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

UKRAINE, KHMELNYTSKYI OBLAST



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Novemeber, 2019



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

PEFA Secretariat
March 12, 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
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
GoU	Government of Ukraine
HR	Human Resource
HLG	Higher Level of Government
IA	Internal Audit
IMF	International Monetary Fund
IPSAS	International Public Sector Accounting Regulations (Standards)
ISSAI	International Standards of Supreme Audit Institutions
KPIs	Key performance indicators
KSU	Key Spending Unit of 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
NA	Not Applicable
NBU	National Bank of Ukraine
NPSAR(S)	National public sector accounting regulations (standards)
OSA	Oblast State Administration
PEFA	Public Expenditure and Financial Accountability
PFM	Public Finance Management
PIP	Public Investment Project
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 and up-to-date diagnostic of the public financial management performance at the oblast level¹ of subnational government based on the latest internationally recognized PEFA methodology.** The 2019 PEFA is an assessment of the quality of the Ukrainian PFM system at the subnational level of and monitors the results achieved through PFM reforms undertaken since the 2015 central government PEFA assessment. 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. The Ministry of Finance of Ukraine has expressed its interest to update the 2017-2020 PFM Reform Strategy based on 2019 PEFA's findings and subsequent recommendations.
2. **This assessment covers the Khmelnytskyi oblast administration which consists of 17 budgetary institutions.** Where relevant it covered national bodies that are responsible for certain activities in the oblast: State Treasury; Authorized Body for Procurement Service (Ministry for Development of Economy, Trade and Agriculture), State Audit Service, Accounting Chamber, and State Fiscal Service. It also covered the Budget Committee of the oblast council.
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 (EUROPAF).** The assessment oversight and management team include the Ministry of Finance of Ukraine, the World Bank, and the Delegation of the European Union to Ukraine as well as representatives from the oblast administration. The assessment covered fiscal years 2016 to 2018 and was performed in August/September 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, apart from in 2018. 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, and budget execution required the use of virement and two supplementary budgets both following the Budget Code.
5. **Ukraine, both at the central and subnational levels of government has an impressive array of information regarding the finances of budgetary government, but transfers from the oblast to lower level governments which are financed by the oblast's own budget sources lack a rule-based approach.** The Chart of Accounts, which underpins budget preparation, execution and reporting, is comprehensive and consistent with Government Financial Statistics (GFS) standards. Information is included in the budget on a timely basis. The largest proportion of transfers to subnational government is channeled through the oblast from the state budget transfers. Those transfers are determined by and financed from the central government, and therefore they are not subject of this assessment. Out of the entire amount of transfers assessed in the relevant indicator, 45.5 percent were allocated without transparent formula based approach. Lower level governments reported within nine months after the end of the budget year. Information on performance plans and achievements in service delivery outputs and outcomes in the oblast is good and is based on the program budgeting system with performance plans, performance achieved and performance evaluation reflecting the "program budget passport" system and the work of the Balance Commission in its evaluation. Tracking of resources to service delivery units reflects the strong accounting. Public access to fiscal information is strong. There is a citizen's (summary) budget available.
6. **A comprehensive and inclusive process is lacking in public investment management.** Economic analysis is not carried out for the major investment project, and project costing and project monitoring do not meet the basic requirements. Despite this, the process for the selection of investments is nevertheless good reflecting the interagency commission and its standard criteria for choosing projects. Information on the disposal of assets included into the budget reporting is weak. The oblast has no debt as of the time of the assessment as it was not legally allowed to borrow.

¹ This level is the 1st tier of subnational governments.

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
Transfer from Higher Level of Government	Aggregate expenditures outturn	Budget classification	Fiscal risk reporting	Macroeconomic and fiscal forecasting	Revenue administration	Financial data integrity	External audit
	Expenditure composition outturn	Budget documentation	Public investment management	Fiscal strategy	Accounting for revenue	In-year budget reports	Legislative scrutiny of audit reports
	Revenue outturn	Central government operations outside financial reports	Public asset management	Medium term perspective in expenditure budgeting	Predictability of in-year resource allocation	Annual financial reports	
		Transfers to subnational governments	Debt management	Budget preparation process	Expenditure arrears		
		Performance information for service delivery		Legislative scrutiny of the budget	Payroll controls		
		Public access to fiscal information			Procurement management		
					Internal controls on non-salary expenditure		
					Internal audit		

A
B AND B+
C AND C+
D AND D+
NA

7. **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. A medium-term approach is taken to key spending units' (KSU) budget proposals but not to the formulation of annual budgets. The adopted overall fiscal strategy focuses on the budget year and does not examines 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, and it provides spending units less than four weeks to prepare their budgets. The legislature gets less than one month to carry out its scrutiny function, but it approves the budget on time. Nevertheless, the oblast legislature only considers aggregates for the upcoming budget year and not the medium-term. The procedures and timetable for budget scrutiny are respected.

8. **The State Fiscal Service of Ukraine is responsible for revenue collection at the time of the assessment on behalf of the oblast.** 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 oblast. All revenues are paid into the oblast 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 on the 4th day of each month. 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 of Ukraine 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 oblast 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.** Information on employees, which is accounted for by the human resource unit, and remuneration processed by the accounting department, is reconciled. Changes to the employee information and on salary are made within three months. Budgetary institutions have clear and detailed rules and procedures for making changes to staff and payroll information. These include the requirement for signatures of authorized persons and provide a clear audit trail. The State Audit Service monitors the eligibility, timeliness and completeness of salary payments based on regular inspections
11. **The public procurement system is strong.** This reflects the national ProZorro electronic procurement platform which the oblast uses. It has been recognized internationally and has received several awards. However, in the oblast only 65 per cent of purchases were carried out by competitive methods.
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 “E-Treasury” management information system that supports the TSA. The internal audit function is split between the oblasts’ small internal audit unit and the Western Directorate of the State Audit Service. Internal audit activities are primarily focused on compliance with some assessment of efficiency. Internal audit activities are guided by Ukrainian Internal Audit Standards. The implementation of internal audit recommendations ensures its effectiveness and the recommendations are implemented in an appropriate time period.
13. **Accounts reconciliation and financial data integrity are areas of strength.** The bank reconciliation for the TSA takes place daily. There are no suspense accounts. Generally, advance accounts are reconciled monthly based on reporting by spending units. Data integrity is good as access and changes to records are restricted and recorded, thereby producing a sufficient audit trail. However, the system lacks a dedicated operational unit.
14. **With respect to in-year budget reports, coverage and classification in reports allows partial direct comparison to the original budget.** Treasury’s reports on expenditure are based on economic and functional classifications, but not on administrative classification. This does not allow comprehensive direct comparison with the original budget. Information includes all budget estimates for the spending units. There are both monthly and quarterly budget execution reports that are issued within 15 days from the end of month and within 35 days from the end of the quarter. Initially, basic information is provided monthly with detailed follow up information quarterly. There are no material concerns regarding data accuracy. Information on expenditure is provided at the payment stage (only unpaid commitments are shown). The oblast state administration (OSA) prepares additional quarterly reports based on the administrative classification but they are not presented in the same format as the original budget.
15. **The financial statements include complete information on assets, liabilities, including long-term, revenue, and a reconciled cash statement.** Treasury’s reports on expenditure are based on economic and

functional classifications, but not on administrative classification, which does not allow for their direct comparison with the original budget. The 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 that apply to all financial statements are largely consistent with the 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. The OSA prepares additional annual reports based on the administrative classification but they do not follow the form of original budget.

16. **An external audit at the oblast level is not routinely carried out.** As a result, legislative scrutiny of audit reports does not take place. The financial statements are reviewed by the oblast council.

17. **The internal control environment is generally sound.** The controls associated with the day-to-day transaction of the oblast 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 oblast's Balance Commission reviews expenditure performance in relation to service delivery and provides independent evaluation and makes recommendations on service delivery performance, however results of those reviews were not published regularly.

Aggregate Fiscal Discipline

18. **While revenue administration ensures that revenues are efficiently collected, the relative weaknesses in forecasting both own revenue and the transfers from the central government have undermined overall fiscal discipline.** 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 they become available. Control of contractual commitments is effective and has removed expenditure arrears. The absence of a full external audit function may inhibit fiscal discipline, but the operations of the State Audit Services go some way to partially replace it.

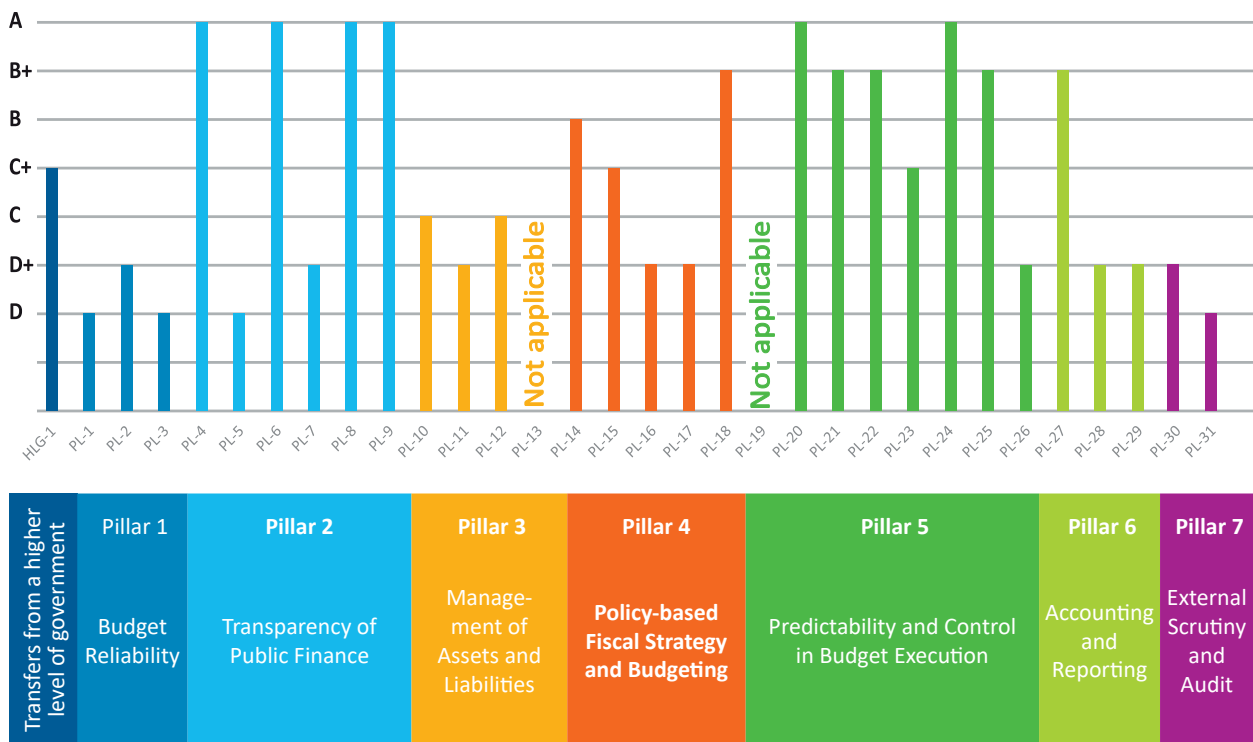
Strategic allocation of resources

19. **The Chart of Accounts caters to a multi-dimensional analysis of expenditure.** The provision of budget information to citizens makes them aware of what is being spent and encourages them to demand resources to be directed to their needs. Despite the fact that oblast budgets are adopted annually and the program proposals are used for annual budget estimates only, there is a medium-term perspective in expenditure budgeting at the level of key spending units. Performance indicators are specified, and there is assessment of and independent evaluation of performance achievement. The work of the oblast's 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.

Efficient use of resources for service delivery

20. **While reconciliation between payroll and personnel records is in place, they are not fully integrated.** 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. In-year and annual budget execution reports are not fully comparable with the form of original budget. 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 oblast's PFM system.

Figure 1: Summary of Overall PEFA Scores by Indicator



Overview of the Scores of the PEFA Indicators

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	D				D
PI-2	Expenditure composition outturn	M1	B	D	A		D+
PI-3	Revenue outturn	M2	D	D			D
II. Transparency of public finances							
PI-4	Budget classification	M1	A				A
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	C	D			D+
PI-8	Performance information for service delivery	M2	A	A	A	B	A
PI-9	Public access to fiscal information	M1	A				A
III. Management of assets and liabilities							
PI-10	Fiscal risk reporting	M2	N/A	C	N/A		C
PI-11	Public investment management	M2	D	A	D	D	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	C	A		C+
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	B	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	A	B+
PI-22	Expenditure arrears	M1	A	B			B+
PI-23	Payroll controls	M1	C	B	A	C	C+
PI-24	Procurement management	M2	A	C	A	A	B+
PI-25	Internal controls on nonsalary expenditure	M2	C	A	A		B+
PI-26	Internal audit	M1	D	C	A	C	D+
VI. Accounting and reporting							
PI-27	Financial data integrity	M2	A	N/A	B	B	B+
PI-28	In-year budget reports	M1	D	A	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

21. **The main purpose of the 2019 PEFA assessment is to provide the Government of Ukraine with an objective and up-to-date diagnostic of the public financial management performance at the oblast level of subnational government based on the latest internationally recognized PEFA methodology.** The 2019 PEFA is an assessment of the quality of the Ukrainian PFM system at the subnational level of and monitors the results achieved through PFM reforms undertaken since the 2015 central government PEFA assessment. 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. The Ministry of Finance of Ukraine has expressed its interest to update the 2017-2020 PFM Reform Strategy based on 2019 central and subnational government PEFA findings and subsequent recommendations.

1.2 Assessment management and quality assurance

22. **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 of Ukraine, the World Bank, and the Delegation of the European Union to Ukraine as well as representatives from the oblast local administration. The EU funded the assessment and had an oversight role as a member of the oversight and management team, and at the operational level reviewed the assessment report.

23. **The MoF took the leadership role in overall coordination with the stakeholders and the Public Finance Management Department of Khmelnytskyi oblast coordinated the assessment at the oblast level.** That coordination included the data collection, advising the World Bank on key counterparts for individual indicators, and facilitation of meetings between the PEFA assessment team and counterparts at the oblast level. In addition, the oblast Finance Department facilitated the provision of required information by other government institutions involved in the assessment and coordinated the reviews of the assessment report. The World Bank was responsible for the undertaking of the assessment of the oblast budget and its quality assurance.

24. **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.

BOX 1.1. Assessment management and quality assurance arrangements

PEFA assessment management organization

The Ministry of Finance of Ukraine Mr. Vasyi 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

Khmelnytskyi Oblast Administration Mr. Sergii Penyushkevich, the Head of the Finance Management Department

Review of concept note and/or terms of reference

The Draft Concept Note was circulated to Government of Ukraine and other peer reviewers on July 13, 2019

Invited reviewers:

PEFA Secretariat

The Ministry of Finance of Ukraine: Eugen Kuzkin, Head of Local Budget Department; Olena Machulna, Deputy Head of Local Budget Department.

The World Bank: Lewis Hawke, Lead Public Sector Specialist; Patrick Piker Umah Tete, Acting Practice Manager.

The Delegation of the European Union to Ukraine: Alexandra Janovskaia, First Secretary; Policy Officer; Economic Reforms – Public Finance Management.

The International Monetary Fund: Michelle Stone – Technical Assistance Adviser, Public Financial Management in Fiscal Affairs Department.

Khmelnytskyi Oblast Administration: Mr. Sergii Penyushkevich - Deputy Director; Financial Department.

Reviewers who provided comments: Lewis Hawke (July 16, 2019); Patrick Piker Umah Tete (July 22, 2019) A.Janovskaia (July 24, 2019); Holy-Tiana Rame PEFA Secretariat (July 19, 2019); V. Shkurakov (July 29, 2019); Mr. Sergii Penyushkevich (July 25, 2019).

Date of final concept note sent to PEFA Secretariat and all peer-reviewers: July 29, 2019.

Review of the assessment report

- Validation Report draft circulated on November 26, 2019 to the Government of Ukraine and to peer reviewers.
- Invited reviewers and dates when they provided comments: Khmelnytskyi Oblast State Administration – December 14, 2019 and March 3, 2020; Oleksii Balabushko (the WB) – December 2, 2019; Patrick Piker Umah Tete – December 13, 2019 and February 25, 2020; Lewis Hawke – December 16, 2019 and March 2, 2020; PEFA Secretariat – December 19, 2019 and January 27, 2020; the Delegation of the European Union to Ukraine – January 17, 2020 and March 5, 2020.

25. **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. That central government PEFA was a follow-up PEFA assessment using the 2016 methodology.

1.3 Assessment methodology

26. **Coverage of the Assessment:** This assessment covers the Khmelnytskyi oblast administration which consists of 17 units. Where relevant it covered national bodies that are responsible for certain activities in the oblast: State Treasury; Authorized Body for Procurement Service (Ministry for Development of Economy, Trade and Agriculture), State Audit Service, Accounting Chamber, and State Fiscal Service. It also covered the Budget Committee of the oblast council.

27. **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 August/September 2019. The cut-off date was September 30, 2019.

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

29. **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.

2. Country background information

2.1 Country economic situation

31. **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.

32. **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. After experiencing a deep economic crisis in 2014-2015, economic growth resumed in the last few years at a rate of 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 2014-2015². Foreign direct investment 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 is a current account trade deficit in each of the past three years. Inflation has declined to just below 10.0 percent in 2018.

33. **Both gross government debt and external debt are 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 26.2 to the US\$ in June 2019 but has been as low as UAH 29.9 to the US\$ in January 2018. Nominal GDP per capita in US\$ terms is approximately \$3,220.

34. **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, led to a decline in moderate poverty (World Bank’s national methodology for Ukraine) from a peak of 26.9 percent during the crisis in 2015 to 19.9 percent in 2018 and an estimated 17.8 percent in 2019. Despite the decline, it still remains slightly above the pre-crisis level of 14.1 percent in 2013.

Table A: Selected economic indicators for central government

Economic Indicator	FY 2016	FY 2017	FY 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

² Ukraine: Economic Growth and Fiscally Sustainable Services (The World Bank).

Economic Indicator	FY 2016	FY 2017	FY 2018
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.

2.1.1. On-going reforms at the subnational levels of government

35. **The adoption of a comprehensive decentralization program has been of the reform process.** Addressing 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 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.

36. **At the end of 2014, amendments to the Budget Code were introduced to implement the reform of intergovernmental fiscal relations considering new models of financial provision.** The responsibilities of local governments – primarily relating to education, healthcare and social welfare and reflected amalgamation process at the lowest level changed. As 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 changed to accommodate the new functional mix and the Tax Code modifications.

37. **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 ATC entities were established covering nearly 40 percent of Ukraine's rural population (i.e., over 8 million people). The relative sizes of the central government and different subnational structures including ATCs 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: Khmelnytskyi oblast

38. **Khmelnytskyi oblast covers an area of 20,645 km² and has a population of 1,277,137³.** The oblast is situated at a historical crossroad of the railway and highway routes connecting Central Europe to Black Sea coast and Russia. The economy of the oblast is centred around the energy industry, transport and agriculture. The nuclear power plant in the city of Netishyn is the most important industrial company of the oblast. Notable machinery, armament and chemical industries are also present. Khmelnytskyi oblast hosts 6 universities, 2 academies, 3 institutes, 12 colleges, 4 technical schools and 15 representative offices of other Ukrainian higher education intuitions.

39. **The oblast administration uses over 10 indicators of economic development to formulate its budget.** Table C shows that over the past three years there has been a decline in industrial production sales however an increase in agricultural production. Foreign direct investment rebounded in 2018 following a decline in 2017. There is a positive trade balance moreover in 2017 and 2018 exports showing a strong positive trend and imports a declining trend. The growth of the average monthly salary for staff members has exceeded inflation thus representing an increase in real wages.

Table C. Khmelnytskyi oblast: Indicators of socio-economic development

Indicator	2016	2017	2018
Sales of industrial products (UAH billion)	33.0	37.7	42.7
Industrial production index (%)	104.5	100.8	95.2
Consumer price index (annual percentage change)	11.4	13.8	9.2
Agricultural production index (annual percentage change)	8.2	12.0	2.6
Average monthly salary of employees (UAH)	4,043	5,938	7,345
Foreign direct investment (US\$ million)	165.5	158.2	170.8
Foreign direct investment (annual percentage change)	-12.5	-4.5	8.0
Volume of exports (US\$ million)	338.5	494.4	665.5
Volume of exports (annual percentage change)	79.8	46.1	34.6
Volume of imports (US\$ million)	342.1	427.8	462.7
Volume of imports (annual percentage change)	27.0	25.0	8.2

Source: The State Statistics Committee.

