengths and weaknesses of PFM

Aggregate Fiscal Discipline

459. **Aggregate fiscal discipline is achieved due to control over spending during budget execution, but is weakened due to low level of realism of revenue forecasts.** While revenue administration ensures that revenues are efficiently collected, the relative weaknesses in forecasting own revenue and in the system of transfers from the central government have undermined overall discipline. Nevertheless, implementing the planned budget, on an aggregate basis, to accommodate unplanned revenues is assisted by the use of virement and supplementary budgets following the procedures laid out in the BCU, even though by necessity due to revenue forecasts, the latter is very frequent. Treasury operations and cash management enables expenditures to be managed within the available resources. Control of contractual commitments from both the RSA side and the Treasury side is effective and has ensured that expenditure arrears are insignificant and manageable (less than 6 percent of total actual expenditure). The absence of a full external audit function may inhibit fiscal discipline as does the absence of the operations of the SAS and an internal audit unit. The operations of the Balance Commission fill the gap. The rayon's use of competitive tenders in its procurement also improves fiscal discipline.

Strategic allocation of resources

460. **The Chart of Accounts caters to a multi-dimensional analysis of expenditure but is not fully used at the reporting stage.** of the limited budget information available to citizens does not make them aware of what is being spent and does not encourage them to demand resources to be directed to serve their needs. There is an emerging medium-term perspective in KSU's expenditure budgeting but it is not reflected at annual rayon budgets. Performance indicators are specified, and there is assessment of, and independent evaluation of performance achievement. The work of the Balance Commission provides a critical review of performance. There is an emphasis on overall fiscal forecasting but this does not extend to a multi-year fiscal strategy to assist in resource allocation. Weak management of investment weakens the strategic allocation of resources. The recurrent cost implication of investment is not adequately factored into the budget process and investments are also not subjected to economic analysis and selected to generate the best return.

Efficient use of resources for service delivery

461. **The strength in the procurement process is good and impacts on efficiency in service delivery.** Relative weakness in the payroll system particularly with the integration of payroll and personnel systems may mean that staff is not used effectively. The strengths in the accountability mechanisms provide counter checks on inefficient use of resources although regular external audits of full annual financial statements are still needed. The quarterly budget execution reports (supported by internal monthly reporting) do not ensure that there is well-timed assessment of resource usage relating to the planned budget, taking into account the lack of expenditures reports by administrative classification. Publishing of performance targets and outcomes supports the efficient use of resources in service delivery units. The reviews of expenditure performance by the Balance Commission are a positive feature of the rayon's PFM system.

5. Government PFM reform process

5.1 Approach to PFM reforms

462. **The PFM system in Ukraine has been gradually strengthened over the past five years.** This is the result of the reforms implemented by the government under two PFM Reform Strategies (2013 and 2017) and by following the findings and recommendations of the 2015 PEFA Assessment, IMF reports and EU screening reports.

463. **The 2017-2020 PFM Reform Strategy approved at the beginning of 2017 is aimed at establishing a modern and efficient PFM system.** The objective is to provide qualitative public services through the efficient accumulation of resources and reallocating these according to medium- and long-term development priorities. The PFM Strategy focuses on four priority directions:

- (i) Adherence to general budget and taxation discipline in the medium-term;
- (ii) Increasing the efficiency of resource allocation when setting state policy;
- (iii) ensuring the efficient execution of the state budget; and
- (iv) increasing transparency and accounting in public financial management.

The PEFA-based PFM Strategy is being implemented through the Action Plan adopted in May 2017.

464. **Positive developments and remaining gaps in the implementation of the 2017-2020 PFM Reform Strategy are summarized as follows:**

Table 5.1. Ukraine PFM Reform: positive developments and remaining gaps

Implemented reforms	Key future reform areas
Introduction of medium-term budget planning	Strengthening the role and accountability of key budget spending units in the budgeting process; development and implementation of a PFM ICT Strategy
Enhancing budgeting discipline through the introduction of fiscal rules	Creation of an integrated information and analytical system for data exchange and financial reporting consolidation through existing databases and information systems
Introducing fiscal risk management and increasing the MoF's capacity to estimate fiscal risks related to SOE	Strengthening the system of fiscal risk management through the creation of a fiscal risks register; implementation of the stress testing for major SOEs; extended fiscal risk statement; strengthening staff capacity to identify and manage fiscal risks
Improving forecasting tools; ensuring impartiality and depoliticizing the forecasting process	Strengthening information exchange between stakeholders, introducing medium-term planning at the level of key spending units of the state budget
Approving 2025 Public Sector Accounting Strategy	Implementing the Public Sector Accounting Strategy, improving public sector accounting and financial reporting; strengthening fixed asset management
Increasing transparency in public financial management	Increasing the efficiency of budget expenditures and responsibility of key spending units, including introducing regular spending reviews
Improving the quality and efficiency of tax administration; improving the VAT refund process through the single refund registry	Comprehensive State Fiscal Service and Customs Service Reform
Creating a legal background to introduce expenditure reviews	Developing a methodology of expenditure reviews

Source: The assessment team's prioritization; the MoF reports on the implementation of 2017-2020 PFM Reform Strategy.

465. **The MoF coordinates preparation of quarterly monitoring reports on implementation of PFM Reform Strategy's Action Plan and publishes them on its website.** This ensures transparency of reporting and provides information for civil society. There were nine reports published. Reports provided detailed information desegregated by components, objectives, tasks and performance indicators. An Inter-Agency Working Group for the Implementation of PFM Reform was established in December 2018 and the MoF continues coordination of its work.

466. **The key elements of the PFM Strategy are to be updated and re-prioritized in 2019.** This will follow the comprehensive PFM system assessment of the 2019 PEFA's at the central government and subnational levels.

467. **Although all parts of the PFM Reform Strategy relate to the local governments to a certain extent, the component "Intergovernmental (Inter-budgetary) Relations and Fiscal Decentralization" corresponds directly to the priority area of "improving resource allocation efficiency at the government policy making level".** There is no specific PFM reform process developed for Iziaslavskiy rayon. The rationale of this section is driven by the argument that there is a pressing need to provide for increased financial autonomy and sustainability at local level. The strategy calls for clear separation of powers between central and local governments, provision of appropriate levels of financing to support it through increase of local government revenues, and securing efficient and prudent budgetary mechanisms through introduction of MTBF, development of local government's (LG) debt management capacities, and improving transparency.

Table 5.2. Key PFM Reform Strategy reform objectives relevant for local governments – progress update

Objective number	Objective formulation	Key actions taken by end of Q3 2019
1	Clear delineation of powers between central and local government authorities	The delineation of powers in the domain of health, education and social welfare is continued. The implementation of these measures is provided for by a new stage in the reform of local self-government and territorial organization of power in Ukraine for 2019 - 2021 in accordance with the action plan approved by the government on 01/23/2019 with a deadline of 10 December 2019. Starting from 2018 the budgetary process entails regular consultations with representatives of local governments' associations
2	Increase of own financial resources of local governments	Starting from 2018, 5 percent of the fee for extraction of gas and oil is shared among different levels of local governments. This has brought roughly additional UAH 2 billion to local budgets. Legislative modifications are in place to enable more efficient collection of property tax by enabling more complete and accurate ownership records through data exchange between Fiscal Service and LGs. Also, modifications of the Tax Code were introduced to simplify tax collection framework by reducing LGs' administrative burden, tourist tax approaches changed, reduced the scope of the tax exemption for real estate other than the land for agricultural producers
3	Improving funding of delegated powers	Amendments to the Budget Code of 2017 introduced a new health and education facilities equalization grant. Formula for education financing was supplemented with additional criteria (e.g. inclusive education)

Objective number	Objective formulation	Key actions taken by end of Q3 2019
		As of the beginning of 2017, the government abandoned transfers of transportation subsidies to LGs, but instead introduced direct debits of beneficiaries' (personal) accounts. During 2018 the mechanism for distributing educational subvention funds between local budgets has been improved. Since the beginning of 2019, the provision of a housing subsidy to recipients in cash has been introduced
4	Introducing medium-term budget planning and improvement of the program-based budgeting at local level	Budget Code modifications in late 2018 introduced the concept of MTBF at the local level. Manuals and procedures required for implementation of MTBG are under preparation. Trainings of a large number of LG representatives were held. Mentioned norm of the Budget Code applies from January 1, 2020. Accordingly, forecasts of local budgets for 2021 - 2022 will be approved by local authorities along with draft local budgets for 2020, approximately in November-December 2019 The program-based budgeting has been introduced in all local budgets since 2019. The amendments to the Budget Code adopted at the end of 2018 require the publication of the results of evaluation the effectiveness of budget programs of the KSU
5	Strengthening LG's capacity in the field of debt management	Necessary legislative modifications have been formulated and distributed among key stakeholders. Initial trainings of many LG representatives were held. Work continues on the development of methodological materials and legislative amendments
6	Improving financial transparency and accountability of local governments	Corresponding resolution of the Cabinet was adopted and then modified in 2018 to accommodate requirements for implementation of local budget audit and control

Source: The PFM Reform Strategy implementation report of Q3 2019.

468. **Challenges faced by local governments, and in particular, newly ATCs to maintain the course of reforms by providing solid financial management support to relevant processes, remain an issue to be addressed by appropriate policy measures at the central level.** As the implementation period of the current PFM Reform Strategy approaches mid-term, the MoF has expressed the ambition to undertake thorough assessment of the progress made in all reform areas, including the local governments PFM systems.

5.2 Recent and on-going reform actions

469. **As noted above, overall, reforms across the Ukrainian PFM system have proceeded gradually and progressively.** The New BCU provisions introduced the Medium-Term Budget Declaration. This Declaration is the key strategic document in PFM and consists of a broad list of information including key macroeconomic indicators, revenues, financing, expenditures (including budget ceilings for key spending units), performance indicators, the amount of public investment and an evaluation of fiscal risks. In addition to the Budget Declaration, a fiscal risk report is to be submitted to the Parliament among other supplementary documents for the annual Law on the State Budget. The introduction of expenditure reviews is aimed at analyzing the efficiency of budget expenditures. The government is to consider the results and recommendations of such reviews while developing budget declarations and laws on the State Budget.

470. **The 2017-2020 PFM Reform Strategy also includes a gender-oriented approach in budgeting as part of medium-term and program budgeting.** The Ministry of Finance has been working to incorporate a gender-

oriented approach in budget processes since 2014 and issued the Order on the Application of Methodological Recommendations for a Gender Oriented Approach in early 2019. All key spending units are to follow that Order.

5.3 Subnational aspects of PFM Reform

471. **The government has adopted a comprehensive decentralization program as part of the reform process.** The awareness of the necessity to undertake deep structural reforms in order to make the economy more efficient to ensure sustainable growth became part of the mainstream agenda. It is against the backdrop of such ambition that Ukraine adopted a very bold and elaborate decentralization agenda that is summarized in Table 5.2 above. The program was officially formulated in the Concept for Reform of the Local Government and Territorial Organization adopted by the Cabinet in April 2014. Consequently, the program was also reflected in a range of systemic legislative pieces among which are the Budget Code and Tax Code.

472. **Addressing governance ineffectiveness of small local communities was listed as the primary objective of the process.** Amalgamation of over 10,000 small settlements into amalgamated territorial communities was prescribed by the 2015 Law on Voluntary Amalgamation of Territorial Communities. As of the November, 2019, 1002 new entities (ATC) were established covering nearly 31.9 percent of Ukraine's population (i.e. over 11 million people). At the end of 2014, amendments to the BCU were introduced in light of new models of financial provision for local budgets and intergovernmental fiscal relations. The responsibilities of local governments – primarily relating to education, healthcare and social welfare changed and reflected amalgamation process at the ATC level. A supplementary range of fiscal reforms was also introduced to enlarge the own revenue base of the local governments. In addition, the BCU changes allowed for broadening of the ability of type of local governments to borrow and incur debt. Most importantly, the local government transfer system was changed to accommodate the new functional mix and the Tax Code modifications.