2.3 Fiscal and budgetary trends: Khmelnytskyi Oblast

40. **The budget of the oblast is dominated by the inter-governmental transfers from the central government.** In 2017, there was a budget deficit which was funded from accumulated reserves, but in 2016 and 2018 there was a budget surplus, as shown in Table D. Key sources of own revenues are personal income tax which is growing annually and revenues from sales of goods and services which decreased in 2018 (see details in Annex 5). The OSA doesn't collect oblast budget revenues since the National State Fiscal Service is in charge of it. Key types of transfers include targeted grants for social protection needs, health care and education. Those transfers are allocated based on the rules identified by the central government. Their trend followed annual legal changes.

³ <https://decentralization.gov.ua/en/areas/0382>

Table D. Aggregate fiscal data (UAH million)

Indicator	FY 2016	FY 2017	FY 2018
Total revenue	5,386.9	7,824.6	8,582.2
– Own revenue	713.3	1,169.5	1,152.3
– Transfers from other government levels	4,673.6	6,655.1	7,429.9
Total expenditure	5,428.7	7,515.9	8,705.9
Total crediting	1.3	1.8	2.7
Aggregate deficit (-) / surplus (+) (including grants)	43.1	-306.9	126.5

Source: Treasury reports.

41. **Between 65 and 70 percent of Khmelnytskyi oblast's budget is transferred to lower levels of municipal government under its jurisdiction.** Most of these intergovernmental transfers⁴ are funded by the central government to cover social spending and protection, certain health programs, and socio-economic development. The rest of these intergovernmental transfers⁵ are own transfers from the oblast budget. This structure of the transfer system reflects the regional nature of an oblast in Ukraine: the oblast budget makes transfers to rayon budgets, to budgets of cities of oblast significance and to budgets of ATCs (2nd tier of subnational government), while villages which are not amalgamated yet into ATCs (3rd tier of subnational government) receive intergovernmental transfers from rayon budgets. Spending on health, education, and economic affairs sectors has the highest share of spending aside from intergovernmental transfers.

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

Functional head	FY 2016	FY 2017	FY 2018
General public services	0.2	0.2	0.2
Economic affairs	1.4	3.6	7.7
Health care	15.2	13.8	13.7
Cultural and physical development	1.5	1.4	1.3
Education	8.5	8.9	9.6
Social protection and social security	2.6	2.3	2.6
Intergovernmental transfers	70.5	69.7	64.5
Other expenditures	0.1	0.1	0.2
Total expenditures	100.0	100.0	100.0

Source: Treasury reports.

42. **The largest category of spending by economic classification aside from grants to lower levels of government is on goods and services.** Table F depicts an increasing trend over the three years with a relative decline in compensation of employees. However other grants within the oblast increased significantly in 2018 which were composed of grants and transfers to enterprises (institutions, organizations) in the economic affairs functional head.

⁴ 97.9 percent of the total amount of the intergovernmental transfers from the oblast budget to local budgets.

⁵ 2.1 percent of the total amount of the intergovernmental transfers from the oblast budget to local budgets.

Table F. Budget allocation by economic classification as a percentage of total expenditures

Economic head	FY 2016	FY 2017	FY 2018
Compensation of employees	10.8	5.6	5.0
Goods and services	13.2	18.3	18.5
Consumption of fixed capital	1.3	0.6	0.7
Interest	0.0	0.0	0.0
Grants to lower levels of government	70.5	69.7	64.5
Other Grants	0.8	3.9	9.6
Social benefits	1.0	0.6	0.6
Other expenses	2.4	1.2	1.1
Total expenditures	100.0	100.0	100.0

Source: Treasury reports.

2.4 Legal and regulatory arrangements for PFM

43. **Ukraine is a unitary, sovereign and independent, democratic, social and legal state, and a parliamentary-presidential republic.** Citizens exercise power directly and through state authorities and local self-government bodies. Government in Ukraine is 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 highest body of the judiciary is the Supreme Court of Ukraine. The Constitution is the nation's fundamental law. It was adopted and ratified at the 5th session of the Verkhovna Rada 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.

44. **The President of Ukraine is elected by popular vote for a five-year term which is limited to two terms consecutively.** The 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. Its powers are realized through the collective activity of national deputies at its sessions. 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 to within the limits provided by the Constitution.

45. **The judicial system of Ukraine consists of general jurisdiction courts (three levels) and the Constitutional Court of Ukraine.** The courts of general jurisdiction form a single system consisting 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 of Ukraine upon their nomination by the Supreme Council of Justice.

46. **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 of Ukraine, including the use of all interbudgetary 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.

47. **The bodies of the State Audit Service of Ukraine (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 of Ukraine, is the central executive authority

until the November 2019 directed and coordinated by the Cabinet. Since November 3, 2019⁶ the Ministry of Finance, which forms and implements state policy regarding public financial control, coordinates the SAS.

48. **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.**

49. **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 the tasks (including some audit) and powers of the State Audit Service
- 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).

50. **The Budget Code of Ukraine⁷, as amended over time, is the primary law covering all aspects of budget formulation, execution and reporting for central and subnational government (SNG).** 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. The Customs Code of Ukraine was approved in 2012 and entered into force on June 1, 2012. The New Law (2015) on the Accounting Chamber of Ukraine (ACU), the supreme audit institution, was adopted on July 2, 2015 and ratified by the President on August 5, 2015. The ACU is an independent body that reports to Parliament.

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.

52. **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) of Ukraine. Provision for audit falls between the ACU and the State Audit Services (SAS)⁸. In 2018, the ACU only the transfers from the central government. The annual financial statements are audited by the SAS in accordance to a plan, which does not envisage for these reports to be audited annually. Procurement by SNGs is conducted through the national ProZorro electronic procurement system based on the national legal requirements.

⁶ Decree of the Cabinet of Ministers # 922.

⁷ n2456-vi, dated 08.07.2010

⁸ According to its Charter, established by the Decree no. 43 of the Cabinet dated 3 February 2016, the State Audit Service of Ukraine 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 Verkhovna Rada as the Accounting Chamber is. The SAS does not have the status of Supreme Audit Institution (SAI) in contrast to that of the ACU.

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53. **The oblast has an elected assembly, the council.** The governor is the Khmelnytskyi oblast council speaker who is appointed by the President. The Budget Committee of the council scrutinizes the budget proposed by the oblast administration prior to it being passed by the council. There are 20 members on the Budget Committee out of 84 members of the council. In addition to the Budget Commission, the council has 10 sectoral commissions (such as health and education). The Budget Committee of the council does examine the annual financial statement (unaudited) and makes informal recommendations that are contained in the minutes of its meetings. A letter is sent to the oblast administration containing these recommendations with a desired response timetable. Responses are generally positive and if there is failure to respond senior executives are called to meet the committee.

54. **Ukraine has three-tier government structure at the subnational level.** The top tier consists of 24 oblasts and the city of Kyiv. 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, SNGs 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 sub-national governments' structure.

Table G. Overview of 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
1st tier <i>(oblasts and Kyiv city)</i>	Y	Y	Y	25		12.3	7.2	69.2
2nd tier <i>(rayons, cities of oblast significance, ATC)</i>	Y	Y	Y	1,343		30.3	13.1	62.4
3rd tier <i>(cities of rayon significance, settlements and villages)</i>	Y	Y	Y	7,627		2.4	2.0	25.4

* Not including the Autonomous Republic of Crimea and Sevastopol city.

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

2.5 Institutional Arrangements for PFM

55. **The structure of the administration of Khmelnytskyi oblast is shown in Table H.** There are 17 administrative units with 489 staff; the council members are supported by 45 staff. The oblast administration has no extrabudgetary units under its management and does not control or own any shares in a public corporation.

Table H. Administrative structure of Khmelnytskyi oblast

	Khmelnytskyi oblast
Assembly members (<i>elected persons</i>)	84
Assembly staff (<i>persons</i>)	45
Number of departments	17
Number of departmental staff	489

Source: *Khmelnytskyi oblast*.

56. **As shown in Table I the oblast's revenue is significantly dependent on transfers from Central Government.** Most of these transfers are then further transferred to lower levels of Government below the oblast. These transfers to lower levels are included in the oblast's expenditure.

Table I. Khmelnytskyi oblast budget actual expenditure and revenue 2018

	UAH million
Revenue (<i>including grants</i>)	8,582.2
Transfers from other units of Government (+)	7,429.9
Transfers to other units of Government (-)	-5,615.3
Net transfers	1,814.6
Expenditure	8,705.9
Liabilities	0.0
Financial Assets*	377.3
Non-financial assets	N/I**

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

** N/I - No Information.

Source: *Treasury reports*.

57. **Management of public finances in the Khmelnytskyi oblast is split between the oblast's own administration units and national ministries and department following the articles of the Budget Code.** The Finance Department is responsible for preparing the budget and the overall administration of the oblast's finance. The Department of Economic Development, Industry and Infrastructure is responsible for developing economic forecasts for the budget preparation as well as supporting its departmental clients. The Health Department and Education and Science Department are two major service delivery departments. Other smaller departments such as Department of Culture, Nationalities, Religions and Tourism deliver the oblasts' service delivery mandate. The oblast's council scrutinizes the budget proposed by the oblast administration and its Budget Committee also examines the annual financial statement. There is a Balance Commission which is a joint venture between the oblast administration and the oblast council with the objective of reviewing expenditure performance during the year. Membership includes elected members of the oblast council and officials from the oblast council and the oblast administration, Heads of Institutions and Departments, as appropriate. There is an internal audit unit consisting of one officer and subordinated directly to the head of the oblast administration.

58. **With respect to the involvement of national agencies, the Treasury is responsible for the operations of the oblast's subaccounts in the TSA.** It also produces monthly budget execution reports and the annual financial statements. State Audit Service of Ukraine periodically conducts performance audits in the oblast, exercises a review of controls (revision) function and conducts financial audits of departments though the Western Department which is located in the oblast. The State Fiscal Service (SFS) collects and administers revenues throughout Ukraine which includes the tax revenues accruing to all SNGs. The Ministry for Regional Development is involved in investment planning and execution. The State Property Fund of

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Ukraine maintains the Consolidated Register of State Property which includes that located in the oblast. The Accounting Chamber of Ukraine is responsible for conducting audits as per its mandate. The MoE implements the ProZorro electronic procurement platform that the oblast administration uses. The Antimonopoly Committee (AMC) is an independent body for consideration of all public procurement complaints including any related to the oblast.

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

Table J. PFM responsible institutions in the Khmelnytskyi oblast

Institutions	Major functions
Oblast State Administration (OSA)	<ul style="list-style-type: none"> • Submission of the draft oblast budget, reports on budget execution and a Program of socio-economic development of Khmelnytskyi oblast to the Oblast Council
Finance department of OSA	<ul style="list-style-type: none"> • Budget preparation and execution • Revenues forecasting
State Audit Service (Western Directorate)	<ul style="list-style-type: none"> • Government audit service
Treasury (Main Office of the Treasury in Khmelnytskyi oblast)	<ul style="list-style-type: none"> • Accounting of the oblast 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
State Fiscal Service (Main Office of the SFS in Khmelnytskyi oblast)	<ul style="list-style-type: none"> • Taxes 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 OSA	<ul style="list-style-type: none"> • Macroeconomic forecasting of indicators related to the oblast budget • Preparation of the Program of socio-economic development of Khmelnytskyi oblast, which include directions of public investment projects • Alignment of investment projects in priority sectors of the economy • Public-private partnership
MoE	<ul style="list-style-type: none"> • Procurement (monitoring and regulation)
Accounting Chamber	<ul style="list-style-type: none"> • External audit

60. **The line departments of OSA 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 playing roles in the PFM system include:** The State Statistics Committee (Main office in Khmelnytskyi oblast) responsible for collecting and distributing of fiscal data; the oblast council is responsible for the supervision control of its communal enterprises; and the Antimonopoly Committee which controls compliance with public procurement legislation.

62. **Tables K to M show the structure of government in Khmelnytskyi oblast in terms of number of units of general government and expenditure.** There are no extrabudgetary units as all agencies related to departments are included in the budget and are included in the TSA. Local government at the oblast level has 128 budgetary units. There are no any social security funds in Khmelnytskyi oblast. 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 inter-budgetary transfers. The Budget Code of Ukraine (BCU) differentiates revenue and executive power of each subnational tier and approaches in inter-budgetary relationships for each tier. Budgets of oblasts and the city of Kyiv receive transfers from the State Budget directly, and the budgets of rayons, cities of oblast significance and ATC receive transfers from the State Budget directly as well as from oblast budget. Details are provided in the assessment of indicator PI-7.

Table K. Structure of public sector - number of entities of the Khmelnytskyi oblast

FY 2018	Public sector				
	Government subsector		Social security funds	Public corporation subsector	
	Budgetary Unit	Extra budgetary Units		Nonfinancial public corporations	Financial public corporation
Local Government – oblast level	128	0	0	0	0
Local Government – lower than oblast level	1,356	0	0	N/I	0

N/I - No information.

Source: Khmelnytskyi OSA.

Table L. Structure of public sector – budget revenue and expenditure (UAH, million)

FY 2018	Local government			
	Budgetary unit	Extra budgetary units	Social security funds	Total
Revenues (excluding transfers)	886.9	N/A	N/A	886.9
Expenditures (excluding transfers)	2,766.3	N/A	N/A	2,766.3
Transfers to (-) and from (+) other units of general government	1,879.7	N/A	N/A	1,879.7
Liabilities	0.0	N/A	N/A	0.0
Financial Assets (01/01/2018)	504.8	N/A	N/A	504.8
Non-financial assets	N/I	N/A	N/A	N/I

N/A – Not applicable.

N/I – No information.

Source: Khmelnytskyi oblast budget

TABLE M: Structure of public sector – actual revenue and expenditure (UAH, million)

Year: 2018	Local government			
	Budgetary unit	Extra budgetary Units	Social security funds	Total
Revenues <i>(excluding transfers)</i>	1,152.3	N/A	N/A	1,152.3
Expenditures <i>(excluding transfers)</i>	3,089.4	N/A	N/A	3,089.4
Transfers to (-) and from (+) other units of general government	1,813.4	N/A	N/A	1,813.4
Liabilities	0.0	N/A	N/A	0.0
Financial Assets <i>(as of January 1, 2019)*</i>	377.3	N/A	N/A	377.3
Non-financial assets	N/I	N/A	N/A	N/I

* 95.4 percent of which is current receivable for internal payments.

N/A – Not applicable.

N/I – No information.

Source: Treasury reports.

2.6 Other Important Features of PFM and its Operating Environment

63. **The Budget Code provides for a centralized PFM system built around the Treasury Single Account.** This covers both central and SNGs. There are no extrabudgetary units in the oblast. All its tax revenues are collected by the State Fiscal Service. Transfers from central government represent some 86 per cent of total revenue while transfers to lower level of government within the oblast are 65 per cent of its expenditure. This reflects the regional nature of the oblast and how services are administered and delivered to its citizens.

3. Assessment of PFM performance

Subnational PEFA Indicator HLG-I. Transfer from a higher level of Government

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

64. **This indicator assesses the extent to which transfers to the subnational government from a higher-level government are consistent with original approved high-level budgets, and are provided according to acceptable time frames.** The assessment period – last three complete fiscal years (2016, 2017 and 2018). Coverage is SNG. Calculations for this indicator are presented in Annex 4.

65. **Local budgets receive transfers for horizontal equalization (basic grant), stabilization grant, additional grants and targeted grants (subventions).** In 2018, 41 budget transfers from the state budget to local budgets for the total amount of UAH 309.0 billion were originally approved.

66. **Horizontal equalization of revenue and the collection capacity⁹ is carried out taking into account the following parameters:** (i) the size of the 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.

67. **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 contingent of recipients. 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 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. For example, the procedure for providing the largest volume of such subventions, namely for the implementation of measures for the socio-economic development of certain territories¹⁰, defined only directions and required establishment of the Ministry of Finance Commission for distribution of that subvention, but does not define distribution criteria.

Table HLG.1. The structure of transfers from the state budget to local budgets in 2016-2018

	FY 2016	FY 2017	FY 2018
Transfers - total, billion UAH	197.0	280.0	301.8
The ratio of transfers based on the formula and based on the criteria for the total transfers, in %	96.3	92.7	95.4
Ratio of harmonized transfers (<i>based on political decisions</i>) to total transfers, in %	3.7	7.3	4.6

Source: CG PEFA Assessment, 2019.

⁹ of regional budgets, budgets of cities of oblast significance, rayons and ATCs.

¹⁰ Resolution of the Cabinet dated 06.02.2016 No. 106 as amended on 01.01.2017, No. 1040.

Summary of scores and performance table

Indicator/dimension	Scoring Method M2 (AV)	
	2019 Score	Brief justification for score
HLG-1. Transfers from a higher level of government	C+	
HLG-1.1. Outturn of transfers from higher-level government	A	Within the last three years actual transfers from a higher level of government were above 95 percent of the original budget (2016 – 114.1 percent, 2017 – 119.3 percent, 2018 – 97.8 percent)
HLG-1.2. Earmarked grants outturn	C	Deviations between original budget and actual inter-government transfers in the last three financial years was less than 10 percent (2016 – 7.7 percent, 2017 – 8.6 percent, 2018 – 7.1 percent)
HLG-1.3. Timeliness of transfers from higher-level government	A	There is an agreed schedule for transferring grants and subsidies from the higher-level government. A monthly plan for inter-government transfers is prepared and coordinated at the beginning of the year. Over 75 percent of actual transfers (by quarter) were received on time in the last three years

HLG-1.1. Outturn of transfers from higher-level government

Performance level and evidence for scoring of the dimension

68. Total amount of inter-government transfers from State Budget to Khmelnytskyi oblast budget in 2016-2018 are presented in Table HLG 1.1.

Table HLG 1.1 Total transfers from higher-level government: budget and actual (UAH million)

	2016	2017	2018
Budget	4,093.4	5,576.0	7,597.9
Actual	4,670.2	6,652.0	7,428.1
Deviation, %	114.1	119.3	97.8

Source: Annual reports on budget execution and Annex 4.

69. In 2016 the deviation of actual inter-government transfers from those planned in the budget was 114.1 percent, in 2017 it was 119.3 percent, and in 2018 - 97.8 percent (Annex 4).

70. Actual transfers were above 95 percent of budgeted transfers.

71. The score for this dimension is A.

HLG-1.2. Earmarked grants outturn

Performance level and evidence for scoring of the dimension

72. The transfers from the state budget to the Khmelnytskyi oblast budget show that in 2018 some 68 percent of grants is related to Social Protection a further 13 percent is related to Health Care and 3 percent to Education. "Other" amounted to 18 percent and equalization grants less than 1 percent. The data is presented in Annex 4 and the relative share of the total is similar in 2016 and 2017.

73. The deviation of actual from budgeted inter-government transfers by type was 7.7 percent in 2016, 8.6 percent in 2017, and 7.1 percent in 2018 (Annex 4). The highest deviations were under "other types" of inter-government transfers where increases were experienced. During each of the last three years the oblast budget received less transfers than planned on grants for social protection.

74. **The deviation between the original budget and actual inter-government transfers was less than 10 percent in the last three years.**
75. **The score for this 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 an agreed schedule for transferring grants and subventions from higher-level government.** A plan for receiving inter-government transfers on a monthly basis is prepared and agreed between the oblast and Central Government at the beginning of the year. Analysis of quarterly transfers received during last three years shows that over 75 percent of all inter-governmental transfers in each of the last three years under review (2016, 2017, and 2018) were in line with agreed schedules (Annex 4). For instance, equalization grant was disbursed thrice a month and not later than the 10th, 20th, and 25th day of the month. Education and medical subventions were disbursed twice by the 10th and 25th days of the month.
77. **Based on the analysis conducted and evidence available the score for this 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. The assessment analysis period for this indicator covers the last three completed fiscal years, i.e. 2016–2018, and the scope is the Budgetary SNG. Detailed data are included in Annex 5.

79. Budget execution based on an approved version is a vital aspect of the government’s ability to provide public services during the respective year as required by strategic fiscal / budget documents, outcome commitments and work plans.