473. **Prior to 2014, gap-filling mechanism was the foundation of the distribution of funds intended for local governments.** This was based on the difference between projected expenditure (calculated based on expected cost of key services) and projected revenues. The financing needs of local governments were then satisfied fully or partially depending on affordability.

474. **Although different objectives are fulfilled to different levels as of the end of 2018 calendar year, most of the actions necessary to come to realization of intended outcomes can be considered work in progress, with rather substantial level of efforts still to be made.** As can be seen from Table 5.2, there has not been much achievement in the domain of delineation of powers – at least not over the period covered by the standing version of the PFM Reform Strategy although relevant representatives of the local governments are involved in consultations prior to adoption of the Budget Law. There have been certain achievements in the area of strengthening local governments' own resource base but they are for now limited to legislative efforts and introduction of gas and oil extraction fee sharing mechanism, reduction of the scope of the some tax exemption as well as limited possibilities to introduce and change tax rates on some local taxes and fees. Starting in 2017, additional resources were transferred for education and healthcare financing at local level and constituted almost one fifth of the overall increase of revenues in that year. In addition, formula for deciding the amount of transfer for the delegated powers is constantly being improved reflecting related government policies. On December 2018, the BCU was modified to allow for introduction of MTBF at local level. Much of the related work in terms of effectively implementing this concept in the PFM systems of local governments (i.e. development of related bylaws and manuals as well as capacity development) is still being developed. The area of public debt management was not appropriately addressed over the past years as very limited actions were taken at both legislative and practical level to achieve enhanced capacity of local governments to manage existing and raise new debt in order to finance their development projects. Finally, the only achievement stated under the objective of improving transparency of local budgets is the legislative effort which introduces the concentration of the internal audit, conducted by SAS, also on the internal control system and on the condition of the internal audit of spending units.

475. **Following the reforms the system of transfers became based on the equalization of financial provision.** This allowed the transition from equalization of expenditures and revenues to the focus on the revenue collection capacity of the territories. As a result of these changes, ATCs were treated as cities of oblast significance, and also received transfers directly from the state budget (instead of being financed from rayon budgets, which received transfers from the state budget). Additional subsidies for health and education expenditures were introduced, calculated according to formulas (similar to those previously used to calculate equalization transfers). The reformed system in place is comprised of:

- Local budgets receive transfers for horizontal equalization (basic grant); stabilization grant, additional grants and subventions. In 2018, the share of intergovernmental transfers was 53.2 percent of local budgets revenues.
- Horizontal equalization (of revenue collection capacity of oblast budgets, budgets of cities of oblast significance, rayons and ATCs) is carried out taking into account the following parameters: (i) the number of population; (ii) corporate income tax (for oblast budgets); (iii) individual income tax; and (iv) revenue collection capacity index of the relevant local budget. This index is a coefficient that determines the level of revenue collection capacity of the relevant budget compared to a similar average for all relevant local budgets in Ukraine per capita.

476. **The main criterion for the distribution of educational and medical subventions is the number of service users among the students and the population.** Social subventions are distributed based on the number of qualifying recipients. Individual subventions from the state budget are based on additional criteria or based on political decisions. In addition, some of them are distributed among local budgets after the fiscal year has begun, which worsens the transparency of the distribution of such transfers. In 2018, the volume of such subventions amounted to UAH 13.8 billion, or 4.6 percent of the total volume of intergovernmental transfers.

477. **Overall, decentralization resulted in somewhat higher revenues for local governments.** There are however large disparities in the levels of revenue growth among different types of subnational government, which have not necessarily reflected the ambition to promote amalgamation and limit the scope of oblasts and rayons.

478. **Only municipalities of a certain size can issue debt within clear thresholds on the level of debt and debt service.** For instance, large cities, e.g., the oblast capital can borrow internally and externally for all kinds of borrowings. Other cities can borrow internally and externally only from International Financial Institutions (IFIs). Oblasts can also borrow externally from IFIs. Cities and oblasts can also issue guarantees. Although, in accordance with part four of Article 74 of the BCU, the state is not liable for local debt obligations, in accordance with part two of this article, the Ministry of Finance approves the amount, terms and conditions of local borrowings and provision of local guarantees. The BCU also defines clear limits for the amount of local and local council-backed debt: no more than 200 percent (for Kyiv – 400 percent) of the average annual forecast of revenues to the development budget (part three of Article 18); for debt servicing, no more than 10 percent of general fund expenditures.

5.4 Subnational aspects of PFM Reform

479. **The Ministry of Finance is leading implementation and measuring progress of the PFM Reform.** In order to facilitate the development and implementation of PFM reforms foreseen under the 2017-2020 PFM Strategy, the MoF set up a Working Group including representatives of the Ministry of Finance and other government bodies, donors and external experts. The Working Group has separate subgroups focusing on particular PFM reform areas and provides a platform for policy dialog in the relevant areas. As a part of the implementation of the PFM Strategy, recent changes to the BCU (Law № 2646-VIII as of December 6, 2018) introduced:

- (i) the implementation of the medium-term budget framework in the national and local budgets,
- (ii) fiscal risk management, and
- (iii) conducting State budget expenditure reviews following a decision from the Cabinet.

480. **As there is no special subnational government PFM reform strategy, there are no criteria to assess the level of sustainability of reform process at the local level.** Central government PFM reform strategy includes some elements of fiscal and administrative decentralisation.

481. **Apart from the decentralization reforms, the key functions of oblasts and rayons are:**

- (i) Social care (about 50 percent of total expenditures in rayon budgets and about 15 percent – in oblast budgets). Within these social benefits, social services with accommodation are prevalent in oblast budgets and social services at home in rayon budgets;
- (ii) Education, of which secondary education is inherent to both, and vocational and higher education also at oblast level;
- (iii) Healthcare, with specialized hospitals, specialized ambulatory care and emergency intrinsic to oblast budgets; and general hospitals – in both the oblast and rayon.

482. **Each oblast and rayon has adopted program budgeting to establish its priority spending portfolio which is implemented by the spending units.** These priority programs and spending units are coded so that Classification of the Functions of Government (COFOG) can be presented for each oblast and rayon so as to provide comparability between different budgets. According to the BCU the main source of revenue is personal income tax. Oblast budgets also have significant revenues from company income tax and property tax. In accordance with the BCU, local budgets must be approved by December 25 of the year preceding the planned year.

Annexes

Annex 1: Performance indicator summary

COUNTRY NAME: UKRAINE			Current assessment	
Pillar	Indicator/dimension		Score	Description of requirements met
HLG-I. Transfer from a higher level of Government	HLG-1:	Transfers from a higher level of government	C+	Scoring Method M1 (WL)
	HLG-1.1.	Outturn of transfers from higher-level government	A	Execution of planned transfers from higher level government over the last three years have accounted for more than 95 percent of the original budget (2016 – 116.4 percent, 2017 – 111.3 percent, 2018 – 100.0 percent)
	HLG-1.2.	Earmarked grants outturn	C	Variance between the original budget and actually allocated intergovernmental transfers during two of the last three years was less than 10 percent (in 2016 - 19.7 percent, 2017 – 8.3 percent, in 2018 – 5.2 percent)
	HLG-1.3.	Timeliness of transfers from higher-level government	A	There is an agreed schedule for the transfer of grants and subsidies from higher level government. A monthly plan for intergovernmental transfers is established and agreed at the beginning of the year. More than 75 percent of actual payments (on a quarterly basis) have been received on time in the last three years
Budget Reliability	PI-1	Aggregate expenditure out-turn	C	The deviation of aggregate expenditure outturn compared to originally approved budget was less than 15 percent in 2017-2018 (2016 - 122.7 percent, 2017 – 113.8 percent, 2018 – 108.7 percent)
	PI-2	Expenditure composition outturn	D+	Scoring Method M1 (WL)
		(i) Expenditure composition outturn by function	C	Variance in expenditure composition by functional classification have been less than 15 percent over the last three years (2016 - 12.2 percent, 2017 - 9.2 percent, 2018 - 10.6 percent)
		(ii) Expenditure composition outturn by economic type	D	Performance was less than necessary for a C score. Variance in expenditure composition by functional classification have been less than 15 percent over the last three years (2016 - 19.8 percent, 2017 - 40.0 percent, 2018 - 20.1 percent)
		(iii) Expenditure from contingency reserves	A	In 2016-2018, the actual expenditures from contingency reserves were not made (the expenditures from contingency reserves were planned annually, but their share did not exceed 1 percent of the original budget expenditures)
	PI-3	Revenue outturn	D	Scoring Method M1 (WL)
		(i) Aggregate revenue outturn	D	Performance was less than necessary for the C score (actual revenue was higher than 116 percent of budgeted revenue in each year: 2016 – 183.3 percent, 2017 – 154.8 percent, 2018 – 131.8 percent)
		(ii) Revenue composition outturn	D	Performance was less than necessary for a C score. Last two years the amount of variation in the revenue composition was more than 15 per cent (2016 - 21.3 percent, 2017 – 18.5 percent, 2018 – 14.5 percent)

COUNTRY NAME: UKRAINE		Current assessment		
Pillar	Indicator/dimension	Score	Description of requirements met	
Transparency of Public Finances	PI-4	Budget classification	D	Budget formulation and implementation are based on administrative, economic and functional classifications. Budget execution reports delivered by the Treasury are based on economic and functional classifications, but not on administrative classification. Functional classification meets the requirements of the Government Finance Statistics Manual /Classification of Functions of Government. Moreover, programmatic classification is applied
	PI-5	Budget Documentation	D	Budget documentation contains two of the four basic elements and two of eight additional elements (three of which are inapplicable). All of them are accessible to the RC
	PI-6	Central government operations outside financial reports	A	Scoring Method M2 (AV)
		(i) Expenditure outside financial reports	A	All expenditures made by the rayon are included in the TSA. There are no extrabudgetary expenditures
		(ii) Revenue outside financial reports	A	All revenues accrued by the rayon are included in the TSA. There are no extrabudgetary revenues
		(iii) Financial reports of extra-budgetary units	N/A	As there are no extrabudgetary revenues and expenditures this dimension is not applicable as there are no reports
	PI-7	Transfers to subnational governments	C+	Scoring Method M2 (AV)
		(i) System for allocating transfers	A	In 2018, almost all own transfers from the rayon budget were allocated under a transparent formula approved by the RC
		(ii) Timeliness of information on transfers	D	The city of Izyaslav and the villages received volumes of intergovernmental transfers approved by the rayon administration after the deadline for preparing and publishing draft local budgets. This applies to own transfers from the rayon budget and transfers originating from the state budget, received directly or transferred through the oblast budget which the rayon authorities distribute to lower level branches
	PI-8	Performance information for service delivery	B	Scoring Method M2 (AV)
		(i) Performance plans for service delivery	A	Key Performance Indicators are established for individual spending units based on established norms relating to achievable service delivery based on performance and efficiency targets
		(ii) Performance achieved for service delivery	A	Each key spending unit reports on the realization of the KPI outputs and outcomes specified in their passports of budget programs. Budget program passport execution reports prepared for each KSU contain such information
		(iii) Resources received by service delivery units	C	Information on all resources disaggregated by sources of fund received and used by service delivery units across sectors are recorded and available from in-year and annual budget execution reports of each service delivery unit. The rayon is able to track expenditures down to the individual spending units such as hospital and schools using own software

COUNTRY NAME: UKRAINE		Current assessment	
Pillar	Indicator/dimension	Score	Description of requirements met
			However, spending at this level is not incorporated in budget execution reports of KSU which only included aggregate departmental expenditure
	(iv) Performance evaluation for service delivery	C	The assessment of service delivery performance with respect to efficiency and effectiveness is multi-faceted, independent but results were not published
	PI-9 Public access to information	B	Local authorities disclose four basic elements out of five, one of which is not applicable, and one additional element, one of which is not applicable as well
Management of assets and liabilities	PI-10 Fiscal risk reporting	D	Scoring Method M2 (AV)
	(i) Monitoring of public corporations	N/A	Iziaslavskyyi rayon does not control or own any shares in a public corporation
	(ii) Monitoring of subnational government (SNG)	D	The State Treasury Service Department prepares the consolidated report of local budgets of Iziaslavskyyi rayon and submits it to the RSA. However, the RSA did not publish such reports annually on its web-site
	(iii) Contingent liabilities and other fiscal risks	N/A	Iziaslavskyyi rayon does not have any significant contingent liabilities as defined by the PEFA framework
	PI-11 Public investment management	D	Scoring Method M2 (AV)
	(i) Economic analysis of investment proposals	D	Economic analysis was not conducted to assess the major investment project
	(ii) Investment project selection	C	Standard selection criteria for investment projects have not been approved. When selecting major investment project, the Economics Directorate applied the priorities set by sectoral policies
	(iii) Investment project costing	D	Expenditures for implementing the major investment project were calculated for three years, but they were not included into the budget documentation
	(iv) Investment project monitoring	D	Formalized annual reports on the implementation of the major investment project in terms of financial component and physical progress are not prepared
	PI-12 Public asset management	C	Scoring Method M2 (AV)
	(i) Financial asset monitoring	N/A	The records on the financial holdings are maintained by the State Treasury Office, with no control from the Iziaslavskyyi rayon
	(ii) Nonfinancial asset monitoring	N/A	The records on nonfinancial assets are maintained by the central government with no control from the Iziaslavskyyi RSA
	(iii) Transparency of asset disposal	C	Procedures and rules for the transfer and disposal of nonfinancial assets are established, including information to be submitted to the legislature for approval. Each spending unit reports on disposal assets as part of annual financial reporting. However, there is no acknowledgment of no disposal or transfer of assets in the budget documents or other reports
	PI-13 Debt management	N/A	Scoring Method M2 (AV)
	(i) Recording and reporting of debt and guarantees	N/A	Rayon councils are not allowed to borrow and issue local guarantees

COUNTRY NAME: UKRAINE		Current assessment		
Pillar	Indicator/dimension	Score	Description of requirements met	
	(ii) Approval of debt and guarantees	N/A	Rayon councils are not allowed to borrow and provide local guarantees	
	(iii) Debt management strategy	N/A	Rayon councils are not allowed to borrow and provide local guarantees	
Policy-based fiscal strategy and budgeting	PI-14	Macroeconomic and fiscal forecasting	B	Scoring Method M2 (AV)
		(i) Macroeconomic forecasts	N/A	RSA has no capacity to forecast GDP for the rayon level. Central government issues forecasts of inflation and interest rates
		(ii) Fiscal forecasts	B	The Budget prepared by the Finance Department and submitted to the Council includes expenditure and revenues by type and balance for the budget and the following two years. The underlying assumptions are documented
		(iii) Macro-fiscal sensitivity analysis	N/A	Three scenarios are developed at the national level as part of the budget process: optimistic, no changes and realistic (core one). RSA prepares one scenario based on recommended scenario by central government. However, the RSA does not forecast GDP growth within its macroeconomic forecasts. Forecast on inflation and interest rates are prepared at the central government level
	PI-15	Fiscal strategy	B	Scoring Method M2 (AV)
		(i) Fiscal impact of policy proposals	D	The impact of changes in policy relating to revenues is quantified for the budget year and the following two years. The evidence indicates that the impact of changes in wages policy such as an increase in the minimum wage is similarly calculated. Other policy changes relating to programs are only quantified within the total rather than estimated individually
		(ii) Fiscal strategy adoption	A	The rayon cannot borrow to finance a fiscal deficit and must have a balanced budget (or a budget surplus). This equates to a fiscal rule for the rayon. The published budget passed by the Council includes the fiscal balance for the budget year and the subsequent two years
		(iii) Reporting on fiscal outcomes	A	The rayon Administration prepares and publishes a budget execution report which is submitted to the Council. This includes details of the fiscal balance
	PI-16	Medium term perspective in expenditure budgeting	D+	Scoring Method M2 (AV)
		(i) Medium-term expenditure estimates	D	Key spending units compile detailed calculations of mid-term expenditure by all budget classifications. Annual budget does not include estimates for the two outer years by administrative, programmatic and economic classifications
	(ii) Medium-term expenditure ceilings	D	Expenditure ceilings for the budget year and indicative ceilings for the following two years by spending unit are included in the budget circular. However these are not approved by the RSA at the time of the circular but only at the time of the finalization of the budget	

COUNTRY NAME: UKRAINE		Current assessment	
Pillar	Indicator/dimension	Score	Description of requirements met
Policy-based fiscal strategy and budgeting	(iii) Alignment of strategic plans and medium-term budgets	C	Each service delivery unit's program – both financial and non-financial elements – is based on a departmental strategy to realize the rayon's overall development strategy. Program proposals are used for annual budget estimates
	(iv) Consistency of budgets with previous year estimates	N/A	No medium-term budget has been adopted during the assessed period
	PI-17 Budget preparation process	D+	Scoring Method M2 (AV)
	(i) Budget calendar	C	A budget calendar is in place. The budget letter is issued in November and spending units are provided less than four weeks to prepare their budgets. All KSUs are able to prepare their detailed calculations on time
	(ii) Guidance on budget preparation	C	The budget letter is communicated to all the KSUs and contains the spending limits by administrative classification as well as the total budget estimates are approved by the rayon administration after KSUs fill in their budget requests
	(iii) Budget submission to the legislature	D	The draft budget at was submitted to RC less than a month before the beginning of fiscal year in each of the last three years
	PI-18 Legislative scrutiny of budgets	B+	Scoring Method M1 (WL)
	(i) Scope of budget scrutiny	A	The Standing Committee on Budget, Finance and Social Protection of the RC reviews in detail the estimates for the planning year prepared for the draft budget. In the course of discussion, the referred commission is also considering forecasts and priorities for the medium term
	(ii) Legislative procedures for budget scrutiny	B	The procedures for reviewing draft rayon budgets in the RC are established by the council's rules of procedure and regulations on the standing committees of the Council and are followed. The procedures do not require public hearings
	(iii) Timing of budget approval	A	The rayon budget in each of the previous three years was approved before the beginning of the fiscal year
(iv) Rules for budget adjustments by the executive	B	In some cases, the BCU allows redistributing the expenditure without amending the state budget law during a year. There are clear limits to this redistribution that are always respected. At the same time, there are no clear limits of the scope of the adjustments, so significant administrative reallocations may be permitted	
PI-19 Revenue administration	N/A	Scoring Method M2 (AV)	
(i) Rights and obligations for revenue measures	N/A	Administered by SFS	
(ii) Revenue risk management	N/A	Administered by SFS	
(iii) Revenue audit and investigation	N/A	Administered by SFS	

COUNTRY NAME: UKRAINE		Current assessment	
Pillar	Indicator/dimension	Score	Description of requirements met
Predictability and control in budget execution	(iv) Revenue arrears monitoring	N/A	Administered by SFS
	PI-20 Accounting for revenues	A	Scoring Method M1 (WL)
	(i) Information on revenue collections	A	There is a monthly revenue report to the RSA detailing the revenue statistics with an explanation
	(ii) Transfer of revenue collections	A	Tax revenue is paid into the rayon's revenue sub account on a daily basis
	(iii) Revenue accounts reconciliation	A	The SFS carries out reconciliation on the fourth day of each month of transfers to the TSA. In addition, it operates a Digital Taxpayer Account and this allows both the taxpayer and the SFS to assess whether payments have been credited in line with payment schedules
	PI-21 Predictability of in-year resource allocation	B	Scoring Method M2 (AV)
	(i) Consolidation of cash balances	A	The rayon's revenue and expenditure are maintained in sub-accounts of the TSA at the National Bank. All sub-accounts are consolidated on a daily basis
	(ii) Cash forecasting and monitoring	C	At the start of the financial year the rayon's Finance Department prepares the cash forecast for each month based on estimated revenue and expenditure
	(iii) Information on commitment ceilings	A	Spending units receive reliable and timely information about monthly ceilings for expenditure commitments for twelve months, and are able to plan and commit expenditures accordingly
	(iv) Significance of in-year budget adjustments	C	In 2018 there were monthly supplementary budgets and these were voted in the Council
	PI-22 Expenditure arrears	B	Scoring Method M1 (WL)
	(i) Stock of expenditure arrears	B	Stock of total expenditure arrears during two of the last three completed fiscal years was less than 6 percent
	(ii) Expenditure arrears monitoring	B	Data on expenditure arrears is formed on a monthly and annual basis. The Treasury draws up and submits such monthly reports to the Finance Department within a maximum term of eight weeks from the end of the quarter (no later than the 1st day of the second month following the reporting period)
	PI-23 Payroll controls	C+	Scoring Method M1 (WL)
	(i) Integration of payroll and personnel records	C	Information on manning tables, personnel and labor remuneration is accounted for separately. Reconciliation of payroll fund and personnel records is carried out monthly in calculating the advance pay and wages. These calculations are made taking into account all personnel changes. Hiring and any promotion is done within the available budget
	(ii) Management of payroll changes	A	Responsible departments update the payroll to reflect changes in personnel information as soon as the order is approved. Retrospective adjustments to the payroll are not made

COUNTRY NAME: UKRAINE		Current assessment		
Pillar	Indicator/dimension	Score	Description of requirements met	
Predictability and control in budget execution	(iii) Internal control of payroll	A	Budgetary institutions have clear and detailed rules and procedures for making changes to the information on staff and payroll, which include the requirement for signatures of authorized persons. Changes made to the payroll provide for a clear audit trail	
	(iv) Payroll audit	C	During 2016-2018, the SAS carried out one audit in institutions financed by the rayon budget, in the Central Rayon Hospital (CRH). The revealed violations in the payment of wages are 0.01 percent of the total expenditure for the salary of the CRH for the relevant period. Rayon-level internal audit units were not created at the time of the assessment. Partial payroll checks have been conducted over the last three financial years	
	PI-24	Procurement	A	Scoring Method M2 (AV)
	(i) Procurement monitoring	A	Databases are maintained for all contracts including on what has been procured, value of procurement, and who has been awarded contracts. All rayon contracts are procured through the national ProZorro electronic procurement platform and each spending unit of rayon budget is responsible for accuracy and completeness of information	
	(ii) Procurement methods	A	100 percent of the value of the contracts in the rayon in 2018 was conducted using competitive methods	
	(iii) Public access to procurement information	A	Information is available and exceeds the requirements for the criteria	
	(iv) Procurement complaints management	A	The complaint settlement framework meets all the dimension criteria	
	PI-25	Internal controls on nonsalary expenditure	B+	Scoring Method M2 (AV)
	(i) Segregation of duties	C	For some procedures, the segregation of duties is regulated at the legislative level, and for the rest of the procedures such segregation must be regulated at the institution level. For some budget spending responsibilities, a more accurate definition may be required. It requires a clearer definition of the distribution of responsibilities in the preparation of bids and in determining the successful bidder. There is no summarized information on the compliance of internal control in all rayon level institutions with the recommendations regarding its organization	
	(ii) Effectiveness of expenditure commitment controls	A	In accordance with internal procedures, spending units make sure that budget commitments are made only within the limits of estimates and monthly budget allocations. The Treasury Information System applies to public authorities at all levels and includes a module that provides for the registration of all budgetary commitments and their recording only when they are within the budget appropriations of the relevant 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. The Finance department and KSUs adjust monthly allocations in compliance with the cash forecast	