Summary of scores and performance table

Indicator/dimension	2019 Score	Brief justification for score
PI-1. Aggregate expenditure out-turn	D	
1.1 Aggregate expenditure out-turn	D	In 2016–2017, the deviation between aggregate expenditure outturn compared to originally approved budget exceeded 15 percent (16.8 percent in 2016 and 19.4 percent in 2017). Deviation was insignificant only in 2018 at 2.6 percent

1.1 Aggregate expenditure outturn

Performance level and evidence for scoring of the dimension

80. Khmelnytskyi oblast’s planned budget expenditures in 2016-2018 were consistently less than actual expenditures. The deviation between oblast budget expenditures and the approved budget were 16.8 percent and 19.4 percent in 2016 and 2017, respectively, declining to an insignificant 2.6 percent in 2018, as Table 1.1 shows. As explained by representatives of the Department of Finance, such deviations are caused to a certain extent by the unpredictable nature of some inter-government transfers from the national budget¹¹. This means the central government allocates some of transfers, which are not included in the original local budget during budget execution, as they are increased during the fiscal year, as these transfers exceed the original budget. The deviation in expenditure planning is also impacted by the practice of allocation of available balances that may have accumulated at the end of the previous budget period. As required by the Budget Code (Articles 14 and 72), such balances may only be allocated after the approval of the annual report on budget execution that must be submitted to the local council within two months of the end of the previous budget period (i.e., prior to March 1). Therefore, the Department of Finance does not plan an allocation of this expenditure from this funding source when drafting the original budget.

Table 1.1. Total budget and actual expenditure (UAH billion)

	FY 2016	FY 2017	FY 2018
Budget	4,646.0	6,293.4	8,484.5
Actual	5,428.7	7,515.9	8,705.9
% Deviation	116.8	119.4	102.6

Source: Annual reports on budget execution Annex 5.

¹¹ While HLG-1 is scored A, this is not comparable with the scoring methodology for PI-3.1 relating to own revenues. Using the PI-3.1 methodology for HLG-1.1 the score would be C rather than A. This gives a false impression of transfers in relation to budget predictability.

81. The deviation between aggregate expenditure outturn compared to originally approved budget exceeded 15 percent in two of the three years.
82. The score for this dimension is D.

PI-2. Expenditure composition outturn

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

83. This indicator measures the extent to which reallocations between the main budget categories during execution have contributed to variance in expenditure composition. The assessment is based on the budget and actual expenditure for the last three completed fiscal years (2016, 2017 and 2018). Coverage is Budgetary SNG. Calculations for this indicator are provided in Annex 5. When expenditure composition outturn significantly differs at a sub-aggregate level from the original budget, the budget is unlikely to be a useful statement of strategic intentions.

Summary of scores and performance table

Indicator/dimension	Scoring Method M1 (WL)	
	2019 Score	Brief justification for score
PI-2. Expenditure composition out-turn	D+	
2.1 Expenditure composition out-turn by function	B	Variance in expenditure composition by functional classification was less than 10 percent in two of the past three years (3.0 percent in 2016, 6.5 percent in 2017, and 10.1 percent in 2018)
2.2 Expenditure composition out-turn by economic type	D	Variance in expenditure composition by economic classification was more than 15 percent in two of the past three years (4.2 percent in 2016, 23.7 percent in 2017, and 18.8 percent in 2018)
2.3 Expenditure from contingency reserves	A	No expenditure charged to a contingency vote was actually made in 2016–2018 (the annual budget included contingency expenditure which never exceeded 1 percent of aggregate expenditure of the original budget)

2.1 Expenditure composition outturn by function

Performance level and evidence for scoring of the dimension

84. A gradual increase in budget execution variance was noted during the 2016 to 2018 period. Average annual variance by functional classification was 3.0 percent in 2016, 6.5 percent in 2017, and 10.1 percent in 2018, as shown in Table 2.1.

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

	FY 2016	FY 2017	FY 2018
Variance, %	3.0	6.5	10.1

Source: Annual Budget Execution Reports, Annex 5

85. One of the key reasons for increased variation in 2017 and 2018 was the introduction of a new financing mechanism for development of roads. Thus, all oblasts received 50 percent of the state budget's customs revenue collected above the plan¹².

¹² According to the Budget Code the mentioned mechanism functioned until January 1, 2019.

86. **The variance in expenditure composition by functional classification was less than 10 percent in two of the past three years.**

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

2.2 Expenditure composition outturn by economic type

Performance level and evidence for scoring of the dimension

88. **The deviation of the expenditure composition outturn by economic classification was less than 5 percent in 2016 only as shown in Table 2.2.** In 2017 and 2018 the deviation was 23.7 percent and 18.8 percent respectively. The highest deviation from the original budget was on grants and subsidies to enterprises (institutions, organizations).

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

	FY 2016	FY 2017	FY 2018
Variance, %	4.2	23.7	18.8

Source: Annual Budget Execution Reports, Annex 5.

89. **The variance in expenditure composition by economic classification was more than 15 percent in two of the past three years.**

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

2.3 Expenditure from contingency reserves

Performance level and evidence for scoring of the dimension

91. **No expenditure from contingency reserves was made from the Khmelnytskyi oblast budget during 2016-2018.** However, expenditure from the budget's contingency reserves was planned annually but its projection never exceeded 1 percent of aggregate expenditure (0.64 percent in 2016, 0.01 percent in 2017, and 0.02 percent in 2018).

92. **Contingency reserves did not exceed 1 percent of the original budget in any of the last three completed fiscal years.**

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

PI-3. Revenue outturn

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

94. **This indicator measures the change in revenue between the original approved budget and end of year out-turn.** The assessment period for this indicator covers last three completed fiscal years 2016–2018, and the coverage is the Budgetary SNG. Detailed data are included in Annex 5.

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

Summary of scores and performance table

Indicator/dimension	Scoring Method M2 (AV)	
	2019 Score	Brief justification for score
PI-3. Revenue out-turn	D	
3.1. Aggregate revenue out-turn	D	Actual revenue was higher than 116 percent of budgeted revenue in each year (129.6 percent in 2016, 163.4 percent in 2017, and 130.1 percent in 2018)
3.2. Revenue composition out-turn	D	Variance in revenue composition was more than 15% in each of the past three years (19.1 percent in 2016, 43.9 percent in 2017, 25.0 percent in 2018)

3.1 Revenue outturn

Performance level and evidence for scoring the dimension

96. **The revenue forecast is undertaken by the Department of Revenue and Finance of Production sphere of the Finance Department of OSA based on the macro-economic forecast provided by the Department of Economic Development, Industry and Infrastructure of OSA.** Budget revenues are calculated based on the realistic scenario of the macro-economic forecast (see PI-14). Therefore, revenue collection exceeds budgeted forecasts most of the time. The main factor of exceeding total revenues over forecast is “windfall” income from own revenues of budgetary institutions in part from grants, gifts and charitable contributions (nearly six times more than the originally planned budget in 2018); corporate income tax (for 137.1 percent) and personal income tax (for 114.4 percent).

97. **In all the three years, the budget of Khmelnytskyi oblast received more revenues (not including inter-government transfers from the CG budget) than planned.** The deviation was 129.6 percent in 2016, 163.4 percent in 2017, and 130.1 percent in 2018 vs the budgeted revenue (Table 3.1).

Table 3.1. Revenue deviation actual from budget, 2016-2018

	FY 2016	FY 2017	FY 2018
Deviation, %	129.6	163.4	130.1

Source: Annual Budget Execution Reports, Annex 5.

98. **The deviation of actual revenue from budgeted revenue was higher than 116 percent in each year.**

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

3.2 Revenue composition outturn

Performance level and evidence for scoring the dimension

100. **The structure of deviations from the original budget was most impacted by “other revenues”.** Such revenues were received in 2016–2018 to an extent larger than planned in the original budget (304.6 percent in 2016, 376.6 percent in 2017, and 581.3 percent in 2018). Also, in 2017, a significant over-budgeted amount was realized for other taxes - 507.0 percent.

101. **The deviation in revenue composition was more than 15 percent in each year, as shown in Table 3.2.**

Table 3.2. Revenue composition variance, 2016-2018

	FY 2016	FY 2017	FY 2018
Deviation, %	19.1	43.9	25.0

Source: Annual Budget Execution Reports, Annex 5.

102. **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

103. This indicator assesses the extent to which the oblast budget and accounts classification is consistent with international standards. Time period is at time of assessment. The coverage is Budgetary SNG.

104. The use of budget classifications is regulated by Articles 8 to 12 of the Budget Code, which stipulates the definition, scope, and classification of data. In accordance with the Budget Code, the Ministry of Finance approves the budget classification, except for the programmatic classification of expenditure and lending of the state budget which is annually approved by the law on the state budget (Order of the Ministry of Finance No. 11 dated January 14, 2011 “On Budget Classification”). The standard programmatic classification of expenditure and lending to local budgets are approved by the Order of the Ministry of Finance No. 793 dated September 20, 2017 “On Approval of the Components of the Programmatic Classification of Expenditure and Lending to Local Budgets”. This standard classification is applied in the budget process at the level of all local budgets.

Summary of scores and performance table

Indicator/dimension	2019 Score	Brief justification for score
PI-4. Budget Classification	A	
4.1 Budget classification	A	Budget formulation, execution and reporting are based on economic, functional and administrative classifications. The functional classification meets the requirements of the IMF Government Finance Statistics Manual/Classification of the Functions of Government. Moreover, programmatic classification is applied

4.1 Budget Classification

Performance level and evidence for scoring the dimension

105. Budget classification 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;
- Typical programmatic classification of expenditures and lending of local budgets;
- Lending classification;
- 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.

106. The budget classification is close to the standards of the IMF Government Finance Statistics Manual of 2001 in accordance with the Final Formulation of Methodology under the IMF Special

Data Dissemination Standard. Prior to that time, 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 accrual-based standards that are consistent with IPSAS are yet to be implemented in full. Budget spending units keep accounts based on the accrual method. The State Treasury Service keeps accounts for the execution of an oblast budget using the cash method but apply the accrual method to spending units' liabilities.

107. **The OSA 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 2017 budget year, all annual local budgets present a breakdown by programmatic classification. Based on the aforementioned correspondence between programmatic and functional classification the OSA Finance Department can analyze expenditures by functional classification at any stage of the budget process.

108. **Annual and in-year budget reports are issued by the Treasury and consisted of financial information by functional and economic classification at the fourth level digits.** The Treasury's budget execution reports include information on revenues, expenditures and financing. They are published on the Khmelnytskyi oblast Treasury's website.

109. **The OSA additionally reported by administrative and programmatic classification.** In addition to the Treasury's reports, the OSA prepared quarterly /annually reports based on the administrative classification and submitted them to the oblast council.

110. **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 which described budget programs in more detail. The Budget Code of Ukraine 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.

111. **Budget formulation and execution reports are based on administrative, economic and functional classifications.**

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

Recent or ongoing reform activities

113. **The Cabinet approved the Strategy for the Modernization of the Public Sector Accounting and Financial Reporting System until 2025¹³.** Among other things, the strategy entails analyzing a possibility to present budget execution operations in accounting using the accrual method.

PI-5. Budget documentation

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

114. **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.** The assessment time period is the last budget submitted to the legislature (Budget 2019). Coverage is Budgetary SNG.

¹³ Order No. 437 June 20, 2018.

Summary of scores and performance table

Indicator/dimension	2019 Score	Brief justification for score
PI-5. Budget documentation	D	
5.1. Budget documentation	D	The budget documentation contains two of four basic elements and two out of 8 additional elements (three of which are not applicable). All of them are available to the oblast council.

5.1 Budget documentation

Performance level and evidence for scoring the dimension

115. **Budget documentation contains two basic and two additional elements.** This includes the documentation submitted by OSA to the oblast council along with the annual oblast budget proposals and the documents approved by the oblast council. The oblast budget published on the website of the oblast council contains the indicators approved for the current year in the same format as the budget proposal submitted as well as the aggregate target indicators by revenue and expenditure for the current year.

116. **According to the BCU, a local council's executive body must submit to a local council the socio-economic status of relevant administrative and territorial unit and a forecast of its development for the next budget period¹⁴.** This information should be included in an explanatory note to a draft local budget.

117. **According to the same article of the BCU, the budget must include certain information about the oblast's budget.** Pieces of this information include: total revenue, expenditure and lending in the budget, the ceiling for annual deficit (surplus) in the next budget period, debt as of the end of the next budget period, the ceiling for the provision of local guarantees as well as the powers to provide such guarantees, revenue by budget classification (as an annex), local budget financing by budget classification (as an annex), and budget allocations to the key spending units of the local budget according to the budget classification (as an annex). In the local budget, expenditure for the key spending units of the local budget should be detailed under the programmatic classification used and by applicable codes of economic classification.

118. **Until the end of 2018, the oblast councils were not entitled to borrow (part three of Article 16 of the BCU), therefore the budget could not contain a deficit.** Annex 2 (financing of budget) to the oblast budget contained only funds transferred from the general fund (surplus) to the special fund (deficit) for the development budget; and zero balance of the total budget (elements 1 and 5 in Table 5.1).

119. **The draft oblast budget for 2019 and the explanatory note submitted by OSA to the oblast council are published on the website of the oblast council¹⁵.** The explanatory note contains information about tax exemptions, a forecast of macroeconomic indicators for the planned and subsequent two years and a forecast of budget revenues and expenditure for the same period. At the same time this forecast does not include regional GDP, and forecast of inflation and interest rates are issued by the central government.

120. **Table 5.1 summarizes this information showing the three basic and four additional elements as well as those not achieved for this indicator.**

Table 5.1. Information in budget documentation

Elements	Achievement (Yes/No)	Explanation
Basic elements		
1. Forecast of the fiscal deficit or surplus or accrual operating result	Yes	Information is contained in the Annex 2 to the oblast budget

¹⁴ According to Article 76 of the Budget Code of Ukraine.

¹⁵ Address: <http://km-oblrada.gov.ua/orientovniy-perelik-pitan-yaki-propo-3/>, see p. 55 on the list.

Elements	Achievement (Yes/No)	Explanation
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. Budget reports prepared by OSA and submitted to oblast council are not presented in the same format as the budget proposal (see PI-29.1)
3. Current fiscal year's budget presented in the same format as the budget proposal	Yes	Annexes to the approved oblast budget for the current year, which can be found on the website of the Khmelnytskyi oblast council, contain approved indicators for the current year in the same format as the budget proposal
4. Aggregated budget data for both revenue and expenditure according to the main heads of the classifications used, including data for the current and previous year with a detailed breakdown of revenue and expenditure estimates	No	Information is not complied
Additional elements		
5. Deficit financing, describing its anticipated composition	Yes	Information is contained in the in Annex 2 to the oblast budget
6. Macroeconomic assumptions	N/A	OSA has no capacity to forecast regional GDP. 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	Until the end of 2018, oblast councils were not entitled to borrow (part three of Article 16 of the BCU). Therefore, 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	The oblast administration does not submit such information to the oblast council. The Treasury provides the OSA with the balance-sheet containing information about financial assets related to budget operations (as part of the financial statements), but they do not contain information about financial assets in the form of an equity stake
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 SNG (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	The oblast administration does not submit information on budget implication of policy initiatives and investments

Elements	Achievement (Yes/No)	Explanation
11. Documentation on the medium-term fiscal forecasts	Yes	The explanatory note to the draft oblast budget for 2019 contains indicative targets of the oblast budget for 2020 and 2021. These indicators include revenues and expenditure by the main sections of the budget classification; total amount of financing and lending of the oblast budget
12. Quantification of tax expenditures	N/A	This element is not applicable. The oblast council does not manage taxes

121. **The requirements are met for two out of four basic elements and two out of eight additional elements, three of which are not applicable.**

122. **Therefore, the score for this dimension is D.**

Recent or ongoing reform activities

123. **Starting at the end of 2018 (amendments to the BCU No. 2621 dated November 22, 2018), the oblast councils are entitled to borrow from international financial institutions.** If the Khmelnytskyi oblast council were to exercise this right, the seventh (additional) element in Table 5.1 would also be applicable.

PI-6. Subnational government operations outside financial reports

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

124. **This indicator measures the government's depth of knowledge of revenue and expenditure reported outside the SNG financial reports.** The assessment of this indicator is based on the information and reports available for fiscal year 2018. The coverage is SNG.

Summary of scores and performance table

Indicator/dimension	Scoring Method M2 (AV)	
	2019 Score	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 oblast are included in the TSA. There are no extrabudgetary expenditures
6.2. Revenue outside financial reports	A	All revenues accrued by the oblast 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

125. **All expenditures made by the oblast are included in the TSA.** There are no extrabudgetary expenditures outside of financial reports of the Khmelnytskyi oblast budget. The Budget Code of Ukraine does not permit extrabudgetary funds and restricts the opening of 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 SNGs and spending of own revenues¹⁶ of budgetary institutions¹⁷. In addition, the placement of temporary free local budgets' cash¹⁸ 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 a monthly base. Khmelnytskyi oblast did not use any of mentioned exemptions during the assessment period. Other remaining SOEs (which do not meet the PEFA definition of public corporations and were not assessed in PI-10.1) are not classified as extrabudgetary units considering definition of the GFS Manual 2014.

126. **There are no extrabudgetary expenditures.**

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

6.2 Revenue outside financial reports

Performance level and evidence for scoring the dimension

128. **All revenues accrued by the oblast are included in the TSA.** There are no extrabudgetary revenues.

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

6.3 Financial reports of extra-budgetary units

Performance level and evidence for scoring the dimension

130. **As there are no extrabudgetary revenues and expenditures, this dimension is not applicable.**

PI-7. Transfers to subnational governments

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

131. **This indicator assesses the transparency and timeliness of transfers from the oblast budget to lower level local budgets with direct financial relationships to it.** It considers the basis for transfers from SNG and whether they receive information on their allocations in time to facilitate budget planning. The assessment of this indicator is based on last completed fiscal year 2018. The coverage is SNG and the sub-national governments which have a direct financial relationship with SNG.

132. **Ukraine has a three-tier government structure at the subnational level, in which each higher level supervises the lower one.** Nevertheless, the logic of the administrative hierarchy is not applied to the system of fiscal transfers between various authorities. In 2018, transfers were made from oblast budgets to rayon budgets (20), to budgets of cities of oblast significance (6) and to budgets of ATCs (39) giving a total of 65 budgets. Cities of rayon significance (2), towns (8), and villages (269) which are not amalgamated yet into ATCs (279 budgets) received intergovernmental transfers from rayon budgets appropriate for their governance level.

¹⁶ 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.

¹⁷ Article 78 of the CBU (part two).

¹⁸ 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.

Summary of scores and performance table

Indicator/dimension	Scoring Method M2 (AV)	
	2019 Score	Brief justification for score
PI-7. Transfers to sub-national governments	D+	
7.1 Systems for allocating transfers	C	In 2018, 54.5 percent of total amount of own transfers was allocated as per formula or criteria.
7.2 Timeliness of information on transfers	D	Rayons, cities of oblast significance and ATCs received the intergovernmental transfers in amounts approved by the oblast administration after the specified deadline. This applies to both transfers received from the national budget, which are allocated via the oblast budget, and own transfers from the oblast budget. Almost all the volumes of own transfers from the oblast budget were received after the beginning of the fiscal year.

7.1 Systems for allocating transfers

Performance level and evidence for scoring the dimension

133. **The oblast budget channels transfers received from the national budget and transfers from its own budget sources (own transfers) to the lower-level subnational budgets (of rayons, cities of oblast significance, ATCs).** These transfers are detailed in Annex 6. The oblast administration is obliged under the BCU to reallocate some transfers received from the national budget to the budget of lower-level SNGs under the oblast's jurisdiction. About 90 percent of such transfers were reallocated for social payments, housing and communal subsidies. These transfers reallocated from the oblast budget to budgets of cities of oblast significance and rayons. The rest of transfers (mainly for education and health care spheres) were reallocated to the mentioned above budgets and to budgets of ATC as well. The approved 2018 oblast budget included fifteen intergovernmental transfers amounting to UAH 7,597.9 million received from the national budget, including UAH 5,278.0 million or 69.5 percent targeted to subnational budgets and UAH 703.7 million or 9.3 percent to be partly spent from the oblast budget and partly channeled to lower-level subnational budgets. The remaining UAH 1,616.3 million or 21.3 percent of the total amount of transfers received were to be spent though the oblast budget on services delivered by the administration itself. The transfers to the lower-level subnational tier budgets were approved in the oblast budget amounted to UAH 5,696.8 million or 75.0 percent of the total amount of transfers received from the national budget.

134. **Most transfers received from the national budget were allocated by the oblast administration to lower level budgets based on a formula.** The number of service users is the major criterion for the allocation of the medical subvention for targeted expenses for the treatment of patients with diabetes and diabetes insipidus. Social subventions are allocated based on the number of their recipients. Some subventions are based on additional criteria or decisions. For instance, the subvention for the implementation of measures aimed at the socio-economic development of specific territories; the subvention for the difference between the actual cost of utility services and energy, and rates approved and/or endorsed by state authorities or local governments were allocated in 2018 without a formula or criteria.

135. **Out of the entire amount of the transfers assessed in this indicator, 54.5 percent were allocated and distributed using a formula or criteria.** Out of UAH 122.4 million of assessed transfers, only UAH 66.7 million were allocated according to established criteria. These includes transfers for: (i) privileges, that are established by the oblast council and reallocated between local budgets -- based on the number of recipients; (2) treatment of oblast's patients for diabetes mellitus and insipidus – based on the number of patients; (3) procurement of medications for Khmelnytskyi local hospital for children that deliver services to the Oblast's residents – based on the number of patients treated, cost of medications and financial capacity of oblast budget; (4) construction (and reconstruction) of water supply pipelines – according to such criteria as

availability of approved project documents as prescribed by the legislation, conducting their state expertise, an appeal from the management of executive authorities and local self-government bodies; (5) co-financing of investment projects – to build a school in the village Korchyk in Shepetivsk rayon with the State Regional Development Fund (SRDF)'s co-financing to ensure timely commissioning of the facility and due to the lack of needed funds in the Shepetivsk rayon's budget; and (6) on environmental protection measures. The remaining 55.7 million UAH, or 45.5 percent were allocated and distributed based on individual decisions.

136. **54.5 percent of transfers were allocated and distributed based on a transparent, rule-based approaches.**

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

7.2 Timeliness of information on transfers

Performance level and evidence for scoring the dimension

138. **The BCU¹⁹ requires that subnational budgets be approved by December 25 of the year preceding the planning year.** Article 15(3) of the Law of Ukraine No. 2939 of January 13, 2011, "On Access to Public Information" requires draft regulatory instruments and decisions of local governments to be published 20 business days prior to the date of their review for the purposes of adoption. Consequently, a draft local budget must be prepared and published by November 27 of the year preceding the planning year.

139. **To be able to allocate transfers channeled from the national budget to local budgets using the oblast budget, a Finance Department needs to receive the information on amounts of the relevant transfers from the Ministry of Finance to send the relevant details to local budgets²⁰.** In 2017, the oblast administration received this information from the Ministry of Finance on September 19—more than nine weeks before the completion of the drafting of local budgets. However, local authorities (local state administrations) have to draft their budgets taking into account both the information received from the Ministry of Finance after the endorsement of the draft state budget by the Cabinet and as well as that approved in the second reading²¹. In 2017, the draft law on the 2018 national budget was adopted in the first reading on November 14 and in the second reading on December 7.

140. **As a result, the Finance Department of OSA received the information on the amounts of intergovernmental transfers for the subsequent allocation and notification to other subnational budgets after the deadline set for the drafting of subnational budgets.** The Finance Department the OSA sent the details of 2018 transfers to local budgets on December 11, 2017, after the endorsement of the draft oblast budget by the board of the OSA together with the allocation of these transfers. Some transfers remained unallocated due to the lack of approval allocation procedures by the Cabinet. The OSA allocated them and notified local budgets during the fiscal year of the amounts of the transfers.

141. **The 2018 Annual State Budget Law did not identify allocations of several transfers which in some cases did not leave sufficient time for planning and disbursement at the local level.** The Cabinet considered allocation of those transfers during the fiscal year. The following transfers were allocated under this approach in 2018 (the amount had to be reallocated by the OSA and communicated to local budgets): i) the stabilization grant (UAH 3.2 million) was allocated by the Cabinet on December 18, 2018; ii) the subvention for the delivery of high-quality modern and affordable general secondary education in the New Ukrainian School (UAH 38.4 million) was allocated on April 4, 2018; and iii) subventions for the disbursement of the monetary compensation for residential premises to be provided to some categories of individuals (UAH 30.5 million)

¹⁹ Article 77(2).

²⁰ Article 75(8) of the Budget Code of Ukraine requires the Ministry of Finance to communicate its calculations of projected amounts of intergovernmental transfers and methods for their calculation to the OSAs within one week of the endorsement of the draft law on the national budget for the planning year by the Cabinet.

²¹ The Rules of Procedure of the Verkhovna Rada of Ukraine provide that the transfers are to be determined during the second reading of the law on the national budget in the Parliament (November 20 at the latest).

were allocated on May 16, 2018, June 13, 2018, and July 4, 2018. Thus, the Finance Department received instructions on the allocation of such subventions among local budgets and notified the appropriate rayon and city finance directorates, and mayors of ATCs about the transfer amounts only after those dates.

142. **The Finance Department of OSA notified the lower SNGs about 98.4 percent of own transfers to local budgets after those local budgets were approved.** The allocation of only four own transfers to local budgets (UAH 2.0 million) was approved by the 2018 original oblast budget. However, during the budget year the oblast budget was changed and own transfers to local budgets were increased to 12 with the total amount of UAH 122 million. Therefore, the OSA notified the finance directorates (ATC mayors) about new transfers throughout the fiscal year.

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

PI-8. Performance information for service delivery

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

144. **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; dimension 8.2: outputs and outcomes of the last completed fiscal year; dimensions 8.3 and 8.4 and last three completed fiscal years. The coverage is subnational government including services managed and financed by other tiers of government where the subnational government 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	Scoring Method M2 AV	
	2019 Score	Brief justification for score
PI-8: Performance information for service delivery	A	
8.1 Performance plans for service delivery	A	Key Performance Indicators of outputs and outcomes are established and published at the level of individual entities based on established norms relating to achievable service delivery based on performance and efficiency targets
8.2. Performance achieved for service delivery	A	Each spending unit reports on the realization of the KPI outputs and outcomes specified in their passports of budget programs. There is passports of budget programs execution reports for each KSU which contains this information
8.3. Resources received by service delivery units	A	There is a sub-account for each spending unit within the TSA. This allows spending and revenues to be tracked down to the individual spending units such as hospital and schools. Information on all resources disaggregated by sources of fund received and used by service delivery units (SDUs) across sectors are recorded and available from in-year and annual budget execution reports of each service delivery unit
8.4. Performance evaluation for service delivery	B	The results of independent assessment of the efficiency and effectiveness of service delivery were published for departments covering 67 percent of the total expenditure represented by service delivery activities for the oblast

8.1 Performance plans for service delivery

Performance level and evidence for scoring the dimension

145. **The budget of the oblast 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 units²² 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. The KPIs are contained in a document known as a passport of budget program. KPIs are established for individual units within each department.

146. **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 for individual units based on norms relating to achievable service delivery based on performance and efficiency targets. Passport plan information for the Health Department and Education and Science Department was provided to the assessment year.

147. **Key Performance Indicators of outputs and outcomes are established and published.**

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

8.2 Performance achieved for service delivery

Performance level and evidence for scoring the dimension

149. **Each spending unit reports on the realization of the KPI outputs and outcomes specified in their passports of budget programs.** There are passports of budget programs execution reports for each KSU which contain this information. The reports are published on the oblast website and by department. As required by a unified template adopted by the MoF²³, the presented information was consistent with annual planned outputs and outcomes as set forth in budget program passports; cases of deviation in actual performance are explained in most cases. Passport realization information for the Health Department and Education and Science Department was provided to the Assessment Team.

150. **The score for this dimension is Score A.**

8.3 Resources received by service delivery units

Performance level and evidence for scoring the dimension

151. **There is a sub-account for each spending unit within the Treasury Single Account.** The sub-account allows spending and revenues to be tracked to individual spending units such as hospital and schools. Each service delivery unit (SDU) submits reports on revenues and expenditures disaggregated by budget programs and types of financial sources on monthly, quarterly and annual basis²⁴. Those reports consist of the information on resources in kind²⁵ 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 to grants and natural earnings. Information on revenue and expenditures

²² 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.

²³ In line with the MoF Decree no. 836 [of 26.08.2014].

²⁴ MoF's Order № 44 of 24.01.2012.

²⁵ MoF's Order № 938 of 23.08.2012.

for individual units under the Health Department and Education and Science Department was provided to the Assessment Team.

152. **The score for this dimension is Score A.**

8.4 Performance evaluation for service delivery

Performance level and evidence for scoring the dimension

153. **Performance evaluation of all service delivery is conducted annually by a unit of the spending department such as Health and Education and Science.** Each delivery unit provides relevant information in all budget programs. Based on this information the evaluation is carried out using an established methodology which follows a template provided by the Ministry of Finance. An efficiency report is prepared for each program which gives a score that is classified as high, average or low. When a low score has been given, an explanation of why a low score has been achieved is presented. The Finance Department of the oblast administration reviews all the reports. The performance reports are not prepared by the units that are being assessed.

154. **The State Audit Service of Ukraine periodically conducts performance audits in the oblast.** During 2017-2018 the Health Department was audited by the Directorate of the Western Office of the State Audit Service²⁶ regarding the implementation of the budget program “Centralized procurement of the healthcare institutions with expensive medical equipment, medicines and medical goods for 2016-2018”. The audit report is published on the site of the State Audit Service.

155. **To improve the assessment of performance, Khmelnytskyi oblast has created a Balance Commission.** The Balance Commission is a joint venture between the oblast administration and the oblast council with the objective of reviewing expenditure performance. It is similar in focus to an audit commission in some subnational entities in other countries, but the Khmelnytskyi oblast Balance Commission appears to be distinctive in its mandate. Membership includes elected members of the oblast council and officials from the oblast council and oblast administration, and of institutions and departments, as appropriate. The balance commission meets during January and February once the previous year’s budget has been executed. The Head of the oblast council approves the schedule of meetings. Each spending unit presents data on performance – both financial and non-financial – and answers questions from the commission. For example, all 36 health care units in the oblast reported over a period of two days, all social care units reported over a period of two days also, as well as education units which together cover over 75 percent of total budget expenditures without intergovernmental transfers. All the meetings record minutes. Recommendations are listed in the minutes with an implementation timetable and these are monitored with respect to implementation actions.

156. **The assessment of service delivery performance with respect to efficiency and effectiveness is multi-faceted and published.** Four out of eight results of the independent assessment of Education Department and Health Care Department for 2018 were published²⁷, covering 67 percent of the total expenditure represented by service delivery activities for the oblast. The results of the independent assessment for 2016-2017 were not published.

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

²⁶ 08.10.2018.

²⁷ https://www.adm-km.gov.ua/?page_id=62714; <https://www.doz.adm-km.gov.ua/index.php?m=6&sm=1&s2m=5>

PI-9. Public access to fiscal information

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

158. **The 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 for the is last completed fiscal year (2018) and the coverage is Budgetary SNG.

Summary of scores and performance table

Indicator/dimension	2019 Score	Brief justification for score
PI-9 Public access to fiscal information	A	
9.1 Public access to fiscal information	A	The local governments disclose four basic elements out of five, one of which is not applicable, and three additional elements

9.1 Public access to fiscal information

Performance level and evidence for scoring the dimension

159. **Requirements for the disclosure of fiscal information are contained in various laws.** These include the Budget Code, Law No. 183-VIII dated February 11, 2015 “On Openness of Public Funds Use”, Law No. 2939 dated January 13, 2011 “On Access to Public Information”, as well as within the scope of the general requirements for the official publication of the legislation prescribed by laws No. 586 of April 9, 1999, “On Local State Administrations” and No. 539 of September 23, 1997, “On Media Coverage of Activities of State Authorities and Local Governments in Ukraine”. The information may be disclosed both on the websites of the relevant SNGs and in the press.

160. **Article 7 of the Budget Code defines the principle of publicity and transparency.** This relates to informing the public on the issues of drafting, reviewing, approving and executing the national and subnational budgets, as well as exercising control over the performance of the national and subnational budgets. Article 28 of the Budget Code of Ukraine sets forth the requirements for the accessibility of the information about the budget. According to these requirements, local state administrations shall publish information about subnational budgets, including subnational budgets and quarterly reports on their performance. A subnational budget must be published within ten days of its date in newspapers specified by the relevant subnational councils.

161. **The law “On Access to Public Information” requires state authorities to publish reports on their official websites.** As shown in point 7 of Table 9.1, the State Audit Office publishes audit reports on its website.

162. **The situation with access to fiscal information has improved once the electronic data web portal became active online (www.spending.gov.ua) starting from 2015.** This portal provides information about the expenditure performed by key spending units.

163. **Four basic elements out of five, one of which is not applicable, and three additional elements are accessible to the public.** The evidence of conformity with public access requirements on fiscal information is provided in Table 9.1.

Table 9.1. Access of the public to fiscal information

Element/requirements	Met (Y/N)	Evidence used/comments
Basic elements		
1. Annual executive budget proposal documentation. A complete set of executive budget proposal documents (as presented by the country in PI-5) is available to the public within one week of the executive's submission of them to the council	Y	The oblast council publishes on its website (http://km-oblrada.gov.ua/) a complete set of budget proposal documents prepared by the OSA (assessed in PI-5) within one week of the official submission. The set of documents includes a draft of the oblast budget with annexes and an explanatory note (the following are the draft of the 2019 oblast budget: http://km-oblrada.gov.ua/orientovniy-perelik-pitan-yaki-propo-3/ , and the draft of the 2018 oblast budget: http://km-oblrada.gov.ua/proekti-rishen-simnadcyatoi-sesii-oblasnoi-radi-plenarne-zasidannya-yakoi-zaplanovano-na-22-grudnya-2017-roku/)
2. Enacted budget. The oblast budget decision approved by the council is published within two weeks of the decision date	Y	The oblast council causes the approved oblast budget to be published on its website (http://km-oblrada.gov.ua/), while the oblast administration publishes it in official newspapers within ten days of the approval date. The following are links to the 2019 oblast budget: http://km-oblrada.gov.ua/orientovniy-perelik-pitan-yaki-propo-3/ , and the 2018 oblast budget: http://km-oblrada.gov.ua/vii-sklikannya-rishennya-simnadcyatoi-chergovoi-sesii-o/?submit=%D0%9F%D0%BE%D0%BA%D0%B0%D0%B7%D0%B0%D1%82%D0%B8)
3. In-year budget execution reports. The reports are routinely made available to the public within one month of their issuance, as assessed in PI-27	Y	Quarterly oblast budget execution reports are published on the oblast council's website (http://km-oblrada.gov.ua/informaciya-pro-vikonannya-oblasnogo-byudzhetu/) and on the Treasury website (https://khm.treasury.gov.ua/ua/file-storage/zvitnist). Since 2018 the quarterly information about the execution of the oblast budget also has been made available to the public on the electronic data web portal https://openbudget.gov.ua/local-budget/22100000000/local-incomes within one month of its availability
4. Annual budget execution report. The report is made available to the public within six months of the fiscal year's end	Y	Annual oblast budget execution reports are published on the oblast council's website (http://km-oblrada.gov.ua/informaciya-pro-vikonannya-oblasnogo-byudzhetu/) and on the Treasury website (https://khm.treasury.gov.ua/ua/file-storage/zvitnist). Since 2018 the annual information about the execution of the oblast budget also has been made available to the public on the electronic data web portal https://openbudget.gov.ua/local-budget/22100000000/local-incomes within one month of its availability
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 there was not external audit of annual financial reports has been carried out this element is not applicable
Additional elements		
6. Prebudget statement. The broad parameters for the executive budget proposal regarding expenditure, planned revenue, and debt are made available to the public at least four months before the start of the fiscal year	N	No such information is prepared at the oblast budget level

Element/requirements	Met (Y/N)	Evidence used/comments
7. Other external audit reports. All nonconfidential reports on SNG consolidated operations are made available to the public within six months of submission	Y	The Accounting Chamber publishes audit reports prepared as a result of audits of spending units and recipients of the oblast budget funds in the part of the transfers from the state budget on its official website (https://rp.gov.ua/FinControl/FinReports/). These reports are published within one month of their preparation date
8. Summary of the budget proposal. A “citizen’s budget”, and where appropriate translated into the most commonly spoken local language, is publicly available within two weeks of the executive budget proposal’s submission to the legislature and within one month of the budget’s approval	Y	The information about indicators and core features of the draft budget are available on the oblast administration’s website as a narrative report and as a presentation. It was published on December 11, 2018, on the same day with the submission of the draft 2019 oblast budget (https://www.adm-km.gov.ua/?p=31236). The 2018 budget execution report was publicly presented on February 18, 2019. The budget execution report presentation is available on the website of the oblast administration (https://www.adm-km.gov.ua/?p=52231)
9. Macroeconomic forecasts. The forecasts, as assessed in PI-14.1, are available within one week of their endorsement	Y	Central government issues forecast of inflation and interest rates (see PI-14.1). In the same time, a macroeconomic forecasts related to the oblast budget is provided as a part of the explanatory report attached to the draft oblast budget. This document was published on the website of the oblast council together with the draft 2019 oblast budget http://km-oblrada.gov.ua/orientovniy-perelik-pitan-yaki-propo-3/ , and the draft 2018 oblast budget: http://km-oblrada.gov.ua/proekti-rishen-simnadcyatoi-sesii-oblasnoi-radi-plenarne-zasidannya-yakoi-zaplanovano-na-22-grudnya-2017-roku/). OSA has no capacity to forecast regional GDP

164. **Access to four basic elements out of five, one of which is not applicable, and three additional elements are provided to the public.**

165. **For this reason, this dimension has been scored as A.**

Recent or ongoing reform activities

166. **Public access to the fiscal information has improved with the December 2018 changes to the Budget Code.** Article 28 was amended to require key spending units of local budgets to publish their budget proposals, annual reporting information on the budget broken down by budget programs and indicators, budget program passports, execution reports, and budget program efficiency evaluation results.

167. **The same amendments require that a subnational budget forecast be approved every year to inform the development of the draft budget for the next year.** This document will have to be published so that an additional element is supported (Element 6 “Prebudget statement”).

168. **The 2018 introduction of the electronic data web portal (<https://openbudget.gov.ua>) contributed to the improved accessibility of the fiscal information.** The portal publishes reports on the execution of all subnational budgets in Ukraine on a monthly basis. The information is provided in the open-data format and updated monthly. The complete implementation of this project will take about two years. It is the goal of the project to disclose as much data as possible in a form comprehensible to the general public. The implementation of this project will simplify public access to fiscal information.

PILLAR THREE: Management of Assets and Liabilities

PI-10. Fiscal risk reporting

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

169. **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 SNG, public corporations, and contingent liabilities from SNG'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 lower tiers of SNGs that have a direct financial relationship with the SNG being assessed. For dimension 10.3 it is budgetary and extrabudgetary unit of the SNG.

Summary of scores and performance table

Indicator/dimension	Scoring Method M2 AV	
	2019 Score	Brief justification for score
PI-10. Fiscal risk management	C	
10.1. Monitoring of public corporations	N/A	Khmelnyskyi oblast administration does not control or own any share in a public corporation
10.2. Monitoring of sub-national government (SNG)	C	The head of the State Treasury Office at the oblast level prepares the consolidated report of local budgets under the Khmelnytsky oblast and publishes them annually on its website within nine months of the end of the fiscal year
10.3. Contingent liabilities and other fiscal risks	N/A	Khmelnyskyi oblast does not have significant contingent liabilities as defined by the PEFA framework

10.1 Monitoring of public corporations

Performance level and evidence for scoring the dimension

170. **Public enterprises in Ukraine 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, Khmelnytskyi OSA was responsible for the management of 11 communal enterprises (see Annex 7). These are in joint ownership with cities, towns and villages within the oblast's territory. The annual financial statements of the 11 communal enterprises were submitted for audit and had been discussed during the Commission meeting on February 19, 2019. Only one of the communal enterprises, "Komunalnyky Community-Owned Enterprise" has been audited by the State Audit Service.

171. **None of the 11 communal enterprises meet the PEFA framework definition of a public corporation.** 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 Not Applicable (N/A)".

172. **Based on the analysis and supporting evidence the score for this dimension is N/A.**

10.2 Monitoring of subnational government

Performance level and evidence for scoring the dimension

173. **The annual financial reports of the lower-tier of the Khmelnytskyi oblast administration have been prepared by the State Treasury Office at the oblast level according to the forms approved (financial and budget)**²⁸. The SAS²⁹ of Ukraine is responsible for controlling the local budgets in particular 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 audited only 4 of the lower-tier SNGs with direct financial relationship to the Khmelnytskyi OSA, which account for less than most of the total oblast expenditure (materiality as measured by the PEFA framework).