COUNTRY NAME: UKRAINE		Current assessment	
Pillar	Indicator/dimension	Score	Description of requirements met
Predictability and control in budget execution	(iii) Compliance with payment rules and procedures	A	There is a link between accounting of commitments and payments. Treasury making payments based on a payment order within the balance of the account for opened appropriations in a case if budget commitment registered by Treasury. Exceptions are not allowed. The violations of budget legislation that spending units and recipients of local budgets made when submitting payment orders to the Treasury in January-June 2019 accounted for only 0.01 percent of expenditure of local budgets during this period
	PI-26 Internal audit effectiveness	D	Scoring Method M1 (WL)
	(i) Coverage of internal audit	D	Internal audit is not operational in the rayon
	(ii) Nature of audits and standards applied	NA	There have been no internal audits
	(iii) Implementation of internal audits and reporting	NA	There have been no internal audits
	(iv) Response to internal audits	NA	There have been no internal audits
Accounting and Reporting	PI-27 Financial data integrity	B+	Scoring Method M2 (AV)
	(i) Bank account reconciliation	A	The State Treasury Service has all transactions into a single system of electronic payments in a TSA (with sub-accounts) the National Bank which allows daily reconciliation
	(ii) Suspense accounts	NA	The Finance Department reports that the rayon does not have any suspense accounts
	(iii) Advance accounts	NA	Pre-payment accounts were initiated for capital projects in May 2019
	(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	D+	Scoring Method M1 (WL)
	(i) Coverage and comparability of reports	D	The scope of reports and classification of revenue that they contain allow for their direct comparison with the approved budget. Reporting on expenditure is based on economic and functional classifications, but not on administrative classification, what does not allow for their direct comparison with the original budget
	(ii) Timing of in-year budget reports	B	During four weeks after the end of the reporting quarter, the Treasury submits quarterly reports to the Finance Department
(iii) Accuracy of in-year budget reports	B	There are no issues with quality. However, the reports provide information on expenditures only at the payment stage (only unpaid commitments are shown)	
PI-29 Annual financial reports	D+	Scoring Method M1 (WL)	
(i) Completeness of annual financial reports	D	The annual financial statements include complete information on assets, liabilities, including long-term, revenue, and cash flow statement. Reporting on expenditure is based on economic and functional classifications, but not on administrative classification, what does not allow for their direct comparison with the original budget	

COUNTRY NAME: UKRAINE			Current assessment	
Pillar	Indicator/dimension		Score	Description of requirements met
Accounting and Reporting		(ii) Submission of reports for external audit	D	Treasury draws up and submits financial statements of the rayon to the rayon and oblast Administrations within three months after the expiry of the reporting year. The oblast administration consolidates all the financial statements for all individual entities in the oblast which is submitted to the Ministry of Finance and the Accounting Chamber
		(iii) Accounting standards	C	The national public sector accounting regulations (standards) (NPSAR(S)) that apply to all financial statements and are largely consistent with the international standards have been approved and introduced in Ukraine. The standards used in the preparation of annual financial statements and the provisions of accounting policies are presented in the Notes to Financial Statements. However, the differences between the applicable national and international Public Sector Accounting Regulations (Standards) (IPSAS) are not presented at time of assessment
External scrutiny and audit	PI-30	External audit	D+	Scoring Method M1 (WL)
		(i) Audit coverage and standards	D	While an audit of the transfers from the central government to the rayon would cover all of the budget, such an audit has never been carried out
		(ii) Submission of audit reports to the legislature	D	Reports are directed to Parliament and its relevant committees to whom the ACU is related to. Copies go to the Cabinet and the relevant rayon Administration, but these are not statutory obligations
		(iii) External audit follow-up	NA	As there have not been any financial audits, there are no recommendations, nor any follow up
		(iv) Supreme Audit Institution (SAI) independence	B	According to the Law on the Accounting Chamber adopted in 2015, ACU is the body independent of the government in all the following essential aspects: (i) determination and election of ACU members; (ii) independence in planning audits and making public audit findings; and (iii) budget planning and execution. The auditors of ACU are also granted access to all documents and information required for auditing. However, the access to data bases and information produced by financial management information systems is only limited to Board members of the ACU
	PI-31	Legislative scrutiny of audit reports	D	Scoring Method M2 (AV)
		(i) Timing of audit report scrutiny	D	There were no audit reports submitted to the RC. The legislation does not establish requirements for auditing the local budget reports
		(ii) Hearings on audit findings	N/A	There were no audit reports submitted to the RC
		(iii) Recommendations on audit by the legislature	N/A	There were no audit reports submitted to the RC
		(iv) Transparency of legislative scrutiny of audit reports	N/A	There were no audit reports submitted to the RC

Annex 2: Summary of observations on the internal control framework

Internal control components and elements	Summary of observations
Control Environment	
1.1 The personal and professional integrity and ethical values of management and staff, including a supportive attitude toward internal control constantly throughout the organization	<p>The basic principles for implementing internal controls by the budget spending units were approved by Resolution of the Cabinet # 1062, dated December 12, 2018. These principles regulate: (i) listing of tasks and functions, their segregation and assigning to performers; (ii) establishing authorization and confirmation procedures (obtaining permissions from responsible officials to carry out operations by means of signing, confirming, or approving of documents); (iii) the segregation of duties between employees to reduce the risks of mistakes or wrongful acts and timely detection of such actions. Established guidelines prescribe that internal controls in an institution is based on the principle of responsibility and sharing of powers, which means sharing of duties between the management of the institution and its employees, establishing boundaries of their responsibility in the decision-making process or when performing other actions. Control measures are carried out at all levels of the institution's activities and for all functions and tasks and include relevant rules and procedures. The SAS internal auditors are responsible for internal audit.</p> <p>The BCU, art. 26; Cabinet Decree No. 1001 (with amendments introduced by the Cabinet Decree 1062 on December 12, 2018), National Internal Audit Standards and Code of Ethics, MOF Ordinance #480 of 2017 on the Procedure of assessment by the Ministry of Finance of the internal audit systems provide the regulatory framework upon which Internal Audit Units have been established</p>
1.2 Commitment to competence	On January 1, 2017 the function of internal control policy in the public sector was shifted from the SAS to the Ministry of Finance and its Department of the State Internal Financial Control Harmonization. The existence of the Central Harmonization Unit indicates a commitment to competence in implementing internal controls and is evidenced by the overall B+ score in PI-25. But there is a lack of internal audit (D in PI-26)
1.3 The 'tone at the top' (i.e. management's philosophy and operating style)	There is a positive approach to implementing internal controls as evidenced by the organisational structure which ensures that there is response to recommendations
1.4 Organizational structure	<p>The roles of the various parties involved in the financial management control system are established in the BCU, Law and Decrees relating to on Public Internal Financial Control and Internal audit. The Ministry of Finance and the Cabinet are the authorized bodies which, through the Harmonization Unit and the SAS promote the establishment and development of public internal financial control systems and carries out coordination and harmonization policies and procedures for both the central and subnational structures of government.</p> <p>The government is taking practical steps towards the development of the management accountability and delegation of tasks in accordance with the Decree on Internal Audit. Full implementation of the requirements of this Decree and alignment with international good practices will take time. The rayon does not have an I-A unit and depends on the local office of the SAS to enable the achievement of the objectives and compliance with the functions assigned to the activity</p>
1.5 Human resource policies and practices	A cadre of professionals in is in place in the rayon and follows standard public sector policies and practices. The Internal Audit function has been established in the Western Directorate of the SAS serves the overall oblast and the rayons and other administrations within the oblast's jurisdiction

Internal control components and elements	Summary of observations
Risk assessment	
2.1 Risk identification	<p>Several PIs are related to the extent to which risks are identified, notably:</p> <p>Economic Analysis of Investment Proposals is rated C in 11.1 – Economic analyses of the major investment project conducted but the results were not published.</p> <p>Economic analysis of investment proposals is rated ‘D’ in 11.1.</p> <p>Macro-fiscal sensitivity analysis is rated ‘N/A’ in 14.3 – – The rayon does not forecast GDP growth within its macroeconomic forecasts. Forecast on inflation and interest rates are prepared at the central government level.</p> <p>Cash flow forecasting and monitoring is rated ‘C’ in 21.2 – A comprehensive cash flow forecast is developed and updated routinely but is limited to the calendar month</p>
2.2 Risk assessment (significance and likelihood)	See risk identification (2.1 above)
2.3 Risk evaluation	<p>While the SAS does cover audits in the oblast in which the rayon is situated, the SAS in a State entity and the reporting structure is to the State though audit reports go to the oblast administration. There have not been any audits in the rayon. Discussion with the SAS’s Western Office Department confirmed that the audits carried out on the oblast Administration’s activities (budget programs) and in the territory are based on an annual plan that is executed accordingly</p>
2.4 Risk appetite assessment	<p>The development and implementation of identification and assessment of risk indicates a positive risk appetite which will grow as these become more mature</p>
2.5 Responses to risk (transfer, tolerance, treatment, or termination)	<p>Standard public sector HR policies are in place throughout the areas of control</p>
Control activities	
3.1 Authorization and approval procedures	<p>Financial data integrity processes are rated ‘B’ in 27.4. Access and changes to records is restricted and recorded, and results in audit trail. There is a senior official in charge who provides oversight.</p> <p>Effectiveness of expenditure commitment controls is rated ‘A’ in 25.2. Commitment control applies to all payments made from the TSA. Actual expenditure incurred is in line with approved budget allocations and does not exceed committed amounts and projected available cash resources.</p> <p>Integration of payroll and personal records is rated ‘C’ in 23.1. Information on manning tables, personnel and labor remuneration is accounted for separately and there is reconciliation of the payroll with the personnel records.</p> <p>Management of payroll changes is rated ‘A’ in 23.2. Personal records are updated as soon as they are authorized with few retroactive changes.</p> <p>Compliance with payroll payment rules and procedures is rated ‘A’ in 23.3. Budget institutions have clear and detailed rules and procedures for making changes to staff information and payroll, which include signatures of authorized persons and provide for clear audit trails</p>
3.2 Segregation of duties (authorizing, processing, recording, reviewing)	<p>Segregation of duties is rated ‘C’ in 25.1. For part of the procedures segregation of duties is regulated at the legislative level, while in other cases the necessary duty segregation is regulated at the institution level</p>

Internal control components and elements	Summary of observations
3.3 Controls over the access to resources and records	<p>Compliance with payment rules and procedures is rated 'A' in 25.3. Compliance with payment rules and procedures is very high.</p> <p>Financial data integrity processes are rated 'B' in 27.4. Access and changes to records is restricted and recorded, and results in audit trail. There is a senior official in charge who provides oversight</p>
3.4 Verifications	<p>Accuracy of in-year budget reports is rated 'B' in 28.3. There are no material concerns regarding data accuracy There are monthly and quarterly budget execution reports of payments in the Treasury system. Treasury submits these reports to the rayon Department of Finance and to the Ministry of Finance</p>
3.5 Reconciliations	<p>Bank account reconciliations are rated 'A' in 27.1. A TSA is in place and is reconciled daily</p>
3.6 Reviews of operating performance	<p>Business processes, operations, and activities are included within the scope of internal and external audits. However, there have been none in the rayon. Each spending unit is expected to be able to present data on performance – both financial and non-financial – and answer questions from the Balance Commission</p>
3.7 Reviews of operations, processes and activities	<p>The audit trail in place indicates a supervisory focus. The Balance Commission meets after the previous year's budget has been executed. All the meetings record minutes</p>
3.8 Supervision (assigning, reviewing, and approving, guidance and training)	<p>The audit trail in place indicates a supervisory focus. Staff are appropriately qualified</p>
4. Information and communication	<p>There is good use of the internet throughout government. All procurement is on-line. Public access to fiscal information is good and scores B in PI-9</p>
5. Monitoring	
5.1 Ongoing monitoring	<p>The Assessment highlighted a number of areas related to ongoing monitoring activities:</p> <p>Resources received by service delivery units is rated 'C' in 8.3. The information on the resources received by the service providers is collected and recorded through the TSA. However, spending at this level is not incorporated in budget execution reports of KSU which only included aggregate departmental expenditure.</p> <p>Monitoring of subnational governments is rated 'D' in 10.2. Annual financial statements for subnational governments were not published neither were not audited.</p> <p>Investment project monitoring is rated 'D' in 11.4. Monitoring of financial aspects of the major investment project was conducted but did not include information about physical progress. The monitoring report was not published.</p> <p>Expenditure arrears monitoring is rated 'B' in 22.2. Data on expenditure arrears is processed on a monthly and annual basis.</p> <p>Procurement monitoring is rated 'A' in 24.1. Databases or records are maintained for all contracts on the electronic procurement platform</p>
5.2 Evaluations	<p>Performance evaluation for service delivery is rated 'C' in 8.4. Investment project selection is rated 'C' in 11.2</p>
5.3 Management responses	<p>The rayon has established a The Balance Commission with the objective of reviewing expenditure performance. Recommendations are listed in the minutes with a timetable for implementation and these are monitored with respect to action</p>

Annex 3: Sources of information

Annex 3A: Related surveys and analytical work

No	Institution	Document title	Date	Link
1	The World Bank	Ukraine PEFA 2015 – Public Finance Management Performance Report	November 20, 2019	

Annex 3B: List of people interviewed

No	Institution	Department	Person	Position	Phone number	e-mail
1	Iziaslavskiy RC		Mr. Serhiy Shlegel	Head	067-897-72-02	
2		Commission on Budget, Finance and Social Protection	Ms. Tamara Kaminska	Head	067-609-98-08	kam_tania@i.ua
3		Executive Office	Ms. Tetyana Boiko	Chief Accountant	067-348-86-49	Tanyaboyko@i.ua
4		General Department	Mr. Roman Omelchuk	Head	098-469-23-42	Omelchuk.roman.is@ukr.net
5	Iziaslavskiy RSA		Mr. Pavlo Kovalchuk	First Deputy Head		
6		Finance Department	Mr. Serhii Zhuravel	Head	097-884-96-86	
7		Finance Department	Ms. Svetlana Panchuk	Deputy Head; Head of Budgeting Unit	097-164-08-04	
8		Finance Department	Ms. Valentyna Korotun	Head of the Revenue Unit	068-026-82-21	
9			Ms. Olha Manzyuk	Administrative Head	096-404-04-40	lzyaslav_rda@izadm.gov.ua
10		Sector for Information Activity and Communications	Ms. Olha Basko	Chief Specialist	097-672-64-92	lzyaslav_rda@izadm.gov.ua
11		Department for Economic Development, Trade and Infrastructure	Mr. Viktor Klimchuk	Head	096-597-49-72	Uerada12@ukr.net
12		Department for Education, Youth and Sport	Mr. Rostyslav Kononchuk	Head	067-981-57-44	
13		Department for Education, Youth and Sport	Ms. Natalia Ravchuk	Chief Accountant	097-888-67-47	Nata.ravchuk@ukr.net
14		Department for Education, Youth and Sport	Ms. Oksana Frankivska	Accountant	097-370-11-38	

No	Institution	Department	Person	Position	Phone number	e-mail
15	Iziaslavskiy RSA	Department for Education, Youth and Sport	Ms. Olena Andriychuk	Public Procurement Specialist	068-765-87-48	
16		Sector for Culture Issues	Ms. Mariya Kucheruk	Head	097-110-52-29	vk-iziaslav@ukr.net
17		Sector for Housing and Communal Services	Ms. Tamara Kaminska	Head	067-609-98-08	kam_toma@i.ua
18	Iziaslavskiy Department of the Main Directorate of State Fiscal Service in Khmelnytskyi oblast	Department for Administration of Taxes and Fees on Individuals	Mr. Vladislav Feshchuk	Head	098-555-76-50	feschuk@ukr.net
19		Sector for Monitoring and Accounting of Payments	Ms. Tetyana Mykolaichuk	Head	098-515-44-91	
20	Department of the State Treasury Service in Iziaslavskiy rayon		Ms. Natalia Raditsa	Head	067-591-33-35	
21	Iziaslavskiy Rayon		Ms. Maria Molyavchuk	Chief Accountant	067-609-79-91	
22	Central Hospital		Ms. Nadia Vaskevych	Economist	098-565-49-61	
23	Iziaslavskiy Center for Primary Health Care		Ms. Oksana Kyrylyuk	Chief Accountant	096-349-99-38	iz.msd@ukr.net
24			Ms. Halyna Druz	Chief Accountant of Centralized Accounting	098-723-08-33	iziaslav@ukr.net

Annex 3C: Sources of information used to extract evidence for scoring each indicator

Indicator/dimension	Data Sources
HLG-1: Transfers from a higher level of government	
HLG-1: Transfers from a higher level of government	Decisions on the Iziaslavskiyi rayon budget for 2016-2018; Treasury quarterly and annual reports on Iziaslavskiyi rayon budget execution for 2016, 2017, and 2018
HLG-1.1. Outturn of transfers from higher-level government	
HLG-1.2. Earmarked grants outturn	
HLG-1.3. Timeliness of transfers from higher-level government	
Budget reliability	
PI-1. Aggregate expenditure outturn	Decisions on the rayon budget for 2016-2018;
1.1. Aggregate expenditure outturn	Treasure annual reports on rayon budget execution for 2016, 2017, and 2018
PI-2. Expenditure composition outturn	Decisions on the rayon budget for 2016-2018;
2.1. Expenditure composition outturn by function	Treasure annual reports on rayon budget execution for 2016, 2017, and 2018
2.2. Expenditure composition outturn by economic type	
2.3. Expenditure from contingency reserves	
PI-3. Revenue outturn	Decisions on the rayon budget for 2016-2018;
3.1. Aggregate revenue outturn	Treasure annual reports on rayon budget execution for 2016, 2017, and 2018
3.2. Revenue composition outturn	
Transparency of public finances	
PI-4. Budget classification	Budget Code of Ukraine (July 8, 2010 № 2456-VI); MoF's Decree dated 14.01.2011 № 11 «On Budget Classification»; Decision on the rayon budget for 2018; Treasury report on execution of the rayon budget for 2018; MoF's Decrees as of: - 28.01.2002 № 57; - 17.07.2015 № 648; Order of Cabinet dated June 20, 2018 № 437 «An Approval of the Strategy for Modernization of the Public Sector Accounting and Financial Reporting for the Period till 2025»; Decrees of the Department of Finance of Iziaslavskiyi RSA dated October 4, 2018 № 69 n On approving the Instruction on preparation of budget requests for the draft rayon budget for 2019
4.1. Budget classification	
PI-5. Budget documentation	Budget Code of Ukraine (July 8, 2010 № 2456-VI); Draft decision on the rayon budget for 2019 and explanatory note to it, submitted by the RSA to RC on December 14, 2018; Annual report on execution of the rayon budget for 2018, submitted by the RSA to RC; Decision on the rayon budget for 2019
5.1. Budget documentation	

Indicator/dimension	Data Sources
PI-6. Central government operations outside financial reports	Budget Code of Ukraine (July 8, 2010 № 2456-VI);
6.1. Expenditure outside financial reports	MoF's Decree № 44 dated January 24, 2012 «On approval of the Procedure for preparing financial, budget, and other reports by the spending units and budget funds recipients»
6.2. Revenue outside financial reports	
6.3. Financial reports of extra-budgetary units	
PI-7. Transfers to subnational governments	Budget Code of Ukraine (July 08,2010 № 2456-VI);
7.1. System for allocating transfers	Decisions on the rayon budget for 2018 and changes to it;
7.2. Timeliness of information on transfers	
PI-8. Performance information for service delivery	MoF's Decrees №№ 836 (26.08.2014), 938 (23.08.2012) and 608 (17.05.2011).
8.1. Performance plans for service delivery	Annex 3 to the Decision on the rayon budget for 2019. Passports of Budget Programs' for 2019 of Department of Education, Youth and Sports and of the Iziaslavskiyi RSA on Healthcare sphere. Reports on the execution of passports of budget programs for the 2018 of the Iziaslavskiyi RSA in the Healthcare sphere and of the Department of Education, Youth and Sports of the RSA. Reports on actual revenue and expenditure of the Iziaslavskiyi RSA in the Healthcare sphere and of the Department of Education, Youth and Sports for 2017-2018; Reports on the assessment of the effectiveness of budget programs for 2017-2018 of the Iziaslavskiyi RSA in the Healthcare sphere and of the Department of Education, Youth and Sports
8.2. Performance achieved for service delivery	
8.3. Resources received by service delivery units	
8.4. Performance evaluation for service delivery	
PI-9. Public access to fiscal information	Budget Code of Ukraine (July 08,2010 № 2456-VI);
9.1. Public access to fiscal information	Laws of Ukraine: - 11.02.2015 № 183-VIII; 13.01.2011 № 2939; - 27.02.2014 № 794; 23.09.1997 № 539. Iziaslavskiyi RC's site (http://rada-izyaslav.gov.ua). Iziaslavskiyi RSA's site (https://izadm.gov.ua/)
Management of assets and liabilities	
PI-10. Fiscal risk reporting	The Constitution of Ukraine;
10.1. Monitoring of public corporations	Budget Code of Ukraine (July 08,2010 № 2456-VI); Law of Ukraine dated 05.10.2017 № 2164-VIII; Resolutions of Cabinet: 28.02.2000 № 419; 03.02.2016 № 43; Reports on the implementation of local budgets of the Iziaslavskiyi rayon, published on the websites of relevant local councils;
10.2. Monitoring of subnational government	
10.3. Contingent liabilities and other fiscal risks	

Indicator/dimension	Data Sources
	Decision of the Iziaslavskiy RC On About the Procedure for compiling, approving and monitoring the implementation of financial plans of self-supporting objects of common ownership of territorial communities of villages, towns, cities of the Khmelnytsky region as of 29.03.17 № 35-11/2017; Dates on publication of the annual financial reports for 2016-2018 of the Iziaslavskiy rayon budget
PI-11. Public investment management	Budget Code of Ukraine (July 08,2010 № 2456-VI);
11.1. Economic analysis of investment proposals	Decision on the rayon budget for 2018;
11.2. Investment project selection	
11.3. Investment project costing	Decision of the Iziaslavskiy RC of 06.03.19 № 3 On the socio-economic development program of the Iziaslavskiy rayon for 2019
11.4. Investment project monitoring	
PI-12. Public asset management	Laws of Ukraine:
12.1. Financial asset monitoring	- 18.01.2018 № 2269-VIII;
12.2. Nonfinancial asset monitoring	- 10.04.1992 № 2269-XII;
12.3. Transparency of asset disposal.	- 03.03.1998 № 147/98-BP;
	Resolution of Cabinet 10.05.2018 № 351;
	The balances of the rayon budget, sub-division of Culture of RSA, Iziaslavskiy rayon house of the culture, Iziaslavskiy rayon historic-cultural museum, Iziaslavskiy central rayon library, Pluzhnenska music school for children, Iziaslavskiy school of arts for children as of January 1, 2019;
	The extract of the decision of the Iziaslavskiy RC No. 23 On the renewal of communal property leases;
	The register of fixed assets of the Iziaslavskiy central rayon hospital;
	Notes to the annual financial reporting of the Department of Education, Youth and Sports of the RSA, the Iziaslavskiy central rayon hospital;
	Regulation on the procedure for alienation and write-off of property, which is the joint property of the territorial communities of the region, approved by decision No. 22 of the fifth convocation dated January 30, 2009 No. 9
PI-13. Debt management	
13.1. Recording and reporting of debt and guarantees	Budget Code of Ukraine (July 08,2010 № 2456-VI);
13.2. Approval of debt and guarantees	Treasury report on execution of the rayon budget in 2018.
13.3. Debt management strategy	
Policy-based fiscal strategy and budgeting	
PI-14. Macroeconomic and fiscal forecasting	Explanatory notes to the draft decision on the rayon budget for 2016-2019;
14.1. Macroeconomic forecasts	
14.2. Fiscal forecasts	Draft decision on the rayon budget for 2018
14.3. Macro-fiscal sensitivity analysis	
PI-15. Fiscal strategy	Budget Code of Ukraine (July 08,2010 № 2456-VI);
15.1. Fiscal impact of policy proposals	Explanatory note to the draft decision on the rayon budget for 2019;
15.2. Fiscal strategy adoption	
15.3. Reporting on fiscal outcomes	Information on the implementation of the rayon budget for 2018 submitted by the RSA to the RC