Table 10.2. Lower tier of the Khmelnytskyi oblast administration audited by SAS

1	State financial audit of the execution of local budgets of Yarmolynetsky rayon for 2012-2014 and 9 months of 2015 (<i>report is not uploaded on the SAS site</i>)
2	State financial audit of execution of Novoushytsk's rural budget (<i>amalgamated rural community</i>) for 2016-2017/ May 3, 2018 http://dkrs.kmu.gov.ua/kru/doccatalog/document?id=139133
3	State financial audit of the execution of the Letichivsk rural budget (<i>amalgamated territorial community</i>), covering period from Jan.1, 2016 through June 30, 2018/ date – Sept 26, 2018 http://dkrs.kmu.gov.ua/kru/doccatalog/document?id=142898
4	State financial audit of the execution of the budget of Polonsk (urban amalgamated territorial community), covering period from Jan.1, 2016 through Sept 30, 2018/ date – Dec 21, 2018 http://dkrs.kmu.gov.ua/kru/doccatalog/document?id=144979

174. **The head of the State Treasury Office at the oblast level prepares the consolidated report of local budgets of Khmelnytskyi oblast and publish it annually on its website within nine months of the end of the fiscal year.** The address of the website is <https://khm.treasury.gov.ua/ua/file-storage/richna-zvitnist>.

175. **Only 4 of the lower-tier SNGs with direct financial relationship have been audited while all have financial statements published within nine months of the end of the fiscal year.**

176. **Based on the analysis and supporting evidence the score for this dimension is C.**

10.3 Contingent liabilities and other fiscal risks

Performance level and evidence for scoring the dimension

177. **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 SNG quantifies significant contingent liabilities in their financial reports. As stated in the PEFA 2016 Framework (p. 34) significant contingent liabilities are

²⁸ As stipulated in the Article 80 of the Budget Code,

²⁹ 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 of Ukraine (Parliamentary control), and sub-divisions on internal audit of the spending units. In the system of state financial control, each of the above-listed bodies executes functions within the sphere of its authorities specified by the legislation. According to the part 1 of the Clause 1 of the Law of Ukraine "On Accounting Chamber", the Accounting Chamber on behalf of the Parliament of Ukraine 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 of Ukraine "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.

defined as those with a potential cost in excess of 0.5 percent of total budgetary SNG expenditure and for which an additional appropriation by the legislature will be required.

178. **Khmelnyskyi oblast 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), umbrella state guarantees for various types of loans, state insurance schemes, or guarantees to state-owned enterprises.

179. **This dimension is scored N/A.**

PI-11. Public investment management

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

180. **This indicator assesses the economic appraisal, selection, costing and monitoring of public investment projects by the government, with emphasis on the largest and most significant projects.** The assessment is based on the last completed fiscal year (2018) and covers SNG.

181. **Public Investment projects (PIP) can be financed by the oblast budget in different ways.** These types of procedures are summarized below and described in Table 11.1.

- a. Co-financing from the oblast budget of projects for the implementation of which state budget appropriations are allocated within the framework of the State Regional Development Fund (SRDF) (Resolution of Cabinet No. 196 dated March 18, 2015 “Certain Issues of the State Regional Development Fund”, Order of the Ministry for Regional Development, Building and Housing of Ukraine (Ministry for Regional Development) No. 80 dated April 24, 2015 “Issues of Preparation, Evaluation and Selection of Investment Programs and Regional Development Projects that Can Be Implemented at the Cost of the State Regional Development Fund”);
- b. Co-financing from the oblast budget of projects for the implementation of which targeted inter-budgetary transfers as subventions are allocated at the state budget;
- c. Financing by the state budget subvention for construction, reconstruction, repair and maintenance of motor roads. (In 2018, road construction or reconstruction projects were not implemented in Khmelnytskyi oblast. However, it should be mentioned that such projects are to be selected in accordance with the methodology approved by the Order of the Ministry of Infrastructure No. 573/1019 dated September 21, 2012);
- d. Within the framework of the Environmental Protection Fund, for which the regulation and the procedure for planning and financing environmental protection activities from the oblast Environmental Protection Fund are approved by the Khmelnytskyi oblast council decision No. 634 dated May 25, 2017;
- e. Financing of other PIPs from the development budget of the oblast;
- f. Co-financing of PIPs implemented by lower level local budgets of the Khmelnytskyi oblast.

Table 11.1. Procedures for the development, selection and monitoring of an investment project by form of financing

Procedures	Form of PIP financing				
	1. SRDF on the terms of co-financing from the oblast budget	2. Subvention from the state budget for socio-economic development	3. Oblast budget expenditure	4. Subvention from the state budget for the development of the health care system	5. Environmental Protection Fund
Economic analysis of PIP	There are elements of economic analysis in the established form. In practice, this part of the form is not completed as required. Projects are published but not reviewed by an independent body	Not implemented	Not implemented	Implemented	Not implemented
PIP selection	Should be done at the criteria set and published. Not observed in practice.	Allocated without selection, considering an IP's consistency with the strategic documents or areas determined by subvention distribution procedures	Not implemented	Not implemented	Implemented at the criteria set and published.
Costs for PIP implementation	Calculated as part of the economic analysis and not included in the budget documentation. The cost of the project life cycle is not assessed.	Calculated as part of project development and not included in the budget documentation. The cost of the project life cycle is not assessed.			
PIP monitoring	Should be implemented in respect of the funding and physical progress; results should be published	Implemented in respect of financing			
Expenditure/cost					
Expenditure approved, thousand UAH	50,814.0	2,461.8	24,271.3	32,662.9	11,763.1
Expenditure approved – total, thousand UAH	121,973.1				
Portion of expenditure, %	41.7	2.0	19.9	26.8	9.6

3. Assessment of PFM performance

Procedures	Form of PIP financing				
	1. SRDF on the terms of co-financing from the oblast budget	2. Subvention from the state budget for socio-economic development	3. Oblast budget expenditure	4. Subvention from the state budget for the development of the health care system	5. Environmental Protection Fund
Cost of PIP, thousand UAH	405,588.7	11,570.5	70,076.4	41,573.1	11,763.1
Cost of PIP – total, thousand UAH	540,571.8				
Specific weight of the largest IPs, %	75.0	2.1	13.0	7.7	2.2

182. **The Budget Code of Ukraine does not contain the term “major investment project”.** Therefore, 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 SNG units, measured by the units’ investment project expenditure. In 2018 only one public investment project can be identified as the major investment project based on the PEFA methodology: “Construction of medical and diagnostic building of Khmelnytskyi oblast Hospital for Children located at the address 94, Kamjanetskiy str., city of Khmelnytskyi” for the total cost of UAH 338.1 million, implemented by the Department of Health of the OSA. The project was co-financed by SRDF. The oblast budget financed UAH 30 million while SRDF financed UAH 10 million in 2018.

Summary of scores and performance table

Indicator/dimension	Scoring Method M2 (AV)	
	2019 Score	Brief justification for score
PI-11. Public investment management	D+	
11.1. Economic analysis of investment proposals	D	Economic analysis of a major investment project financed from the oblast budget was not conducted
11.2. Investment project selection	A	A major investment project was selected as per published standard criteria
11.3. Investment project costing	D	Total capital cost of a major investment project with a year-by-year breakdown was included into the project proposal submitted for selection but was not included into budget documentations even for the forthcoming budget year. That cost was included at the later stage though changes to the 2018 oblast budget, once SRDF completed the selection procedure. Estimation of recurrent costs was not calculated
11.4. Investment project monitoring	D	Monitoring of financial aspects of a major investment project was conducted but did not include information about physical progress. The monitoring report was not published in 2018

11.1 Economic analysis of investment proposals

Performance level and evidence for scoring the dimension

183. **The economic analysis of public investment projects being implemented within the SRDF and co-financed from the oblast budget must be conducted in accordance with the relevant law.** The form of public investment projects and Terms of Reference for public investment projects are to be within the framework of the SRDF established by the Order of the Ministry for Regional Development No. 80 dated April 24, 2015 “Issues of Preparation, Evaluation and Selection of Investment Programs and Regional Development Projects that can be Implemented at the Expense of the State Regional Development Fund”. To help project developers, the Ministry for Regional Development has published on its website the Guidelines to Complete the Investment Program, Regional Development Project Form and to Apply the State Regional Development Fund’s Financing. This form contains elements of economic analysis and provides, among other things, for the following: an estimated population that will benefit from the implementation of public investment projects; expected quantitative and qualitative results (including efficiency); key activities and cost of public investment projects. 184. The Hospital for Children investment project was developed under the established form and published on the website of the Ministry for Regional Development. However, the expected outcomes and estimated economic efficiency were not prepared. The investment project was examined by independent bodies – regional commission for evaluation and preliminary competitive selection of investment programs and projects for regional development, that can be implemented under funds of SRDF³⁰, and the Ministry for Regional Development before selecting projects to be financed from the state budget.

185. **In addition, this major PIP was included in the budget after the approval of the oblast original budget, in the course of budget execution.** The major investment project to be included in the oblast budget, the expenditures for its financing from the SRDF shall be included in the state budget. Since that happened after the beginning of the budget year, appropriate changes to the oblast budget were made to include the major project.

186. **The economic analysis of the major PIP was not made.**

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

11.2 Investment project selection

Performance level and evidence for scoring the dimension

188. **The Hospital for Children investment project was selected in two stages.** The first stage was carried out by the regional (oblast) commission in accordance with the established and published criteria. Under the Order of the Ministry for Regional Development No. 80 dated April 24, 2015, the regional commission should publish the announcement on the selection for the next planning year on the official website of the oblast administration and the SRDF’s page on the official website of the Ministry for Regional Development. The same order establishes a form for evaluating investment programs and regional development projects, which can be implemented out of the state regional development fund. This form provides for the evaluation by the members of the regional commission (when the evaluation is conducted by at least five members of the regional commission) following standardized criteria. The evaluation also involves a point scale and the number of points given by each member of the commission under each criterion. According to the selection results, the OSA submits a list of winning projects to the Ministry for Regional Development.

189. **At the second stage, the interagency commission established by the Ministry for Regional Development assesses the compliance of investment projects with legal requirements.** That commission includes members of the Verkhovna Rada Committee on Budget (at least 50 percent of that commission). Following the assessment of an IP’s compliance with legal requirements, the Ministry for Regional

³⁰ A regional commission is established according to the requirements of the Cabinet Resolution № 196 dated March 18, 2015, a sample Regulation on establishment of such commissions was approved by the Decree of the Ministry of Regional Development № 74 dated April 17, 2015.

Development should, by August 1 of the year preceding the planned one, submit a list of projects to the Cabinet for approval of the allocation of SRDF's funds. However, in practice, the list of projects is approved by the Cabinet after the beginning of the fiscal year. In 2018 the described procedure for project selection was adhered to.

190. **The major investment project was selected using standard criteria.**

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

11.3 Investment project costing

Performance level and evidence for scoring the dimension

192. **Total capital cost of the Hospital for Children investment project with a year-by-year breakdown is estimated as part of the project proposal submitted to the selection committee.** The template of the project proposal, within the framework of the SRDF established by the Order of the Ministry for Regional Development No. 80 dated April 24, 2015, stipulates that the total project cost includes both capital and recurrent costs for the three years implementation period. Nevertheless, the recurrent cost needed for subsequent implementation of the project was not calculated.

193. **Expenditure on the implementation of the Hospital for Children was not included in the budget documentation at the stage of the budget planning and approval by the oblast council.** As mentioned under dimension 11.1, expenditures for major investment project implementation were included in the budget in the course of the budget execution through changes approved by the oblast council.

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

11.4 Investment project monitoring

Performance level and evidence for scoring the dimension

195. **The project implementer monitored some financial aspects of the Hospital for Children investment project although its physical progress was not monitored.** The report for 2018 was not published, while a 2019 report provided only two figures related to planned financing and actual disbursement. All PIPs implemented within the framework of SRDF should be monitored by the applicant in terms of both financing and physical process, as stipulated in the legislation³¹. On a quarterly basis, by the 10th day of the month following the reporting month, the applicant should publish a report with monitoring findings on the website of the Ministry for Regional Development in the prescribed form together with photos and summarized analytics on the main results achieved over the reporting period. In 2018 such a report was not published on the website of the Ministry of Regional Development.

196. **Monitoring of financial aspects of the major investment project was conducted but did not include information about physical progress.**

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

PI-12. Public asset management

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

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

³¹ Resolution of Cabinet No. 196 dated March 18, 2015 "Certain Issues of the State Regional Development Fund".

of the SNG, and for dimension 12.3 it is budgetary and extrabudgetary units of the SNG for financial assets, and budgetary units of the SNG for nonfinancial assets.

Summary of scores and performance table

Indicator/dimension	Scoring Method M2 (AV)	
	2019 Score	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 at the oblast level, with no control from the Khmelnytskyi oblast administration.
12.2. Non-financial asset monitoring	N/A	The records on nonfinancial assets are maintained by the central government with no control from the Khmelnytskyi oblast administration.
12.3. Transparency of asset disposal	C	Procedures and rules for the transfer and disposal of nonfinancial assets are established. However, there is no acknowledgment of any 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

199. **The major categories of the financial assets held by Khmelnytskyi oblast administration as stated in the annual financial statements prepared by state Treasury office at the oblast level include cash, receivables owned by the SNG, and equities in shared communal enterprises.** All financial assets are listed at fair value.

200. **The records on the financial holdings are maintained by the state Treasury office at the oblast level, with no control from the Khmelnytskyi oblast administration.**

201. **Per the 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

202. **Records on nonfinancial assets of the Khmelnytskyi oblast administration are maintained by the central government with no control from the oblast.** The State Property Fund of Ukraine 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 assets³², (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.

203. **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”.**

204. **Therefore, based on the analysis and the supporting evidence the score for this dimension is N/A.**

³² The Consolidated Register of Property Objects contains information about more than 1 million state property objects.

12.3 Transparency of asset disposal

Performance level and evidence for scoring the dimension

205. **The procedures and rules for the transfer or disposal of nonfinancial assets established at the national level are also applicable at the subnational levels.** The Law “On Privatization of State and Municipal Properties #386” was adopted on January 18, 2018 #2269-VIII, by the Verkhovna Rada. On May 10, 2018, the Government of Ukraine approved a number of by-laws aimed at the implementation of Law #2269-VIII: #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”; and #351 “On Approval of the Procedure for Monitoring the Effectiveness of Asset Management”).

206. **No transfer or disposal occurred during fiscal year 2018.** There is no acknowledgment of any transfer or disposal of assets in the state 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”.

207. **Therefore, based on the analysis and the supporting evidence the score for this dimension is C.**

PI-13. Debt management

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

208. **This indicator assesses the management of domestic and foreign debt and guarantees.** It seeks to identify whether satisfactory management practices, records and controls are in place to ensure efficient and effective arrangements. Time period for the assessment: for dimension 13.1 it is at time of assessment (September 2019); for dimension 13.2, it is based on the last completed fiscal year, 2018, and for dimension 13.3, at time of assessment (September 2019), with reference to the last three completed fiscal years, 2016 to 2018. Coverage is SNG.

209. **Before late 2018, only the Autonomous Republic of Crimea and cities had the right to borrow and underwrite guarantees at the subnational level of government.** The legislation has specified mechanisms for procedures and for accounting for relevant transactions.

210. **All subnational borrowings must be endorsed by the Ministry of Finance of Ukraine.** This is a requirement of the Subnational Borrowing Procedure (Resolution of the Cabinet No. 110 of February 16, 2011). A similar procedure has been established for underwriting subnational guarantees (Subnational Guarantee Underwriting Procedure, Resolution of the Cabinet No. 541 of May 14, 2012).

211. **The reports on the subnational debt and the underwritten subnational guarantees are generated by the State Treasury Service on a quarterly and annual basis in accordance with Order of the Ministry of Finance of Ukraine No. 12 of January 17, 2019.** The reports cover the details of the debt service, the existing debt obligations and underwritten guarantees, as well as details of the performed transactions.

212. **The Ministry of Finance maintains a register of subnational borrowings and subnational guarantees.** The procedure for its maintenance has been specified by Order of the Ministry of Finance of Ukraine No. 866 of July 25, 2012. The information from the Register is published on the Ministry of Finance's official website quarterly by the 15th day of the month, which follows the reporting month. The Treasury and the Ministry of Finance reconcile debt accounts in real time.

Summary of scores and performance table

Indicator/dimension	Scoring Method M2 (AV)	
	2019 Score	Brief justification for score
PI-13. Debt management	N/A	
13.1. Recording and reporting of debt and guarantees	N/A	Khmelnyskyi oblast did not engage in subnational borrowing and guarantee transactions during the period under review because oblast councils were vested with the right to do so at the end of the year 2018
13.2. Approval of debt and guarantees	N/A	Khmelnyskyi oblast did not engage in subnational borrowing and guarantee transactions because oblast councils were vested with the right to do so at the end of the year 2018
13.3. Debt management strategy	N/A	Khmelnyskyi oblast has not had any debt management strategy or target ranges for borrowing indicators as of September 2019, because oblast councils were vested with the right to raise subnational borrowings and issue subnational guarantees no sooner than at the end of the year 2018

13.1 Recording and reporting of debt and guarantees

Performance level and evidence for scoring the dimension

213. **Khmelnyskyi oblast had not engaged into subnational borrowings and guarantees transactions during the assessed period because oblast councils did not have the legal right to conduct such transactions.**

214. **Therefore, this dimension is not applicable to the oblast budget level – N/A.**

13.2 Approval of debt and guarantees

Performance level and evidence for scoring the dimension

215. **Khmelnyskyi oblast did not engage in subnational borrowing and guarantee transactions because oblast councils were vested with the right to do so at the end of 2018.**

216. **Therefore, this dimension is not applicable to the oblast budget level – N/A.**

13.3 Debt management strategy

Performance level and evidence for scoring the dimension

217. **Khmelnyskyi oblast does not have currently any debt management strategy or target levels for borrowing indicators.** Oblast councils were vested with the right to borrow and issue subnational guarantees only at the end of 2018.

218. **Therefore, this dimension is not applicable to the oblast budget level – N/A.**

Recent or ongoing reform activities

219. **With amendments introduced in the Budget Code on November 22, 2018, oblast councils were vested with the right to underwrite subnational guarantees and borrow by obtaining credit facilities (loans) from international financial institutions.** The Subnational Borrowing Procedure and the Subnational Guarantee Underwriting Procedure were amended accordingly in 2019.

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

220. 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 SNG 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: SNG.

Summary of scores and performance table

Indicator/dimension	Scoring Method M2 (AV)	
	2019 Score	Brief justification for score
PI-14. Macroeconomic and fiscal forecasting	B	
14.1. Macroeconomic forecasts	N/A	OSA has no capacity to forecast regional GDP. 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. However, the document did not include explanations of the main differences from the forecasts made in the previous year's budget
14.3. Macro-fiscal sensitivity analysis	N/A	Three scenarios are developed as part of the oblast budget process: best case, no change and realistic (central). These scenarios are prepared for the budget but were not a part of the budget documentation. However, the OSA 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

221. Macroeconomic forecasts related to the oblast budget were prepared by the Department of Economic Development, Industry and Infrastructure of OSA and covered a budget year and two following fiscal years. The Financial Department of OSA used those forecasts for planning the main sources of oblast budget revenues, other than inter-governmental transfers, including a share of personal income tax and company tax collected in the oblast. Economic performance in the oblast territory is a key determinant of the revenues from these two taxes. The Economic Development, Industry and Infrastructure Department carries out surveys of 2,000 businesses in the oblast 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.

222. **The revenue part of the oblast budget for 2019 is prepared based on the current Tax and Budget Codes of Ukraine and other regulations considering the actual tax base.** When preparing a forecast for the revenue of the oblast budget for 2019 the following were considered:

- 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 tax legislation regarding indexation of tax rates, presented in absolute value, in particular for environmental tax;
- Actual fulfillment of the revenue part of the budget according to the results of 2015-2017 and current year revenues;
- Current tax base (for 2018).