Indicator/dimension	Data Sources
PI-16. Medium-term perspective in expenditure budgeting	Budget Code of Ukraine (July 08,2010 № 2456-VI);
16.1. Medium-term expenditure estimates	MoF`s Decree as of 17.07.2015 № 648;
16.2. Medium-term expenditure ceilings	Decrees of the Department of Finance of Iziaslavskiyi RSA dated October 4, 2018 № 69 n On approving the Instruction on preparation of budget requests for the draft rayon budget for 2019.;
16.3. Alignment of strategic plans and medium-term budgets	
16.4 Consistency of budgets with previous year`s estimates	Letters of the Financial Department of the RSA to KSU`s as of 28.11.2018 № 02-09/683. Explanatory note to the draft decision on the rayon budget for 2019
PI-17. Budget preparation process	Budget Code of Ukraine (July 08,2010 № 2456-VI);
17.1. Budget calendar	The plan for the preparation of the draft rayon budget for 2019, approved by RSA on 07.09.18;
17.2. Guidance on budget preparation	
17.3. Budget submission to the legislature	Decrees of the Department of Finance of Iziaslavskiyi RSA dated October 4, 2018 № 69 n On approving the Instruction on preparation of budget requests for the draft rayon budget for 2019; Letters of the: - RC dated 03.12.2018 № 453/1/01-11; - The rayon Center of Social Services for families, children and youth of the RSA of 04.12.2018 № 225/01-17; - Department of Education, Youth and Sports of the RSA dated 05.12.2018 № 01-15-1399/2018; - Sub-division of Culture of the RSA dated 06.12.2018 № 654. Letters from RSA to KSU`s dated: - 28.11.2016 № 02-09/687; - 08.12.2017 № 02-09/746; - 28.11.2018 № 02-09/683
PI-18. Legislative scrutiny of budgets	Budget Code of Ukraine (July 08,2010 № 2456-VI);
18.1. Scope of budget scrutiny	Regulation of the Iziaslavskiyi RC, approved by the Decision of the RC as of 10.12.2015 № 2;
18.2. Legislative procedures for budget scrutiny	
18.3. Timing of budget approval	Regulations on standing committees of the Iziaslavskiyi RC, approved by the Decision of the RC as of 10.12.2015 № 6;
18.4. Rules for budget adjustments by the executive	The order of the Iziaslavskiyi RC dated 16.09.2019 № 83/2019-ro On the convocation of the fifty-first session of the RC of the seventh convocation; Minutes of the meeting of the standing committee of the RC on Budget, Finance and Social Protection as of 22.12.2018. Decisions on rayon budgets for 2017, 2018, 2019; Report on the implementation of the rayon budget for 2018
Predictability and control in budget execution	
PI-19. Revenue administration	Tax Code of Ukraine as of 02.12.2010 № 2755;
19.1. Rights and obligations for revenue measures	Resolution of Cabinet as of 16.02.2011 № 106 "Some issues of accounting for taxes, fees, payments and other budget revenues"
19.2. Revenue risk management	
19.3. Revenue audit and investigation	
19.4. Revenue arrears monitoring	

Indicator/dimension	Data Sources
PI-20. Accounting for revenues	Budget Code of Ukraine (July 08,2010 № 2456-VI);
20.1. Information on revenue collections	MoF's Decrees as of:
20.2. Transfer of revenue collections	- 03.11.2008 № 373;
20.3. Revenue accounts reconciliation	- 18.07.2016 № 621;
	Decrees of the NBU's Board as of 21.01.2004 № 22;
	STS's Decrees as of:
	- 25.01.2019 № 28;
	- 06.02.2018 № 36
PI-21. Predictability of in-year resource allocation	Budget Code of Ukraine (July 08,2010 № 2456-VI);
21.1. Consolidation of cash balances	Decision of the Iziaslavskiy RC on the rayon budget for 2018 and on amendments to it;
21.2. Cash forecasting and monitoring	Resolution of Cabinet as of 15.04.2015 № 215;
21.3. Information on commitment ceilings	MoF's Decree as of 28.01.2002 № 57;
21.4. Significance of in-year budget adjustments	Treasury's Decree as of 26.06.2002 № 122;
	Analysis of funding institutions as of 12.06.18 (general fund);
	Information on balances and cash flows on accounts as of 01/23/18 and 01/24/18
PI-22. Expenditure arrears	Budget Code of Ukraine (July 08,2010 № 2456-VI);
22.1. Stock of expenditure arrears	MoF's Decree as of 24.01.2012 № 44;
22.2. Expenditure arrears monitoring	Treasury's reports on budget arrears of the rayon budget for 2016-2018
PI-23. Payroll controls	Resolution of Cabinet as of 15.07.1997 № 765;
23.1. Integration of payroll and personnel records	MoF's Decree as of 28.01.2002 № 57;
23.2. Management of payroll changes	Decrees of the State Committee of Statistic as of:
23.3. Internal control of payroll	- 28.09.2005 № 286;
23.4. Payroll audit	- 05.12.2008 № 489
PI-24. Procurement	Laws of Ukraine as of:
24.1. Procurement monitoring	- 25.12.2015 № 922-VIII; 26.11.1993 № 3659-XII;
24.2. Procurement methods	- 22.03.2012 № 4572-VI; 02.10.1996 № 393/96-BP;
24.3. Public access to procurement information	- 02.10.1992 № 2657-XII;
24.4. Procurement complaints management	Web-portal of the body authorized in procurements https://prozorro.gov.ua ;
	Monitoring portal https://dozorro.org ;
	Information on the plan and actual amounts of public procurement in 2018 by the Culture Sector;
	Reports on the results of procurement procedures by the Cultural sector, the Department of education, youth and sports of the Iziaslavskiy RSA, the primary health care center and the central rayon hospital;
	Information received from the Department for Economic Development, Trade and Infrastructure of the RSA

Indicator/dimension	Data Sources
PI-25. Internal controls on non-salary expenditure	Law of Ukraine as of 16.07.1999 № 996-XIV;
25.1. Segregation of duties	Budget Code of Ukraine (July 08,2010 № 2456-VI);
25.2. Effectiveness of expenditure commitment controls	Resolutions of Cabinet as of 12.12.2018 № 1062; 26.01.2011 № 59;
25.3. Compliance with payment rules and procedures	MoF's Decrees as of: - 14.09.2012 № 995; 23.08.2012 № 938; - 02.03.2012 № 309; 02.09.2014 № 879; Decree of the Ministry of Justice as of 18.06.2015 № 1000/5; Ministry's of Economic Development and Trade of Ukraine Decree as of 30.03.2016 № 557; Provisions on tender committee of the department of education, youth and sports
PI-26. Internal audit	Budget Code of Ukraine (July 08,2010 № 2456-VI);
26.1. Coverage of internal audit	Resolutions of Cabinet as of 28.09.2011 № 1001;
26.2. Nature of audits and standards applied	MoF's Decrees as of:
26.3. Implementation of internal audits and reporting	- 04.10.2011 № 1247;
26.4. Response to internal audits	- 29.09.2011 № 1217; - 27.03.2014 № 347; Information on the revision of the financial and economic activities of the Iziaslavskiy Central Rayon Hospital conducted by the Office of the Western office of the SAS in the Khmel'nitsky oblast in June-August 2018
Accounting and reporting	
PI-27. Financial data integrity	Law of Ukraine as of 16.07.1999 № 996-XIV;
27.1. Bank account reconciliation	Resolutions of Cabinet as of 28.02.2000 № 419; 27.12.2001 № 1764; 23.04.2014 № 117;
27.2. Suspense accounts	Treasury's Decree as of 26.06.2002 № 122;
27.3. Advance accounts	NBU's Resolution as of 21.01.2004 № 22;
27.4. Financial data integrity processes	MoF's Decrees as of: 23.08.2012 № 938; 31.12.2013 № 1203; 24.01.2012 № 44; 21.10.2013 № 885; 22.06.12 № 758. Treasury's Decrees as of: - 17.05.2000 № 1; 17.11.2014 № 318; - 21.11.2011 № 127
PI-28. In-year budget reports	Budget Code of Ukraine (July 08,2010 № 2456-VI);
28.1. Coverage and comparability of reports	Treasury's monthly and quarterly reports on execution of the rayon Budget for 2018;
28.2. Timing of in-year budget reports	MoF's Decrees as of 12.10.2010 № 1202; 24.01.2012 № 44;
28.3. Accuracy of in-year budget reports	Copies of letters from the Treasury to the Finance Department on the submission of monthly and quarterly reports on the execution of the rayon budget in 2018

Indicator/dimension	Data Sources
PI-29. Annual financial reports	Budget Code of Ukraine (July 08,2010 № 2456-VI);
29.1. Completeness of annual financial reports	MoF`s Decree as of 24.01.2012 № 44;
29.2. Submission of the reports for external audit	Treasury Report on execution of the rayon Budget for 2018;
29.3. Accounting standards	Copies of letters from the Treasury to the Finance Department on the submission of annual reports on the execution of the rayon budget for 2016 2017, 2018
External scrutiny and audit	
PI-30. External audit	Law of Ukraine dated 02.07.2015 № 576-VIII;
30.1. Audit coverage and standards	Budget Code of Ukraine (July 08,2010 № 2456-VI)
30.2. Submission of audit reports to the legislature	
30.3. External audit follow-up	
30.4. Supreme Audit Institution independence	
PI-31. Legislative scrutiny of audit reports	Laws of Ukraine as of 02.07.2015 № 576-VIII;
31.1. Timing of audit report scrutiny	Budget Code of Ukraine (08.07.2010 № 2456-VI);
31.2. Hearings on audit findings	The Regulation on the Standing Committees of the Iziaslavskyi RC, approved by the Decision of the RC as of
31.3. Recommendations on audit by the legislature	10.12.2015 № 6
31.4. Transparency of legislative scrutiny of audit reports	

Annex 4: List of intergovernmental transfers received by rayon budget in 2018

Name of Transfers	UAH million	Structure (%)	Rationale of transfers
Total	305,3	100,0	
Subvention from the local budget to provide benefits and housing subsidies to the population to pay for electricity, natural gas, heat, water supply and wastewater services, lease (maintenance of houses and structures and adjacent territories), management of a multi-apartment house, removal of household waste and liquid sewage through the relevant subvention from state budget	77.4	25.3	It is directed to payment of appropriate benefits and housing subsidies to citizens
Educational subvention from the state budget to local budgets	75.5	24.7	It is directed to salary of pedagogical employees which provide services for obtaining full secondary education
Subvention from the local budget to local budgets to pay allowances to families with children, low-income families, persons who are not entitled to a pension, persons with disabilities, children with disabilities, temporary government support to children, temporary state social support to the unemployed, who reached the general retirement age and did not acquire the right to a pension; care for persons with Group I or Group II disability received as a result of mental illness; compensation payments to disabled, able-bodied persons providing care to persons with Group I disability, and persons over the age of 80 through the relevant subvention from state budget	59.5	19.5	It is directed to payment of appropriate allowances to relevant citizens
Medical subvention from the state budget to local budgets	33.2	10.9	It is directed to cover current expenditures (except of payment for utilities and energy) of public health institutions
Grant from the local budget for transferred expenditures in the education and health care spheres from the state budget through the relevant additional grant from the state budget	21.1	6.9	It is directed to expenditures of secondary education and health care which are not covered by educational and medical subventions, namely: current expenditures of secondary education, including salary of non-pedagogical employees, and energy payment in healthcare
Basic grant	14.1	4.6	Horizontal alignment of taxability of the territory
Subvention from the local budget to local budgets to provide benefits and housing subsidies to the population for the purchase of solid, liquid fuel and liquefied gas for heating through the relevant subvention from state budget	11.8	3.9	It is directed to payment of appropriate benefits and housing subsidies to citizens

Name of Transfers	UAH million	Structure (%)	Rationale of transfers
Subvention from the state budget to local budgets to finance social and economic compensation measures for the population living in the territory of the observation zone	2.9	0.9	It is directed to the budgets of the administrative-territorial units located in the observation zone of nuclear power plants of the state enterprise National Atomic Energy Generating Company Energoatom, in particular for: construction, reconstruction, repair of protective buildings of civil protection; purchase of personal respiratory protection equipment and stable iodine medication, training the population on the use of special social infrastructure facilities and personal respiratory protection etc.
Subvention from the state budget to local budgets to implement measures of social and economic development of some territories	1.4	0.5	Implementation of measures related to the socio-economic development of certain administrative-territorial units, such as: construction, reconstruction, repair of communal property infrastructure facilities; implementation of environmental measures; purchase of equipment for communal socio-cultural institutions and public transport; implementation of measures related to the resettlement of citizens from residential buildings in disrepair; implementation of energy saving measures etc.
Subvention from the local budget for transferred expenditures in the education sphere through the educational subvention	1.5	0.5	Balance of educational subvention, which directed to expenditures of educational institutions taking into account the purpose of subvention and to update the physical infrastructure of these institutions
Subvention from the local budget to provide high-quality, modern and affordable general secondary education under the "New Ukrainian School" program through the relevant subvention from state budget	1.5	0.5	It is directed to purchase and delivery of didactic materials, musical instruments, modern furniture, computer equipment, multimedia content for institutions of general secondary education based on co-financing
Subvention from the local budget for transferred expenditures in the health care sphere through the medical subvention	1.6	0.5	Balance of health care subvention, which directed to expenditures of medical institutions taking into account the purpose of subvention and to update the physical infrastructure of these institutions
Subvention from the local budget for the reimbursement of the cost of drugs for treatment of certain diseases through the relevant subvention from state budget	1.5	0.5	It is directed to reimbursing the cost of medicines used in the outpatient treatment of people suffering from cardiovascular diseases, type II diabetes, patients with bronchial asthma
Subvention from the local budget for design, construction and repair works, purchase of housing and premises for the development of family and other forms of education approximated to family education, and provision of housing for orphans, and alike through the relevant subvention from state budget	1.2	0.4	It is directed to orphans' support

Name of Transfers	UAH million	Structure (%)	Rationale of transfers
Subvention from the local budget for payment of monetary compensation for housing to the families of deceased persons specified in paragraphs 5-8 of paragraph 1 of Article 10 of the Law of Ukraine "On the Status of War Veterans, and Guarantees of Their Social Protection"; to persons with Group I or II, disabilities which occurred as a result of a wound, contusion, disability or illnesses received during direct participation in the antiterrorist operation, or provision of support to the conduct of this operation, as specified in paragraphs 11-14 of part two of Article 7 of the Law of Ukraine "On the Status of veterans of war, and guarantees of their social protection", who require improvement of living conditions through the relevant subvention from state budget	0.5	0.2	It is directed to payment of appropriate compensation
Subvention from the local budget for the payment of state social support to orphans and children deprived of parental care, financial support to parent-educators and foster parents for the provision of social services in family-type orphanages and foster families using the "money follow the child" principle; payment for child patronage services and payment of social support for child's stay in the family of a patronage teacher through the relevant subvention from state budget	0.3	0.1	It is directed to orphans' assistance and support
Subvention from the local budget to finance social and economic compensation measures for the population living in the territory of the observation zone through the relevant subvention from state budget	0.2	0.1	It is directed to the budgets of the administrative-territorial units located in the observation zone of nuclear power plants of the state enterprise National Atomic Energy Generating Company Energoatom, in particular for: construction, reconstruction, repair of protective buildings of civil protection; purchase of personal respiratory protection equipment and stable iodine medication, training the population on the use of special social infrastructure facilities and personal respiratory protection etc.
Subvention from the local budget to provide state support to people with special educational needs through the relevant subvention from state budget	0.2	0.1	It is directed to provide a state support for the education of children with: blind and low vision; deaf and with poor hearing; severe speech disorders; delayed mental development; musculoskeletal disorders, intellectual disorders, and complex developmental disorders (including autism spectrum disorders) in educational institutions

Annex 5: Calculation sheet for HLG-1

Annual data for 2016 (UAH thousand)

Intergovernmental transfers from the state and oblast budget	approved	actual	adjusted budget	variance	absolute variance	percent
Basic grant	10,279.7	8,232.0	11,964.0	-3,732.0	3,732.0	31.2
Social targeted grants	85,088.2	115,883.0	99,029.7	16,853.3	16,853.3	17.0
Educational grant	58,818.9	57,790.7	68,456.2	-10,665.5	10,665.5	15.6
Health grant	29,175.7	27,344.5	33,956.1	-6,611.6	6,611.6	19.5
Other intergovernmental transfers	70.5	4,237.8	82.1	4,155.8	4,155.8	5063.3
Total - intergovernmental transfers from the state and oblast budget	183,433.0	213,488.0	213,488.0		42,018.2	
<i>Total variance (HLG-1)</i>						116.4
<i>HLG-2 composition variance</i>						19.7

Source: Annual Budget and Annual Budget Execution Reports.

Annual data for 2017 (UAH thousand)

Intergovernmental transfers from the state and oblast budget	approved	actual	adjusted budget	variance	absolute variance	percent
Basic grant	9,740.5	9,740.5	10,845.3	-1,104.8	1,104.8	10.2
Social targeted grants	135,995.0	156,315.4	151,420.7	4,894.7	4,894.7	3.2
Educational grant	77,485.5	77,485.5	86,274.5	-8,789.0	8,789.0	10.2
Health grant	34,198.3	35,107.5	38,077.4	-2,969.9	2,969.9	7.8
Other intergovernmental transfers	22,050.5	32,520.7	24,551.6	7,969.0	7,969.0	32.5
Total - intergovernmental transfers from the state and oblast budget	279,469.8	311,169.5	311,169.5		25,727.5	
<i>Total variance (HLG-1)</i>						111.3
<i>HLG-2 composition variance</i>						8.3

Source: Annual Budget and Annual Budget Execution Reports.

Annual data for 2018 (UAH thousand)

Intergovernmental transfers from the state and oblast budget	approved	actual	adjusted budget	variance	absolute variance	percent
Basic grant	14,061.8	14,061.8	14,056.8	5.0	5.0	0.0
Social targeted grants	157,621.8	149,552.5	157,566.3	-8,013.8	8,013.8	5.1
Educational grant	75,471.6	75,471.6	75,445.0	26.6	26.6	0.0
Health grant	33,229.1	33,229.1	33,217.4	11.7	11.7	0.0
Other intergovernmental transfers	25,617.8	33,579.3	25,608.8	7,970.5	7,970.5	31.1
Total - intergovernmental transfers from the state and oblast budget	306,002.1	305,894.3	305,894.3		16,027.6	
<i>Total variance (HLG-1)</i>						100.0
<i>HLG-2 composition variance</i>						5.2

Source: Annual Budget and Annual Budget Execution Reports.

Quarterly data for 2016 (UAH thousand)

Item	2016 planned	2016 actual	Q1 planned	Q1 actual	Q2 planned	Q2 actual	Q3 planned	Q3 actual	Q4 planned	Q4 actual
Intergovernmental transfers from the state and oblast budget	183,433.0	213,488.0	41,934.7	51,770.6	47,161.3	51,695.3	47,175.1	46,633.6	47,162.0	63,388.6
Basic grant	10,279.7	8,232.0	2,058.0	2,058.0	2,740.5	2,058.0	2,740.5	2,058.0	2,740.7	2,058.0
Social targeted grants	85,088.2	115,883.0	21,272.0	30,806.3	21,272.0	23,229.2	21,272.0	23,673.5	21,272.2	38,174.0
Educational grant	58,818.9	57,790.7	12,426.6	12,432.4	15,464.0	19,604.4	15,464.1	10,912.5	15,464.2	14,841.4
Health grant	29,175.7	27,344.5	6,153.6	6,417.8	7,674.0	6,777.9	7,674.0	6,891.9	7,674.1	7,256.9
Other intergovernmental transfers	70.5	4,237.8	24.5	56.1	10.8	25.8	24.5	3,097.7	10.8	1,058.2
Intergovernmental transfers from the state and oblast budget	116	116	123	123	110	110	99	99	134	134
Basic grant	80	80	100	100	75	75	75	75	75	75
Social targeted grants	136	136	145	145	109	109	111	111	179	179
Educational grant	98	98	100	100	127	127	71	71	96	96
Health grant	94	94	104	104	88	88	90	90	95	95
Other intergovernmental transfers	6009	6009	229	229	239	239	12646	12646	9827	9827

Source: Annual Budget and Annual Budget Execution Reports.

Quarterly data for 2017 (UAH thousand)

Item	2017 planned	2017 actual	Q1 planned	Q1 actual	Q2 planned	Q2 actual	Q3 planned	Q3 actual	Q4 planned	Q4 actual
Intergovernmental transfers from the state and oblast budget	279,469.8	311,169.5	72,015.7	96,693.4	69,147.8	79,376.1	69,163.6	61,409.9	69,142.7	73,690.1
Basic grant	9,740.5	9,740.5	2,026.8	2,435.2	2,571.1	2,435.1	2,571.3	2,435.1	2,571.3	2,435.1
Social targeted grants	135,995.0	156,315.4	39,237.8	62,312.6	32,254.2	29,755.0	32,254.2	31,814.1	32,248.7	32,433.7
Educational grant	77,485.5	77,485.5	17,881.2	17,893.2	19,868.1	29,831.9	19,868.1	11,545.3	19,868.1	18,215.1
Health grant	34,198.3	35,107.5	7,349.7	8,546.5	8,949.6	8,621.5	8,949.6	8,752.2	8,949.4	9,187.3
Other intergovernmental transfers	22,050.5	32,520.7	5,520.2	5,505.9	5,504.8	8,732.6	5,520.4	6,863.2	5,505.1	11,419.0
Intergovernmental transfers from the state and oblast budget		111		134		115		89		107
Basic grant		100		120		95		95		95
Social grant		115		159		92		99		101
Educational grant		100		100		150		58		92
Health grant		103		116		96		98		103
Other intergovernmental transfers		147		100		159		124		207

Source: Annual Budget and Annual Budget Execution Reports.

Quarterly data for 2018 (UAH thousand)

Item	2018 planned	2018 actual	Q1 planned	Q1 actual	Q2 planned	Q2 actual	Q3 planned	Q3 actual	Q4 planned	Q4 actual
Intergovernmental transfers from the state and oblast budget	306,002.1	305,894.3	89,006.4	85,743.8	90,935.6	92,648.0	52,740.9	54,950.4	73,319.2	72,552.1
Basic grant	14,061.8	14,061.8	3,515.4	3,515.4	3,515.4	3,515.4	3,515.4	3,515.4	3,515.6	3,515.6
Social targeted grants	157,621.8	149,552.5	52,566.0	52,310.2	41,912.8	42,371.8	24,522.8	23,444.5	38,620.2	31,426.0
Educational grant	75,471.6	75,471.6	17,433.9	17,433.9	29,056.6	29,056.6	11,245.3	11,245.3	17,735.8	17,735.8
Health grant	33,229.1	33,229.1	9,809.2	9,809.2	9,809.1	9,809.1	6,805.3	6,805.3	6,805.5	6,805.5
Other intergovernmental transfers	25,617.8	33,579.3	5,681.9	2,675.1	6,641.7	7,895.0	6,652.1	9,939.9	6,642.1	13,069.3
Intergovernmental transfers from the state and oblast budget		100		96		102		104		99
Basic grant		100		100		100		100		100
Social grant		95		100		101		96		81
Educational grant		100		100		100		100		100
Health grant		100		100		100		100		100
Other intergovernmental transfers		131		47		119		149		197

Source: Annual Budget and Annual Budget Execution Reports.