Table 14.1. Forecast of oblast social and economic development for 2019

Name of the indicator	2019
Sales of industrial products (UAH million)	44,775.0
Industrial production index (%)	100.1
CPI (annual average change)	7.2
Agricultural production index (annual percentage change)	1.0
Wage fund for the workers, employees, staff in agriculture, small and medium-size enterprises (excluding servicemen) (UAH million)	24,964.5
Average monthly salary of employees (UAH)	8,473
Foreign direct investment (US\$ million)	170.3
Foreign direct investment (annual percentage change)	1.8
Volume of exports (US\$ million)	703.4
Volume of exports (annual percentage change)	20.0
Volume of imports (US\$ million)	455.2
Volume of imports (annual percentage change)	5.0

Source: Department of Economic Development, Industry and Infrastructure of OSA.

223. **The forecasts for the planned 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 oblast Finance Department as part of the budget preparation process. However, the OSA does not forecast regional GDP, using instead GDP growth, inflation and interest rates forecast by the MoE.

224. **This dimension is not applicable.**

14.2 Fiscal forecasts

Performance level and evidence for scoring the dimension

225. **The budget prepared by the Finance Department and submitted to the oblast council includes expenditure and revenues for the budget year and the following two years.** Revenues are presented by type – transfers, personal income tax and company tax, which are the only source of oblast 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. The document did not include explanations of the main differences from the forecasts made in the previous year's budget.

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

14.3 Macro-fiscal sensitivity analysis

Performance level and evidence for scoring the dimension

227. **The Department of Economic Development, Industry and Infrastructure of OSA prepared three scenarios of macroeconomic forecasts which are used for budget planning: best case, no change and realistic (central).** When calculating scenarios, the OSA considers a national level macroeconomic forecast by applying its assumptions for factors relevant to the oblast. These scenarios were prepared for the budget but were not a part of the budget documentation.

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

229. **This dimension is not applicable.**

PI-15. Fiscal strategy

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

230. **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 and for dimensions 15.2 and 15.3: the last completed fiscal year. Coverage is SNG.

Summary of scores and performance table

Indicator/dimension	Scoring Method M2 (AV)	
	2019 Score	Brief justification for score
PI-15. Fiscal Strategy	C+	
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
15.2. Adoption / Approval of Fiscal Strategy	C	The oblast 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 oblast. The published budget passed by the council includes the fiscal balance for the budget year only
15.3. Reporting of fiscal results	A	The oblast administration 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

231. **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 oblast 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.

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

15.2 Fiscal strategy adoption

Performance level and evidence for scoring the dimension

233. **The oblast³³ 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 oblast. 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. Information for the budget year is only included in the budget that has been adopted by the council.

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

15.3 Reporting of fiscal results

Performance level and evidence for scoring the dimension

235. **The oblast administration prepares and publishes a budget execution report which is submitted to the council.** This includes details of the fiscal balance.

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

Recent or ongoing reform activities

237. **Starting in 2019 oblast councils are allowed to borrow from international financial organizations (for development budget needs).** As amended in December 2018, article 75-1 of the Budget Code obligates local executive authorities to approve local budget forecasts before September 1st (before drafting local budget) starting from 2020. The forecast between others should contain: general ceiling indicators of revenue, expenditures, financing; and fiscal deficit and local and guaranteed debt for the budget year and the two following fiscal years. The mentioned article of the Budget Code also establishes the conditions under which differences from the forecasts made in the previous budget years are allowed.

PI-16. Medium-term perspective in expenditure budgeting

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

238. **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, 2018. For dimension 16.4, the last budget submitted to the legislature 2018, and the current budget 2019. The coverage is budgetary SNG.

Summary of scores and performance table

Indicator/dimension	Scoring Method M2 (AV)	
	2019 Score	Brief justification for score
PI-16. Medium term perspective in expenditure budgeting	D+	

³³ Along with all subnational entities in Ukraine (PI-13).

Indicator/dimension	Scoring Method M2 (AV)	
	2019 Score	Brief justification for score
16.1. Medium-term expenditure estimates	D	KSU's calculations to the annual budget present estimates of expenditure for the budget year allocated by administrative classification and for the two following fiscal years – by functional classification. The oblast Department of Finance does not reflect this level of detail in the budget documentation
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 oblast administration 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 internal strategies which are linked to the oblast'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

239. **The first year of annual budget relates to the upcoming budget year and the following two years.** The budget document provides expenditure details of programs and economic categories by each spending unit (Education and Science, Health Care, etc.). It projects spending by functions to the following two years, annually. The 2019 budget covers 2019, 2020 and 2021. KSUs present these detailed calculations at meetings of the standing committees of the oblast council when discussing indicators of the draft budget, but the oblast Department of Finance does not reflect this level of detail in the budget documentation. The annual budget presents estimated expenditure for the budget year allocated by administrative classification and for the two following fiscal years – by functional classification.

240. **The forward years only contain estimated expenditure at the functional level only.**

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

16.2 Medium-term expenditure ceilings

Performance level and evidence for scoring the dimension

242. **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 oblast administration at the time of the circular but only at the time of the finalization of the budget.

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

16.3 Alignment of strategic plans and medium-term budgets

Performance level and evidence for scoring the dimension

244. **Medium-term budget programs are key elements of performance program budgeting which were introduced in the oblast according to the Budget Code of Ukraine. Programs' structure specifies**

Key Performance Indicators (see PI-8). Annual expenditure is allocated to each program broken down by economic categories that are the inputs to realize the outputs and outcomes. Each service delivery unit's program – both financial and non-financial elements – is based on an internal strategy which is linked to the oblast's overall development strategy. The assessment team was able to review the strategy of the Culture Department, the Education Department and the Social Protection Department.

245. **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 of mid-term budget programs by KSUs, there were no approved mid-term budgets.

246. **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

247. **No medium-term budget has been adopted during the assessed period.**

248. **This dimension is not applicable.**

Recent or ongoing reform activities

249. **The next budget preparation will be based on ceilings that are approved by the oblast administration prior to the ceiling being issued.**

PI-17. Budget preparation process

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

250. **The indicator evaluates the effectiveness of stakeholder engagement in the budget preparation process, including political leadership, and whether that participation is orderly and timely.** The time period for dimensions 17.1 and 17.2 is the last budget submitted to the legislature and for 17.3 the last three completed fiscal years (2016, 2017, and 2018). Coverage is Budgetary SNG.

Summary of scores and performance table

Indicator/dimension	Scoring Method M2 (AV)	
	2019 Score	Brief justification for score
PI-17. Budget Preparation Process	D+	
17.1. Budget calendar	C	There is an established budget calendar. The budget circular is issued in October and spending units are given less than four weeks to prepare their budgets. All KSUs can complete their detailed estimates on time
17.2. Guidance on budget preparation	C	A clear and comprehensive budget circular is issued. The budget estimates are approved by the oblast administration after budget requests been completed by KSUs
17.3. Budget submission to the legislature	D	The draft budget has been submitted to the oblast council less than one month before the start of the fiscal year in each of the last three years

17.1 Budget calendar

Performance level and evidence for scoring the dimension

251. **There is an established budget calendar which is generally adhered to.** The key deadlines of the budget calendar for 2019 are given in Table 17.1.

Table 17.1. Budget calendar for the last budget submitted to the legislature

Activity	Planned date	Actual date
Providing KSUs with aspects of calculations for the draft oblast budget and forecast volumes of intergovernmental transfers for the planning year	August – September, 2018	August 4, 2018
Preparation of proposals to the draft state budget in part of intergovernmental transfers and submission them to the MoF	August – October, 2018	August 29, 2018
Providing local financial authorities with indicative estimates of intergovernmental transfers and information on the Methodology used for their calculation	August – October, 2018	September 24, 2018
Providing KSUs with indicative estimates of intergovernmental transfers and information on the Methodology used for their calculation	August – October, 2018	October 10, 2018
Providing Financial Department with the mid-term forecast of the economic and social development indicators	August – October, 2018	November 15, 2018
Providing KSUs with instructions for the preparation of budget requests, budget ceilings and budget circular	October, 2018	Instruction – September 28, Budget ceilings and budget circular – October 10, 2018
Budget requests submission to the Financial Department	November, 2018	October 22, 2018
Preparation the draft oblast budget and its submission to the OSA	December, 2018	December 3, 2018
Submission the draft oblast budget to the oblast council	December, 2018	December 6, 2018

252. **The budget circular is issued in October and spending units are given less than four weeks to prepare their budgets.** After the KSUs submit their spending proposals, the Finance Department holds meetings with each KSU and a budget is determined based on the final agreed ceilings. After this a draft budget is prepared and then approved by the oblast administration. As preparation for the budget cycle each KSU reviews the past years performances an aid to determine is budget proposals.

253. **Spending units are given less than four weeks to prepare their budgets.**

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

17.2 Guidance on budget preparation

Performance level and evidence for scoring the dimension

255. **The Finance Department provides KSUs information on key indicators relating to the budget in addition to expenditure ceilings.** The circular defines broad areas of budget policy that must be observed in the budget process as well as the total budget. For instance, the budget circular for the preparation of the 2019 budget contained data for the planning year and two subsequent years, such as the minimum salary of employees of spending units, the level of the salary of a grade I employee under the Unified Grade Scale, the minimum subsistence level, the consumer price index growth factor, the utility and energy bill growth indicators. On the basis of these data, KSU carried out detailed estimates at the level of each spending units in terms of the economic category (including utility and energy expenses broken down by type, salaries

broken down into obligatory and supplementary payments, and changes in the manpower).

256. **However, the budget estimates are approved by the oblast administration after budget requests have been completed by KSUs.**

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

17.3 Budget submission to the legislature

Performance level and evidence for scoring the dimension

258. **According to the Article 75 BCU, within a week from the day of adoption of the draft law on the State Budget of Ukraine in the second reading, the Cabinet submits to the subnational administration information for budget preparation.** This includes the amount of interbudgetary transfers for the respective budgets and text articles, as well as organizational and methodological requirements for drafting local budgets. This information is the basis for local state administrations and local executive authorities to draft local budgets and prepare draft relevant local budgets.

259. **Draft laws on the State Budget of Ukraine for the upcoming years were adopted in whole in the second reading: for 2016 on December 21, for 2017 on December 07, and for 2018 on November 23³⁴.** The oblast administration submitted draft budgets to the oblast council depending on these dates, with the exception of 2016 when the administration submitted the draft budget earlier, due to a significant delay in the adoption of the second reading of the state budget.

260. **The actual dates the draft budgets were submitted to the oblast council are shown in Table 17.3.**

Table 17.3. Actual dates of budget submission

Fiscal year	Actual date of submission
2016	December 12 (Budget for 2017)
2017	December 11 (Budget for 2018)
2018	December 06 (Budget for 2019)

261. **The draft budget was submitted to the oblast council less than one month before the start of the fiscal year in each of the last three years.**

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

Recent or ongoing reform activities

263. **The amendments to the Budget Code of Ukraine of November 22, 2018, specify new requirements for the development of a subnational budget forecast.** These requirements may support bringing scores under dimensions 17.1 and 17.2 to "A." It is because the above-mentioned forecast will specify spending ceilings for spending units and will be approved by the oblast administration by August 15 of the year preceding the planning year. This time frame will make it possible for key spending units to start developing budget proposals more than six weeks ahead of their submission. For a higher score, however, the oblast administration must also send on time the additional information that the key spending units need for their calculations during the development of budget proposals.

264. **The Budget Code provides for the application of such rules for the subnational budget forecast development effective January 1, 2020.**

³⁴ According to the Article 158 of the Regulations of the Verkhovna Rada of Ukraine (Law No 1861 dated February 10, 2010) the draft law on the State Budget of Ukraine for the upcoming year should be adopted in the second reading no later than November 20 of the year preceding the planned one.

PI-18. Legislative scrutiny of budgets

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

265. **This indicator assesses the nature and extent of legislative scrutiny of the annual budget.** It considers the extent to which the legislature scrutinizes, debates, and approves the annual budget, including the extent to which the legislature's procedures for scrutiny are well established and adhered to. Time period: last completed fiscal year (2018) for 18.1, 18.2 and 18.4. For 18.3 - last three completed fiscal years (2016, 2017 and 2018). Coverage: Budgetary SNG.

Summary of scores and performance table

Indicator/dimension	Scoring Method M1 (WL)	
	2019 Score	Brief justification for score
PI-18. Legislative scrutiny of budget	B+	
18.1. Scope of budget scrutiny	B	The standing committee on Budget and finance of the oblast council considers in detail the estimates for the planned year, prepared for the draft budget. Medium-term forecasts are not considered
18.2. Legislatives procedures for budget scrutiny	B	The timetable for consideration of the draft oblast budget for 2019 at the oblast council was approved by Khmelnytskyi oblast council order. Members of the public may attend meetings related to the draft oblast budget without the right to come up with proposals
18.3. Timing of budget approval	A	The oblast 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	B	In some cases, the Budget Code allows redistributing the expenditure without amending the oblast budget throughout a year. There are clear rules for this redistribution that are always respected. At the same time, there are no clear limits established on the amount of amendments. Thus, significant administrative redistribution may be allowed

18.1 Scope of budget scrutiny

Performance level and evidence for scoring the dimension

266. **The Standing Committee on Budget and Finance of the oblast council reviews in detail the estimates of expenditure for the planned year prepared for the draft budget.** Its members have experience in various budget-related sectors such as education, healthcare, agriculture, and finance. Key spending units are invited to the meeting to explain and substantiate their expenditure proposals for the planned year and present detailed calculations. If a KSU has not fully utilized the funds allocated in the previous year, then this issue is carefully considered and the expenditure of that KSU may be reduced in the draft budget. Medium-term forecasts are not considered.

267. **In reviewing the revenue of the draft budget, the Standing Committee on Budget and Finance of the oblast council reviews the detailed calculations by type of revenue included in the explanatory note to the draft budget.** A medium-term revenue forecast is not considered. SNGs at the oblast level do not have enough autonomy to formulate fiscal policy. Tax rates are set at the state level, and as of the end of 2018, oblast councils were not authorized to borrow.

268. **The Standing Committee on Budget and Finance of the oblast council reviews in detail the estimates of expenditure and revenue for the planned year only.**

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

18.2 Legislative procedures for budget scrutiny

Performance level and evidence for scoring the dimension

270. **Regulation on standing committees of Khmelnytskyi oblast council sets forth the powers which in particular establish certain budget scrutiny procedures³⁵.** For instance, several sectoral standing committees are duly authorized to draw up opinions and recommendations on draft oblast budgets, and the Standing Committee on Budget and Finance – to summarize these proposals and submit relevant opinions and recommendations to the council for consideration. The OSA sends a draft budget to the oblast council one month before the deadline for its adoption. The timetable for consideration of the draft oblast budget for 2019 at the oblast council was approved by Khmelnytskyi oblast council order № 172/2018-o dated October 16, 2018. In 2018, procedures were adhered to.

271. **Consultations with the public are not expected and not held, although all meetings of the standing committees and plenary meetings of the oblast council are open to the public.** Meeting announcements are published on the oblast council’s website in addition to the published standing committee meeting schedule. Representatives of mass media and the public may be present at the meetings when reviewing the draft budget (video records of such meetings serve as evidence thereof), but do not have the right to make proposals.

272. **Regulation on standing committees of Khmelnytskyi oblast council sets forth the budget scrutiny procedures but does not include public consultation.**

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

18.3 Timing of budget approval

Performance level and evidence for scoring the dimension

274. **Oblast budgets in each of the three assessed periods were adopted by the oblast council before the commencement of the fiscal year.** The actual budget approval dates for the last three full fiscal years are given in Table 18.3.

Table 18.3. Actual dates of budget approval

Fiscal year	Actual date of approval
2017	23 December (budget for 2017)
2018	22 December (budget for 2018)
2019	21 December (budget for 2019)

275. **The budget was approved before the start of the fiscal year in each of the past three years.**

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

18.4 Rules for budget adjustments by the executive

Performance level and evidence for scoring the dimension

277. **The Budget Code allows local finance authorities to redistribute budget allocations throughout a year without amending the budget in certain defined circumstances.** Some of these amendments should be approved by the permanent Budget and Finance Committee of a local council. A local finance authority may adjust the budget expenditure without amending the budget under the following circumstances:

- Increase of own revenues and expenditure of budget spending units (conducted by the local finance authority upon the reasoned requests of key spending units);

³⁵ Approved by decision of the Khmelnytskyi oblast council No. 8-1/2015 dated 4 December 2015.

- Powers to make expenditure are transferred from one KSU to another one in accordance with the law (transfer is conducted by decision of the OSA coordinated with the permanent Budget and Finance Committee);
- Redistribution of budget allocations approved in the budget implementation sheet and estimate in terms of the economic classification of budget expenditure (by lending classification for granting loans from the budget) within the total budget allocations for the KSU under the budget program (conducted by the local financial authority upon the reasoned request of KSU);
- Redistribution of budget expenditure and lending from the budget under budget programs within the total amount of budget allocations of KSU (conducted by decision of the OSA coordinated with the Budget and Finance Committee);
- Distribution of expenditure of the budget reserve fund, additional subsidies and subventions as well as an increase in development expenditure following a reduction in other expenditure (conducted by decision of the local financial authority coordinated with the Budget and Finance committee).

278. **In other cases, amendments to budget allocations require amendments to the local budget by the relevant local council** (see PI – 21.4).

279. **The Budget Code sets out only a list of expenditures whose increase is prohibited.** It includes budget allocations for wage by reducing other expenditure; expenditure on budget programs related to the functioning of governmental authorities through the reduction of expenditure on other budget programs.

280. **Clear limits are not established for the amount of the amendments. Thus, significant administrative redistributions may be possible.**

281. **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

282. 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. These 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 SNG revenues. The assessment period for dimension 19.1 and 19.2: At time of assessment. For dimension 19.3 and 19.4: Last completed fiscal year, 2018. Coverage - SNG.

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

- the SNGs raise revenues according to their own administrative arrangements,
- the subnational revenues are collected on behalf of the SNG by a higher level revenue authority if the SNG has full control of the revenues and of how the overall revenue management is carried out,
- and is not applicable when:
 - the SNG raises revenue through only user fees and charges that are related to a specific service provided by the SNG (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.

284. The State Fiscal Service collects and administers revenues in Ukraine, including major revenues of local governments. Based on the Government's Resolution # 106 dated February 16, 2011, the SFS Office controls the collection of 76 percent of the oblast 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 Company Tax. Oblasts other than city of Kiev do not collect property tax. Property tax and land tax and fees from rent and licenses which are related to rayons and ATC are also collected by the State Fiscal Services.

285. This indicator is not applicable.

Summary of scores and performance table

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

19.1 Rights and obligations for revenue measures

Performance level and evidence for scoring the dimension

286. The dimension is not applicable.

19.2 Revenue risk management

Performance level and evidence for scoring the dimension

287. The dimension is not applicable.

19.3 Revenue audit and investigation

Performance level and evidence for scoring the dimension

288. The dimension is not applicable.

19.4 Revenue arrears monitoring

Performance level and evidence for scoring the dimension

289. The dimension is not applicable.

PI-20. Accounting for revenue

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

290. 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 SNG. The assessment period is at time of the assessment.

Summary of scores and performance table

Indicator/dimension	Scoring Method M1 (WL)	
	2019 Score	Brief justification for score
PI-20. Accounting for revenue	A	
20.1 Information on revenue collections	A	There is a monthly revenue report to the oblast administration detailing the revenue statistics with an explanation
20.2. Transfer of revenue collections	A	Tax revenue is paid into the oblast's revenue sub account daily
20.3. Revenue accounts reconciliation	A	The State Fiscal Service 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 State Fiscal Services 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

291. Each oblast has a revenue sub account in the Treasury Single Account. The State Fiscal Service prepares a report every month on tax payments made into that account. In addition to tax revenue, the oblast receives transfers from the Central Government. There is a monthly report to the oblast administration detailing the revenue statistics with an explanation provided as part of the report.

292. The score for this dimension is A.

20.2 Transfer of revenue collections

Performance level and evidence for scoring the dimension

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

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

20.3 Revenue accounts reconciliation

Performance level and evidence for scoring the dimension

295. **The State Fiscal Service is legally obliged to reconcile transfers to the Treasury Single Account on the fourth day of each month.** This reconciliation follows set procedures using software and is implemented as intended. In addition, the State Fiscal Services operate 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 their own account.

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

PI-21. Predictability of in-year resource allocation

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

297. **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 and Coverage: Budgetary SNG.