Annex 6: Calculation sheet for PI-1, PI-2, PI-3

Data on the functional classification for 2016 (UAH thousand)

Name of expenditure according to functional classification	approved	actual	adjusted budget	variance	absolute variance	percent
General government functions	989.7	1,107.9	1,226.7	-118.8	118.8	9.7
Economic activity	0.0	5,413.9	0.0	5,413.9	5,413.9	
Healthcare	31,885.9	36,943.9	39,520.8	-2,576.9	2,576.9	6.5
Spiritual and physical development	6,772.2	9,248.9	8,393.8	855.1	855.1	10.2
Education	64,786.4	68,888.0	80,299.1	-11,411.2	11,411.2	14.2
Social protection and social security	87,330.6	117,512.7	108,241.4	9,271.3	9,271.3	8.6
Intergovernmental transfers	15,617.7	17,813.9	19,357.3	-1,543.4	1,543.4	8.0
Other expenses	175.6	327.6	217.6	110.0	110.0	50.5
Total - expenses	207,558.1	257,256.7	257,256.7	0.0	31,300.5	
Debt servicing	0.0	0.0				
Contingencies	2,047.7	0.0				
Total expenditure	209,605.8	257,256.7				
Total variance (PI-1)						122.7
Composition variance (PI-2)						12.2
Share of unforecasted expenditures in the budget						0.0

Source: Annual Budget and Annual Budget Execution Reports.

Data on the functional classification for 2017 (UAH thousand)

Name of expenditure according to functional classification	approved	actual	adjusted budget	variance	absolute variance	percent
General government functions	1,110.1	1,581.1	1,264.4	316.7	316.7	25.0
Economic activity	0.0	4,625.6	0.0	4,625.6	4,625.6	
Healthcare	46,180.4	56,640.4	52,597.7	4,042.7	4,042.7	7.7
Spiritual and physical development	9,580.1	10,716.1	10,911.4	-195.3	195.3	1.8
Education	112,482.2	111,219.1	128,112.8	-16,893.8	16,893.8	13.2
Social protection and social security	139,757.6	160,908.5	159,178.4	1,730.1	1,730.1	1.1
Intergovernmental transfers	16,245.8	23,337.2	18,503.3	4,833.8	4,833.8	26.1
Other expenses	224.5	1,795.7	255.7	1,540.0	1,540.0	602.3
Total - expenses	325,580.7	370,823.6	370,823.6	0.0	34,178.0	
Debt servicing	0.0	0.0				
Contingencies	391.1	0.0				
Total expenditure	325,971.8	370,823.6				
Total variance (PI-1)						113.8
Composition variance (PI-2)						9.2
Share of unforecasted expenditures in the budget						0.0

Source: Annual Budget and Annual Budget Execution Reports.

Data on the functional classification for 2018 (UAH thousand)

Name of expenditure according to functional classification	approved	actual	adjusted budget	variance	absolute variance	percent
General government functions	1,944.2	2,578.9	2,123.7	455.2	455.2	21.4
Economic activity	0.0	699.7	0.0	699.7	699.7	
Healthcare	47,563.9	59,025.6	51,954.2	7,071.4	7,071.4	13.6
Spiritual and physical development	6,037.2	7,067.3	6,594.5	472.8	472.8	7.2
Education	129,119.2	149,959.7	141,037.3	8,922.3	8,922.3	6.3
Social protection and social security	162,624.8	155,927.7	177,635.6	-21,707.9	21,707.9	12.2
Intergovernmental transfers	26,116.9	32,411.1	28,527.6	3,883.5	3,883.5	13.6
Other expenses	20.0	224.8	21.8	203.0	203.0	929.1
Total - expenses	373,426.3	407,894.7	407,894.7	0.0	43,415.8	
Debt servicing	0.0	0.0				
Contingencies	1,870.8	0.0				
Total expenditure	375,297.0	407,894.7				
Total variance (PI-1)						108.7
Composition variance (PI-2)						10.6
Share of unforecasted expenditures in the budget						0.0

Source: Annual Budget and Annual Budget Execution Reports.

Data on economic categories for 2016 (UAH thousand)

Economic categories	approved	actual	adjusted budget	variance	absolute variance	percent
Payroll	65,388.7	70,720.1	81,045.7	-10,325.6	10,325.6	12.7
Use of goods and services	17,492.7	21,750.3	21,681.3	69.0	69.0	0.3
Acquisition of fixed capital	0.0	12,102.6	0.0	12,102.6	12,102.6	
Debt servicing	0.0	0.0	0.0	0.0	0.0	
Transfers to other levels of government	15,617.7	17,813.9	19,357.3	-1,543.4	1,543.4	8.0
Other subsidies and transfers	0.0	3,715.9	0.0	3,715.9	3,715.9	
Social protection	85,544.2	115,611.5	106,027.2	9,584.3	9,584.3	9.0
Other expenses	23,514.8	15,542.5	29,145.3	-13,602.7	13,602.7	46.7
Total expenditures (excluding reserve fund)	207,558.1	257,256.7	257,256.7	0.0	50,943.5	
Expenditure composition variance						19.8

Source: Annual Budget and Annual Budget Execution Reports.

Data on economic categories for 2017 (UAH thousand)

Economic categories	approved	actual	adjusted budget	variance	absolute variance	percent
Payroll	124,449.0	80,664.7	141,742.6	-61,077.9	61,077.9	43.1
Use of goods and services	21,263.7	67,988.5	24,218.5	43,769.9	43,769.9	180.7
Acquisition of fixed capital	14.3	15,458.4	16.3	15,442.1	15,442.1	94811.9
Debt servicing	0.0	0.0	0.0	0.0	0.0	
Transfers to other levels of government	16,245.8	23,337.2	18,503.3	4,833.8	4,833.8	26.1
Other subsidies and transfers	0.0	7,656.6	0.0	7,656.6	7,656.6	
Social protection	136,448.2	157,885.7	155,409.2	2,476.5	2,476.5	1.6
Other expenses	27,159.6	17,832.6	30,933.7	-13,101.2	13,101.2	42.4
Total expenditures (excluding reserve fund)	325,580.7	370,823.6	370,823.6	0.0	148,358.1	
Expenditure composition variance						40.0

Source: Annual Budget and Annual Budget Execution Reports.

Data on economic categories for 2018 (UAH thousand)

Economic categories	approved	actual	adjusted budget	variance	absolute variance	percent
Payroll	102,244.4	96,155.2	111,681.8	-15,526.6	15,526.6	13.9
Use of goods and services	62,166.3	66,865.0	67,904.5	-1,039.4	1,039.4	1.5
Acquisition of fixed capital	0.0	26,377.4	0.0	26,377.4	26,377.4	
Debt servicing	0.0	0.0	0.0	0.0	0.0	
Transfers to other levels of government	26,116.9	32,411.1	28,527.6	3,883.5	3,883.5	13.6
Other subsidies and transfers	1,271.6	12,197.6	1,389.0	10,808.6	10,808.6	778.2
Social protection	159,410.0	152,623.7	174,124.0	-21,500.3	21,500.3	12.3
Other expenses	22,217.1	21,264.7	24,267.8	-3,003.2	3,003.2	12.4
Total expenditures (excluding reserve fund)	373,426.3	407,894.7	407,894.7	0.0	82,139.0	
Expenditure composition variance						20.1

Source: Annual Budget and Annual Budget Execution Reports.

Revenue data for 2016 (UAH thousand)

Revenue types	approved	actual	adjusted budget	variance	absolute variance	percent
Revenue from taxes						
Taxes on income, profit and capital gains	4.6	0.2	8.4	-8.2	8.2	97.7
Payroll and work force taxes	24,184.2	40,182.5	44,329.4	-4,146.9	4,146.9	9.4
Property taxes	0.0	0.0	0.0	0.0	0.0	
Taxes on goods and services	0.0	0.0	0.0	0.0	0.0	
Other taxes	0.0	0.0	0.0	0.0	0.0	
Transfers						
Transfers from other local budgets (excluding transfers from the oblast budget)	0.0	3,396.7	0.0	3,396.7	3,396.7	
Other revenue						
Ownership revenue	55.4	75.6	101.5	-26.0	26.0	25.6
Sales of goods and services	1,918.2	2,594.0	3,516.0	-922.0	922.0	26.2
Fines, penalties and forfeits	0.0	0.0	0.0	0.0	0.0	
Other revenue	10.4	1,725.5	19.1	1,706.4	1,706.4	8951.5
Total revenues	26,172.8	47,974.5	47,974.5	0.0	10,206.2	
Overall variance						183.3
Composition variance						21.3

Source: Annual Budget and Annual Budget Execution Reports.

Revenue data for 2017(UAH thousand)

Revenue types	approved	actual	adjusted budget	variance	absolute variance	percent
Revenue from taxes						
Taxes on income, profit and capital gains	2.6	12.0	4.0	7.9	7.9	197.4
Payroll and work force taxes	43,510.5	62,252.4	67,349.8	-5,097.4	5,097.4	7.6
Property taxes	0.0	0.0	0.0	0.0	0.0	
Taxes on goods and services	0.0	0.0	0.0	0.0	0.0	
Other taxes	0.0	0.0	0.0	0.0	0.0	
Transfers						
Transfers from other local budgets (excluding transfers from the oblast budget)	0.0	5,024.2	0.0	5,024.2	5,024.2	
Other revenue						
Ownership revenue	49.0	77.7	75.8	1.9	1.9	2.5
Sales of goods and services	2,888.4	2,922.0	4,470.9	-1,549.0	1,549.0	34.6
Fines, penalties and forfeits	0.0	0.0	0.0	0.0	0.0	
Other revenue	51.5	1,692.0	79.7	1,612.3	1,612.3	2022.6
Total revenues	46,502.0	71,980.4	71,980.4	0.0	13,292.7	
Overall variance						154.8
Composition variance						18.5

Source: Annual Budget and Annual Budget Execution Reports.

Revenue data for 2018 (UAH thousand)

Revenue types	approved	actual	adjusted budget	variance	absolute variance	percent
Revenue from taxes						
Taxes on income, profit and capital gains	8.0	9.3	10.5	-1.3	1.3	12.1
Payroll and work force taxes	65,893.9	81,334.9	86,875.4	-5,540.4	5,540.4	6.4
Property taxes	0.0	0.0	0.0	0.0	0.0	
Taxes on goods and services	0.0	0.0	0.0	0.0	0.0	
Other taxes	0.0	0.0	0.0	0.0	0.0	
Transfers						
Transfers from other local budgets (excluding transfers from the oblast budget)	0.0	3,663.5	0.0	3,663.5	3,663.5	
Other revenue						
Ownership revenue	72.0	169.1	94.9	74.2	74.2	78.2
Sales of goods and services	3,264.0	3,222.0	4,303.3	-1,081.3	1,081.3	25.1
Fines, penalties and forfeits	0.0	70.0	0.0	70.0	70.0	
Other revenue	57.0	2,890.6	75.1	2,815.4	2,815.4	3746.4
Total revenues	69,294.9	91,359.3	91,359.3	0.0	13,246.1	
Overall variance						131.8
Composition variance						14.5

Annex 7: The structure of transfers from the rayon budget to local budgets at the lower level in 2018

Item (figures in UAH thousand)	Completed for the reporting period (year) total	of which:	
		<i>distributed according to transparent criteria</i>	<i>distributed without transparent clear criteria</i>
Transfers to local budget – total	30,204.1	27,028.1	3,176.0
share in the total amount of transfers, %	100	89	11
Subventions transferred from the state budget - total	4,362.8	3,898.8	464.0
share in total transfers transferred from the state budget, %	100	89	11
Subvention from the local budget for design, construction and repair works, purchase of housing and premises for the development of family and other forms of education, and provision of housing for orphans, and alike through the appropriate subvention	1,155.0	1,155.0	
Subvention for the provision of high quality, modern and accessible general secondary education under the "New Ukrainian School" program at the expense of the relevant subvention from the state budget	227.8	227.8	
Subvention for implementation of measures for socio-economic development of individual territories at the expense of corresponding subvention from the state budget	464.0		464.0
Subvention at the cost of the funds remaining from the educational subvention that formed at the beginning of the budget period	2,516.0	2,516.0	
Total own transfers from the rayon budget - total	25,841.3	23,129.3	2,712.0
share in the total amount of own transfers, %	100	89.4	10.6
Other grants from the local budget	23,129.3	23,129.3	
Local budget subventions to other local budgets for implementation of programs and activities at the expense of local budgets	253.7		253.7
Other subventions from the local budget	2,458.3		2,458.3