Summary of scores and performance table

Indicator/ dimension	Scoring Method M2 (AV)	
	2019 Score	Brief justification for score
PI-21. Predictability of in-year allocation	B+	
21.1. Consolidation of cash balances	A	The oblast's revenue and expenditure are maintained in sub-accounts of the TSA at the National Bank of Ukraine. All sub-accounts are consolidated daily
21.2. Cash forecasting and monitoring	C	At the start of the financial year the oblast's Finance Department prepares the cash forecast for each month based on estimated revenue and expenditure. It is only updated in March and September if revenues are greater than forecast
21.3. Information on commitment ceilings	A	The annual budget is allocated to spending departments on a monthly basis at the start of the year for the whole year
21.4. Significance of in-year budget adjustments	A	In 2018 there were two supplementary budgets and these were voted on in the council

21.1 Consolidation of cash balances

Performance level and evidence for scoring of the dimension

298. **The oblast's revenue and expenditure are maintained in sub-accounts of the TSA at the National Bank of Ukraine.** Under the TSA, the Treasury consolidates the funds of the local budgets (as well as those of the central government) daily.

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

21.2 Cash forecasting and monitoring

Performance level and evidence for scoring of the dimension

300. **At the start of the financial year the oblast's Finance Department prepares the cash forecast for each month based on estimated revenue and expenditure.** If revenue collection is more than the planned forecast by 5 percent or greater adjustment are made after the end of the first quarter. If such adjust is not warranted, a review of revenue is made in September after the third quarter which may lead to a revision for the last three months of the year.

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

21.3 Information on commitment ceilings

Performance level and evidence for scoring of the dimension

302. **The annual budget is allocated to spending departments on a monthly basis at the beginning of the year.** Service delivery units provide their monthly expenditure plan to the Finance Department using a template. This information along with the revenue forecasts are used to determine the monthly commitment ceilings for the current fiscal year and these are approved by Finance Department. Based on this spending units get the full authority to commit and spend during the year.

303. **If there are surplus funds during the year, spending departments can request additional expenditure.** Protected parts of the budget are insulated from revenue shortfall as the Treasury can make short terms (60 days) loans. This facility has not been used in the past 3 years. If, for some reason such as a procurement delay, commitments can be carried over to future months.

304. **Departments can plan their monthly spending at the start of the year.**

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

21.4 Significance of in-year budget adjustments

Performance level and evidence for scoring of the dimension

306. **Typically, there are two supplementary budgets in a year as was the case in 2018.** There is one in March which is used to allocate any budget surplus from the previous year and one in September if revenues have been greater than 15 percent than that forecast. The supplementary budgets are approved by a vote in the council and this vote also approves any virement that has been made (PI-18.4).

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

PI-22. Expenditure arrears

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

308. **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.** For 22.1 the time period: is the last three completed fiscal years (2016, 2017 and 2018) and for 22.2 - at the time of assessment. The coverage is Budgetary SNG.

309. **The Ministry of Finance defines the concept of expenditure arrears and the procedures for their write-off are stipulated in an Order of the Ministry of Finance³⁶.** In accordance with the 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. Accordingly, before this period expenditure arrears are identified as current arrears. 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.

310. **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.

311. **Spending units prepare reports on expenditure arrears in the form established by the Order of the Ministry of Finance³⁷.** This order also regulates the procedure and timing of submissions for such reports.

Summary of scores and performance table

Indicator/dimension	Scoring Method M1 (WL)	
	2019 Score	Brief justification for score
PI-22. Expenditure arrears	B+	
22.1. Stock of expenditure arrears	A	The share of total expenditure arrears for the last three fiscal years was less than 2 percent
22.2. Expenditure arrears monitoring	B	Data expenditure arrears are 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 the dimension

312. **In 2016, the expenditure arrears were 0.17 percent of the oblast budget total expenditure, in 2017 0.003 percent, and in 2018 0.004 percent each (see Table 22.1).** The arrears are accounted for at the level of each spending unit, budget programs and the economic classification of expenditure.

³⁶ Order No. 372 dated April 2, 2014 "On Approval of the Procedure for Accounting of Certain Assets and Liabilities of Budget-Sustained Institutions and Amendment of Certain Regulatory Legal Acts on Bookkeeping of Budget-Sustained Institutions".

³⁷ Order of the Ministry of Finance of Ukraine No. 44 dated January 24, 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".

Table 22.1. Share of expenditure arrears (UAH million)

	FY 2016	FY 2017	FY 2018
i) Stock of expenditures arrears	0.9	0.2	0.3
ii) Total actual expenditure	5,430.0	7,517.7	8,708.7
Ratio (i)/(ii) (%)	0.017	0.003	0.004

313. **Expenditure arrears were below 2 percent of the total expenditure.**

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

22.2 Expenditure arrears monitoring

Performance level and evidence for scoring the dimension

315. **Expenditure arrears are calculated monthly, quarterly and annually³⁸.** Reports present the expenditure arrears as of the beginning and the ending of the reporting year in which the overdue arrears have been allocated, and the arrears whose due date has not occurred. This reporting allows tracking the age of arrears. Moreover, the reporting shows the arrears written off since the beginning of the reporting year.

316. **Spending units generate and submit to the Treasury annually and quarterly a statement on the reasons for the occurrence of overdue expenditure arrears of the general fund.** The statements contain detailed information on the reasons for the occurrence of such arrears. Separately, they generate and submit to the Treasury a statement of expenditure arrears for operations that are not shown in the statement of arrears of budget funds. These, in particular, 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 expenditure arrears for budget commitments not recorded by Treasury bodies³⁹.

317. **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.** The explanatory note indicates and describes: (i) the reasons for the occurrence of overdue 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 recorded by Treasury bodies; (v) the reasons for the occurrence of overdue expenditure arrears and the grounds for their decrease (write-off due to expiry of the limitation period, 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.

318. **The Treasury draws up monthly and annual reports on expenditure arrears and submits them to the Finance Department of OSA.** In accordance with part two of Article 59 of the Budget Code, such monthly reports shall be submitted no later than on the 1st day of the second month following the reporting period (within a term not exceeding eight weeks from the end of the reporting period).

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

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

³⁸ In accordance with the Order of the Ministry of Finance of Ukraine No. 44 dated 24 January 2012.

³⁹ These operations, except for accounts payable for budget obligations not recorded by Treasury bodies, are temporary arrears arising from the peculiarities of accounting or execution of payments and cannot create an additional burden on the budget. At the same time, accounts payable for budget obligations not recorded by Treasury bodies, will bring about an increase in accounts payable after their recording. Their actual assessment is unknown, since the Treasury does not prepare aggregate data for such liabilities, given that they will be included already in the next monthly report on accounts payable. Given that for the "B" score under indicator 22.1 there is a "reserve" of almost the same amount as the accounts payable recorded (about 3 percent of the total expenditure), these data will not reduce the score.

PI-23. Payroll controls

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

321. **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 non-salary internal controls, PI-25. The time period for 23.1, 23.2 and 23.3 is at the time of assessment and for 23.4 is for the last three completed fiscal years (2016, 2017, and 2018) and coverage is SNG.

322. **There are major regulatory documents that determine how primary records on personnel, number of employees and time used are maintained.** These include the Decrees of the State Statistics Committee No. 286 “On Approval of the Instruction on Number of Employees Statistics” (dated September 28, 2005) and Decree No. 489 “On Approval of the Standard Forms for Keeping Records of Labor Statistics” (dated December 5, 2008). The first decree provides for primary records necessary to determine the number of employees, and the second one defines standard forms of such documentation that are not formalized under the applicable laws. These specify standard forms for an employment order, time sheet, pay sheet of an employee and consolidated time sheet. These forms have the status of a recommendation.

323. **The legislation requires that the number of employees of an institution specified in the personnel list should correspond to the payroll.**⁴⁰ Personnel lists and budget of a publicly funded institution are approved by the director of a higher-level institution. The payroll, specified in the personnel list, has to stay within the limits of the institution’s appropriations for remuneration. The personnel list, formalized by Decree of the Ministry of Finance No. 57 “On Approval of Documents Used in the Process of Budget Implementation” (dated January 28, 2002), contains, in particular, the departmental name, number of positions, salaries assigned to positions, and payroll totals for each position. Additionally, the standard form of a personnel list contains the number of full-time employees, fringe benefits and bonuses paid to each employee according to the applicable laws, and monthly payroll.

Summary of scores and performance table

Indicator/dimension	Scoring Method M1 (WL)	
	2019 Score	Brief justification for score
PI-23. Payroll controls	C+	
23.1. Integration of payroll and personnel records	C	The payroll and personnel records are maintained separately and are linked and supported by full documentation that is not fully computerized. The authorization and verification process is done monthly. There is no checking against the previous month’s payroll data
23.2. Management of payroll changes	B	The payroll is updated by the relevant departments to reflect changes in information on personnel based on the relevant orders issued by the institution’s director within period of up to three months. Retrospective payroll adjustments are not made
23.3. Internal control of payroll	A	There are clear and detailed rules and procedures for making changes in personnel and payroll records, which provide for signatures of authorized persons and high-quality audit trail

⁴⁰ Decree of the Cabinet No. 228 “On Approval of the Procedure for Preparing, Reviewing and Approving Publicly Funded Institutions’ Budgets and Key Requirements for their Implementation” dated February 28, 2002.

Indicator/dimension	Scoring Method M1 (WL)	
	2019 Score	Brief justification for score
23.4. Payroll audit	C	Only partial payroll audits have been conducted during the last three financial years. In case of health care institutions (about 50 percent of full-time employees of all institutions), staffing level audits are conducted every 2-3 years as a part of healthcare institution accreditation process. The payroll is audited by the State Audit Service within the framework of regular audits, inspections and verifications. For example, six audits and inspections of educational and healthcare institutions were conducted during the assessment period

23.1 Integration of payroll and personnel records

Performance level and evidence for scoring the dimension

324. **Information on the personnel list and personnel and salaries is recorded separately.** The human resource unit within spending institutions is responsible for keeping personnel records, and the accounting department is in charge of maintaining records of all payments to employees in accordance with the personnel list. Each institution is responsible for keeping personnel and payroll records for its employees. Payroll records are usually maintained in a separate computerized system. Personnel records are maintained in a computerized system. As a rule, information on the personnel list is recorded manually, but some large institutions use a separate computerized system to maintain relevant records covering only about a half of full-time employees of institutions. In small institutions that do not have human resource department, the person in charge of clerical work is responsible for keeping personnel records.

325. **Employees are employed and promoted based on the employment order issued by the director of the relevant institution who is appointed by a decree of the oblast council.** As a rule, an employment or promotion order states that the relevant employee's salary is determined according to the personnel list, approved within the allocated budget. If necessary, the order provides for fringe benefits in addition to the salary, which are within the budget.

326. **Internal documents of institutions, such as job descriptions, require that orders on staff changes are verified for compliance with the approved budget.** The human resource department (or a clerk in the absence of such department) prepares a draft order and checks it with the personnel list, organizes a competition (if necessary) and prepares a draft appointment order based on competition results. The draft order is endorsed by the authorized representative of the accounting service and then signed by the director of the institution.

327. **At the request of the administrator, the director of the superior institution approves the payroll as a part of the personnel list within the limits of the institution's appropriations for remuneration.** The personnel list and annex to it are prepared by the department responsible for accounting that verifies its compliance with the budget. In case of healthcare institutions, the personnel list is pre-approved by the oblast council.

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

329. **The payroll and personnel records are separately maintained but linked and supported by full documentation that is not fully computerized.** The authorization and verification process is done monthly. There is no checking against the previous month's payroll data.

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

23.2 Management of payroll changes

Performance level and evidence for scoring the dimension

331. **Retrospective payroll adjustments are not made.** The human resource department makes changes in personnel records of employees, and the accounting department makes changes in records on salaries based on the relevant orders issued by the institution's director within a period of up to three months.

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

23.3 Internal control of payroll

Performance level and evidence for scoring the dimension

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

334. **Only authorized staff members of the personnel or accounting departments may make changes to the information regarding the staff and salary specified in job descriptions of those persons.** If records are maintained in the relevant information system, the system administrator gives authorized staff relevant user rights. The history of changes that employees make in the automated systems is saved, while the history of changes in the records kept manually is not stored. At the same time, the oblast administrations use paper documents to store data, which can be verified as is the case for all budgetary institutions.

335. **There are clear and detailed rules and procedures for making changes in personnel and payroll records, which provide for signatures of authorized persons and a high-quality audit trail.**

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

23.4 Payroll audit

Performance level and evidence for scoring the dimension

337. **In case of health care institutions (about 50 percent of full-time employees of all oblast institutions), staffing level audits are conducted every 2-3 years as a part of healthcare institution accreditation process.** Such frequency of audits is required by Decree No. 765 of the Cabinet "On Approval of the Healthcare Institution Accreditation Procedure" (dated July 15, 1997), according to which the validity period of the accreditation certificate shall not exceed 3 years.

338. **Illness payments accrued are audited by the Social Insurance Fund once a year.** Compliance with labor legislation is regularly monitored by the Interregional Department of the State Service, Labor Department and Human Resource Service of the oblast administration. Educational institutions recognized as risky are randomly audited by the Competition Committee to assess their staffing levels.

339. **The payroll is audited by the State Audit Service within the framework of regular audits, inspections and verifications.** For example, six audits and inspections of educational and healthcare institutions were conducted during the assessment period. Compliance with staffing requirements, labor costs and charges on payroll were verified by the State Audit Service as a part of these activities. Five out of six au-

dits resulted in detecting violations that had caused property damage (losses) to institutions. The unit of OSA that conducts internal audits did not audit payroll.

340. **Only partial payroll audits have been conducted during the last three financial years.**

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

PI-24. Procurement

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

342. **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) and Coverage: SNG.

Summary of scores and performance table

Indicator/dimension	Scoring Method M2 (AV)	
	2019 Score	Brief justification for score
PI-24. Procurement	B+	
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 oblast contracts are procured through the national ProZorro electronic procurement system and each spending unit of OSA is responsible for accuracy and completeness of information
24.2. Procurement methods	C	Thirty-five percent of the value of the contracts in the oblast in 2018 was conducted using single source procurement and 65 percent 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

343. **All government contracts including the oblast's are procured through the national ProZorro electronic procurement system.** The MoE administers the ProZorro e-platform, while all applications and operations are carried out by designated and trained officials from each spending unit at the central government and at the subnational level. Each spending unit of OSA is in charge of accuracy and completeness of information posted on ProZorro.

344. **Databases or records are maintained for all contracts including data on what has been procured, value of procurement, and who has been awarded contracts.** The accuracy and completeness of information is assessed by SAS' inspections and audits.

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

24.2 Procurement methods

Performance level and evidence for scoring the dimension

346. LPP 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 5,000,000⁴¹. Contracting authorities may use the e-procurement system for the purpose of selection of the supplier, provider and contractor for lower value procurements. Below-threshold procurements are not subject to LPP and are not governed by it, except for the provisions of Article 10 on making procurement information public.

347. The main determinant of compliance for this dimension is 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 the Law on Public Procurement (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. Table 24.2 details the number and value of contracts using competitive and single source non-competitive methods.

Table 24.2. Khmelnytskyi oblast procurement statistics, 2018

	All contracts	Contracts procured through use of competitive methods		Contracts procured through use of non-competitive methods	
		Number	%	Number	%
Number of contracts	36,148	3,636	10	32,512	90
Value of contracts (UAH billion)	10.1	6.6	65	3.5	35

Source: Khmelnytskyi oblast Department of Economic Development, Industry and Infrastructure.

348. Thirty-five percent of the value of the contracts in the oblast in 2018 was conducted using single source procurement and 65 percent using competitive methods.

349. The score for this dimension is C.

24.3 Public access to information about procurement

Performance level and evidence for scoring the dimension

350. Public procurement information is in public domain on the public procurement website. The address of the website is: <https://prozorro.gov.ua/>. 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);

⁴¹ An average foreign exchange rate of Ukrainian hryvnia to 1 US dollar was 27.20437875 in 2018.

- 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 State Audit Service following the monitoring findings, and information on reviews.

351. **The legal and regulatory framework for procurement is published on the website of the MoE⁴².** Periodic procurement statistics are made available to the public in the format of quarter, semi-annual and annual reports on The Ministry of Economic Development and Trade website⁴³. The web portal also contains information about policy, professionalization of public procurement, international cooperation, etc.

352. **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. NGO Transparency International has created a monitoring portal <https://dozorro.org/>. Individuals or business representatives can post and report signs or abuse of procurement procedures.

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

24.4 Procurement complaints management

Performance level and evidence for scoring the dimension

354. **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 works⁴⁴. The amount of the fee is not a barrier for economic entities.

355. **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).

356. **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 determining a tender winner.

⁴² <http://www.me.gov.ua/LegislativeActs/List?lang=uk-UA&id=6e190ba6-3c35-4244-8a3f-bc8733ca97de&tag=NormativnaBaza&pageNumber=1>

⁴³ <http://www.me.gov.ua/Documents/List?lang=uk-UA&id=ca5d0012-c7f9-4750-b1f8-cf5550ecb270&tag=Zviti>

⁴⁴ An average foreign exchange rate of Ukrainian hryvnia to 1 US dollar was 27.20437875 in 2018.

- (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 system. Processes of 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 decides on the complaint.
- (iv) The deadline 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). The Board's decision may be challenged in court.

357. **There were 135 complaints to the Antimonopoly Committee of Ukraine relating to procurement in the oblast.** Out of these 135:

- 50 were satisfied (37%);
- 27 were rejected (20%);
- 26 were not satisfied (19.3%);
- 23 were revoked (17%), and
- 9 were in the process of review (6.3%).

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

Recent or ongoing reform activities

359. **According to latest LLP amendments,⁴⁵ simplified procedure of procurements for supplies or services with a value from UAH 50,000 to 200,000⁴⁶, and works with a value from UAH 50,000 to 1,500,000⁴⁷ must be conducted through the e-procurement system.** A new edition of the LPP also establishes requirements to make public procurement information for contracts with values below UAH 50,000 (before the amendments such a requirement existed for contracts with values above UAH 50,000).

PI-25. Internal controls on non-salary expenditure

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

360. **This indicator measures the effectiveness of general internal controls for non-salary expenditures.** Specific expenditure controls on public service salaries are considered in PI-23. Time period: At time of assessment and Coverage: SNG.

361. **Requirements for the provision of the internal control in all budget-funded institutions are specified by Article 26(3) of the Budget Code of Ukraine.** The internal control is defined, for instance, as a set of measures aimed at securing compliance with laws and efficiency of the use of budget funds.

362. **The Ministry of Finance has approved the guidelines for organizing internal controls⁴⁸ for spending units.** These guidelines, inter alia, prescribe that internal controls in an institution shall be based on the principle of responsibility and sharing of powers. This 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. In accordance with this order, controls are to be carried out at all levels of the institution's activities and for all functions and tasks and include relevant rules and procedures. The most characteristic of these are: (i) authorization and confirmation are done by obtaining permission

⁴⁵ Law No. 114-IX dated September 19, 2019.

⁴⁶ Before amendments the threshold for procurements of supplies and services conducted through the e-procurement system was from UAH 200,000.

⁴⁷ Before amendments the threshold for procurements of works conducted through the e-procurement system was from UAH 1,500,000.

⁴⁸ MoF Order of September 14, 2012, # 995.

of the responsible persons for carrying out operations through the procedures of signing, approval, or confirmation; and (ii) sharing of duties and powers, and rotation of staff in order to reduce the risks of errors or losses.

Summary of scores and performance table

Indicator/dimension	Scoring Method M2 (AV)	
	2019 Score	Brief justification for score
PI-25. Internal controls on nonsalary expenditures	B+	
25.1 Segregation of duties	C	For some procedures, the segregation of duties is prescribed by law; in other cases, it is necessary to segregate duties at the level of the institution. A more specific definition may be required for some duties related to the spending units. It is necessary to more clearly define the segregation of duties in the course of the development of tender proposals and the ascertainment of a successful tenderer. There is no generalized information about the conformity of the internal control in all oblast-level institutions with requirements for the internal control organization
25.2. Effectiveness of expenditure commitment controls	A	In line with internal procedures, spending units exercise control to make sure that commitments are assumed only within the scope of budgets and monthly budget allocations. The Treasury Information System is applied to public administration bodies at all levels; it includes a module that provides for the registration of all budget commitments and their entry into record only if they are within the budget allocations of the relevant spending unit
25.3. Compliance with payment rules and procedures	A	There is a link between commitment and payment accounting. The inappropriate and inefficient use of budget funds were 1.2 percent of total amount of expenditures covered by SAS' control in 2018

25.1 Segregation of duties

Performance level and evidence for scoring the dimension

363. **Segregation of duties in the course of the endorsement and approval of expenditure is well established.** The source documents provide the basis for accounting for business transactions in accordance with Article 9 of the Law of Ukraine “On Accounting and Financial Reporting.” The same article provides that a source document (such as work performance (service provision) protocol) must be signed by the person involved in the business transaction. The procedure for the endorsement and sign-off of some types of documents specified in the document management schedule. Officers sign contracts within the scope of their powers as defined in charters of institutions, charters of structural units, job descriptions, administrative documents specifying the allocation of duties among the head and deputy heads of the institution, etc. The work performance (service provision) protocol is signed by the officer of the structural unit, which initiated the procurement and approved by the head of the institution.

364. **More specification is required for some duties at the procurement stage.** During the procurement, responsibilities are governed by both the Tender Committee Charter and its membership regulations⁴⁹, and by job descriptions of officers of an institution. Currently, only some of the institutions impose restriction preventing officers that prepared the relevant tender proposals from the participation in determining the successful tender. Order of the Ministry of Justice No. 1000/5 of June 18, 2015, “On Approval of Rules for the Organization of Document Management and Archival in State Authorities, Local Governments, Enterprises,

⁴⁹ Such a charter is to be approved by the head of the institution in line with the Model Charter approved by the Ministry of Economic Development and Trade in 2016.

Institutions, and Organizations” provides for the segregation of duties when signing management documents. For instance, the internal endorsements of a draft contract as a result of a procurement procedure must come, inter alia, from the document originator; the head of the structural unit of the document originator; the finance unit or the chief accountant (accountant); the head of the legal department (lawyer).

365. **Responsibilities related to accounting are prescribed by the charter of the accounting function and job descriptions of its staff approved in the institution.** The legislation has defined the model responsibilities of the accounting function of a budgetary institution⁵⁰; the core responsibilities include keeping accounts for financial and business activities and compiling reports. Each institution develops and approves an internal written guide based on these documents.

366. **The duties related to safekeeping and administering assets are defined in internal documents of the institution:** charters of structural units and job descriptions, and orders on the commissioning of a fixed asset specifying, inter alia, who is the accountable officer in charge.

367. **The reconciliation is carried out in accordance with the requirements of the legislation⁵¹ providing that enterprises must take inventory of assets and liabilities in order to ensure the integrity of the accounting and financial reporting data.** The availability, condition, and valuation of assets and liabilities are checked and evidenced with documents during such inspections. The Inventory Procedure was approved by order of the Ministry of Finance⁵². It provides, for instance, that liabilities and assets of all types regardless of their location are subject to the complete inventory reconciliation before the preparation of annual financial statements and to the partial inventory reconciliation if the property is let on lease or the accountable officers in charge change, etc. The Procedure also require from the head of the organization to create an inventory commission that would include representatives of the management department, accounting office and experienced employees of the organization. Materially responsible persons cannot be included in the composition if the commission verifying assets held by them in storage.

368. **An internal audit unit consisting of one officer and subordinated directly to the head of the institution is established for the performance of internal audits at the level of Khmelnytskyi oblast budget.** The unit has been established in accordance with Article 26(3) of the Budget Code. The activities of this unit are focused on improving the internal control system.

369. **The audits for compliance with internal control procedures are carried out by the State Audit Service, which is a central executive agency coordinated via the Cabinet.** In 2018, SAS audits and inspections covered about 7 percent of the total oblast budget expenditures, and as a result 155 proposals and recommendations were given.

370. **In 2016 and 2017 the Accounting Chamber of Ukraine conducted 4 audits covering some oblast budget expenditures made by intergovernmental transfers from the central government budget.** Those transfers mainly included social payments for low income families and payments for social protection of orphans.

371. **There is no consolidated information about the conformity of the internal control in all oblast-level institutions with requirements for the organization of internal control.** It is necessary to more clearly define the segregation of duties in the course of the development of tender proposals and the ascertainment of a winner of tender.

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

⁵⁰ Resolution of the Cabinet No. 59 of January 26, 2011, “On Approval of the Model Charter of the Accounting Function of a Budget-funded Institution”.

⁵¹ Article 10(1) of the Law of Ukraine No. 996 of July 16, 1999, “On Accounting and Financial Reporting in Ukraine”.

⁵² Order No. 879 of September 2, 2014, “On Approval of the Policy of Assets and Liabilities Inventory Reconciliation”.

25.2 Effectiveness of expenditure commitment controls

Performance level and evidence for scoring the dimension

373. **In accordance with the established procedures, spending units and the Treasury monitor the compliance of commitments with cost estimates and monthly allocations.** At the institution level, the control is exercised in accordance with job descriptions and the segregation of duties among the head and deputy heads. As a rule, a draft contract is endorsed by the chief accountant checking for compliance with monthly allocations. Once the document is signed, the spending unit submits it to the Treasury unit for registration.

374. **The Treasury units are authorized to exercise ex-ante control at the stage of the registration of budget commitments of spending units and budget fund recipients.**⁵³ Control over commitments is organized to a high standard. The Procedure for the Registration of, and Accounting for, Budget Commitments of Spending Units and Budget Fund Recipients at Bodies of the State Treasury Service approved by Order No. 309 of March 2, 2012, is the core instrument that defines the procedures for the ex-ante control. The Treasury registers budget commitments of spending units and budget fund recipients only if budget allocations approved by the cost estimates and the budget program passport (if program budgeting is used in the budgeting process) is available. If a spending unit assumes budget commitments as a result of a procurement procedure, the Treasury ensures that the contract, the annual procurement plan, and the report on the procurement procedure underlying the entry into the contract are available.

375. **The Treasury's powers at the stage of ex-ante control at the registration of budget commitments prevent violations of the budget legislation by spending units.** The control guarantees that total amount of commitments does not exceed appropriate budget allocations. Commitments are taken in accordance with provisions of the Budget Law for the appropriate year and ensures the use of budget funds for designated purposes. The ex-ante control makes it possible for key spending units and budget fund recipients to make good any potential violations of the budget legislation and avoid subsequent contraventions of this kind.

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

25.3 Degree of compliance with payment rules and procedures

Performance level and evidence for scoring the dimension

377. **Institutions make payments only based on a payment order subject to the availability of a source document such as the work performance (service provision) protocol signed in accordance with the established procedure, and exceptions are not allowed.** A payment order is to be prepared in the format prescribed by the Ministry of Finance.⁵⁴ As required by the Cashless Domestic Currency Payments Instruction of the National Bank of Ukraine, the payment order is signed by two officers—the head of the institution and the chief accountant. They then send the payment to agencies of the Treasury via an electronic system using electronic signatures.

378. **Treasury bodies make payments of spending units only if there are registered budget commitments in their records, for example, the work performance (service provision) protocol.** Thus, the Treasury system providing for payment controls prevents the expenditures of budget institutions from going beyond the allocation spending limits during the year and from covering periods longer than a budget year. The linkage between the record of commitments and the payments makes concealing payment irregularities even harder than concealing commitment irregularities.

379. **From January - October 15, 2019, Treasury bodies prevented 706 violations of the budget legislation by spending units and recipients of funds of all subnational budgets while taking payment orders for**

⁵³ Order of the Ministry of Finance No. 938 of August 22, 2012, "On Approval of the Procedure for the Local Budgets Treasury Service"

⁵⁴ Order of the Ministry of Finance No. 938 of August 23, 2012, "On Approval of the Procedure for the Local Budgets Treasury Service"

execution. The value of these violations totaled UAH 65.2 million or 0.02 percent of the subnational budget expenditure over January – October 2019.

380. **The State Audit Service checks for compliance and lawfulness of financial transactions ex-post.** The Western Directorate of the State Audit Service in Khmelnytskyi oblast carried out several audits covering the year 2018 during the period under review, for instance, in education and healthcare institutions. Several violations have been detected resulting in illegal spending of UAH 6.7 million and spending for non-designated purposes of UAH 0.03 million. The share of inappropriate and inefficient use of budget funds in the total amount of expenditures covered by SAS's control in 2018 was 1.2 percent. The Chamber of Accounts has not audited the institutions funded from the oblast budget during the period under review.

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

PI-26. Internal audit

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

382. **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 last 3 fiscal years. Coverage is SNG.

Summary of scores and performance table

Indicator/dimension	Scoring Method M1 (WL)	
	2019 Score	Brief justification for score
PI-26. Internal Audit	D+	
26.1. Coverage of internal audit	D	While the actual numbers of internal audits carried out is still few, internal audit is operational for all of the oblast's activities based on the audit selection process. None of the oblast's operations should be excluded from the internal audit process, however in 2018 SAS audited 6.2 percent of total oblast budget expenditures
26.2. Nature of audits and standards applied	C	Overall the Internal audit function provides for assessing the effectiveness of internal control processes in the public organizations. The practical introduction of Internal Audit Units is described by the Ukrainian Internal Audit Standards which are based on international standards. Methodical recommendations and Guidelines on conducting internal audit procedures were also updated to be more aligned with international standards and practice
26.3. Implementation of internal audits and reporting	A	Internal audits are carried out in relation to an audit plan
26.4. Response to internal audits	C	The response rate to recommendations is good but typically take more than 12 months to fully implement

26.1 Coverage of internal audit

Performance level and evidence for scoring the dimension

383. **Internal Audit is provided by the oblast administration's Internal Audit Unit and by the State Audit Service.** The SAS is a national body but carries out internal audit in subnational administrations. The oblast's own unit was established in 2014 but 2016 and 2017 was not staffed. There is one person in the unit. In 2018 there were two audits. One was a performance and efficiency audit of providing services for a fee in the

oblast's Archives and Records Unit and the second on the Religion and Cultural Directorate examining how well it performed in relation to the oblast's heritage preservation objectives.

384. **The SAS's Western Office Department is based in the oblast but provides audit coverage for the whole of the Western Region.** It carried out 27 audits in the oblast territory over the past three years and these are elaborated in Annex 8. Of these 5 were related to the execution of budget program of the Khmelnytskyi oblast while another 3 were related to oblast owned enterprises.

385. **While the actual numbers of internal audits carried out is still few, internal audit is operational for all of the oblast's activities based on the audit selection process.** None of the oblast's operations are excluded from the internal audit process, however in 2018 SAS audited 6.2 percent of total oblast budget expenditures.

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

26.2 Nature of audits and standards applied

Performance level and evidence for scoring the dimension

387. **The Ukrainian Internal Audit Standards describe practical implementation of internal audit in the line ministries and main public institutions of Ukraine.** These standards also prescribe the professional and functional independence of internal auditors. Ukrainian standards are based on the Institute of Internal Auditors (IIA) but differ in some respects. Methodical recommendations and Guidelines on conducting internal audit procedures in line with general accepted good practices and international standards were updated in 2018.

388. **Procedures for planning, performing, and documenting an internal audit, and using results in Khmelnytskyi OSA have been separately issued⁵⁵ to guide the oblast's own internal audit unit.** The internal audit function is defined as the activity focused on improving the management system, preventing unlawful, inefficient, and ineffective use of budget funds, errors or other deficiencies in the activities of the OSA and its structural units. The semi-annual internal audit plans are developed based on the assessment of risks inherent in activities of internal audit targets and specify the topics of the internal audit. The risk assessment calls for determining the probability of events and the extent of their consequences that affect the:

- Performance of tasks and the attainment of goals specified in strategic and annual plans by the internal audit target;
- Efficiency of the planning, implementation, and performance results of budget programs;
- Quality of the provision of administrative services, the performance of control and supervisory functions, and tasks prescribed by the acts of legislation;
- Level of preservation of assets and information, as well as the quality of the management of assets;
- Correctness of accounting and the trueness of financial and budget reports.

389. **The Internal Audit function at the central government level and therefore the local level has been gradually changing.** These changes have moved the type of audit from state control and inspection activity in Ukraine to advisory and diagnostic service. This has provided a focus on the guidance of the state authorities in assessing their effectiveness of internal control and management processes and systems.

390. **Oblast administration audits undertaken by SAS have covered budget programs.** Audits have been carried out on local budgets of the Khmelnytskyi oblast. The coverage of these audits is significantly greater than the oblast's own internal audit unit.

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

⁵⁵ Instruction of the Head of the oblast State Administration No.523/2014-r of December 30, 2014.

26.3 Implementation of internal audit and reporting

Performance level and evidence for scoring the dimension

392. **Before 2018 the National Internal Audit Standards required only semi-annual planning as applied to the State Audit Service.** There was little evidence that Internal Audit departments based their semi-annual plans on a proper risk assessment, as prescribed by the National Internal Audit Standards. In December 2018 two types of IA plans were introduced: strategic plan covering a three-year period, and operational plan covering one-year period. Both types of IA plans are subject to approval by the Central State Authority Manager. Upon approval plans are submitted to the Ministry of Finance and are made publicly available on the authorities' webpages. Reports on the audit plans implementation is submitted to the Ministry of Finance on a yearly basis. These are summarized in the report on the results of IA units' performance (SIA form #1). While the SAS does cover audits in the oblast, the SAS in a CG entity and the reporting structure is to the CG though audit reports go to the oblast administration as per the regulations applicable to the SAS⁵⁶. Based on this regulation SAS submits recommendations and suggestions on the results of audits to the Cabinet, ministries, other central executive bodies, other state bodies, local authorities and heads of controlled institutions. 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 and reported upon accordingly.

393. **With respect to the oblast's own internal audit unit there is a planning and reporting structure.** Every six months, there is a report to the administration through the Internal Advisory Committee of the oblast administration. There is an informal relationship with the SAS to address internal audit issues relating to the oblast. The Internal Audit activities are being developed but given that there is only one member of staff that has been in post for some 18 months, the number of audits that can be carried out is limited. So far there has only been two undertaken by the present incumbent.

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

26.4 Response to internal audits

Performance level and evidence for scoring the dimension

395. **Both the SAS and the oblast's internal audit unit have made recommendations.** In the case of the oblast's internal audit all 9 recommendations made have been implemented. The SAS's recommendations have been made over the 2016 to 2018 period and the response rates are shown in Annex 8. Generally, the response rate to recommendations is good but typically takes more than 12 months to fully implement.

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

⁵⁶ Resolution of the Cabinet # 43 dated February 3, 2016.

PILLAR SIX: Accounting and Reporting

PI-27. Financial data integrity

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

397. 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 SNG and Budgetary SNG for 27.2, 27.3 and 27.4.

Summary of scores and performance table

Indicator/dimension	Scoring Method M2 (AV)	
	2019 Score	Brief justification for score
PI-27. Financial data integrity	B+	
27.1. Bank account reconciliation	A	The State Treasury Service records all transactions in a system of electronic payments in a TSA (with sub-accounts) the National Bank of Ukraine which allows daily reconciliation
27.2. Suspense accounts	N/A	The Finance Department reports that the oblast does not have any suspense accounts
27.3. Advance accounts	B	Advance accounts are reconciled monthly to ensure that advances are for the purpose stated and can be monitored on a daily basis. Advance accounts are closed if there is no activity after 3 years or the contractor requests closure
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 in charge of verifying financial data integrity

27.1 Bank account reconciliation

Performance level and evidence for scoring the dimension

398. **The Treasury is responsible for managing the TSA⁵⁷.** There is a State Treasury Unit attached to the oblast that carries out the oblast's financial activities. The oblast has sub-accounts in the TSA.

399. **The Treasury is a participant of the System of Electronic Payments of the National Bank of Ukraine (NBU).** For the oblast all expenditure and revenue transactions are made through the Treasury, which stipulates the daily reconciliation of turnover and balances by treasury authorities to obtain the trial balance.

400. **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", which includes accounting, operational, and management reports (daily trial balance, daily reports on execution of revenues and other receipts of state and local budgets, etc.) is produced.

401. **The accuracy of the description and increase of revenues of the state and local budgets is checked on the next business day for funds transfer.** The accuracy is checked and reports are generated on execution of revenues and other receipts of the state and local budgets. The data of statements of relevant accounts is reconciled in terms of the revenues credited with the data of the Report on Execution of Revenues and Other Receipts of the state and local Budgets. The adequacy of the data presented in the daily trial balance and the execution report is checked.

⁵⁷ In accordance with Treasury's Order No. 122 of 26 June 2002 "Regulation on the Treasury Single Account".

402. **If 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.

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

27.2 Suspense accounts

Performance level and evidence for scoring the dimension

404. **The oblast does not have any suspense accounts.**

405. **The dimension is Not Applicable.**

27.3 Advance accounts

Performance level and evidence for scoring the dimension

406. **There is no specific account in the chart of accounts termed an advance account.** Instead, such accounts are reported as accounts receivable by each public sector entity. The balance of such (advance) accounts is analyzed every month. The (advance) accounts are generally closed on time, with some exceptions particularly if the case is complex. In such cases, the public sector entities explain the main reasons for such delays in the notes to their financial statements.

407. **Advances are usually authorized only for specific types of contracts (such as construction and/or large-scale infrastructure contracts).** They are limited to 30-40 percent of the total value of the contract, depending on contract terms. Once 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. This documentation is required to be submitted within three working days after the completion of the delivery of goods, execution of works and/or provision of services specified in the contract. If documentation is not provided by the spending unit, the Treasury withholds further payments against the contract and these contracts are noted in the monthly/quarterly reports. Treasury can also withhold all payments of the spending unit except for payments related to protected items. This is complied with in practice.

408. **Advance accounts are closed at a contractor's request or if there has been no activity after three years.**

409. **Since the (advance) accounts are generally closed on time (approximately 90 percent in 2018) the score for the dimension is B.**

27.4 Financial data integrity process

Performance level and evidence for scoring the dimension

410. **The 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 an audit trail relating to usage. The internal control unit is responsible for verifying and controlling data integrity.

411. **The function of internal control is not risk-based.** There are procedures but there is no special body responsible for the operational control, other than a given administrator. Subsequently, the use of funds is verified by the State Audit Service and the Accounting Chamber of Ukraine for the time period that is subjected to verification.

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

PI-28. In-year budget reports

413. **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, if necessary, timely use of corrective measures. The assessment period for this indicator is the last complete fiscal year (2018); the coverage – SNG.

Summary of scores and performance table

Indicator/dimension	Scoring Method M1 (WL)	
	2019 Score	Brief justification for score
PI-28. In-year budget reports	D+	
28.1. Coverage and comparability of reports	D	Coverage and classification of revenue in Treasury's reports allow direct comparison to the original budget. Treasury's reports on expenditure are based on economic and functional classifications, but not on administrative classification, what does not allow for their direct comparison with the original budget. The OSA prepared additional quarterly reports based on the administrative classification, but those reports are not presented in the format of original budget. They do not contain information on consumption and development expenditures, salary, utilities, lending, inter-governmental transfers etc. and are not consolidated (separate for the general and special budget funds). These does not allow direct comparison of reported expenditures with the original budget
28.2. Timing of in-year budget reports	A	The Treasury produces monthly oblast budget execution reports within 15 days of the month-end
28.3. Accuracy of in-year budget reports	B	There are no issues with quality of information. 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

414. **Each budget entity provides data to the Treasury.** These data are consolidated by the Treasury and transferred to the database of the Finance Department, which carries out a full review. The Treasury issues reports on a monthly and quarterly basis (see basic information in Table 28.2). Reports contain expenditures and revenues and are produced in accordance with the detailed budget classification codes, except administrative classification. Coverage and classification of revenue in reports allow direct comparison to the original budget. Since reporting on expenditure is based on economic and functional classifications, but not on administrative classification, it does not allow for their direct comparison with the original budget.

415. **The Treasury is responsible for the accounting of the oblast budget execution operations, consolidation of reports provided by spending units, preparation of budget execution reports and their reliability**⁵⁸. The oblast budget execution reports submitted by the Treasury to the Finance Department during the year cover the following categories: revenues, expenditure, lending and financing of the budget, the budget balance, utilization of the reserve fund, execution of the protected expenditure items of subnational budgets, the provision and utilization of grants and subventions by subnational budgets.

416. **The Treasury also produces quarterly statements of financial position (balance sheets) of the oblast budget and the oblast budget outturn report.** These reports include both expenditure items of all budget-funded institutions and recipients of budget funds.

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

417. **The OSA prepared additional quarterly reports based on the administrative classification, but those reports were not presented in the format of original budget.** The OSA prepares reports by administrative classification using own IT system, which contains detail data received from the Treasury. Despite the number of classifications used for budget formulation (see PI-4 for details), the reports provided information by programmatic classification only. They did not contain information on consumption and development expenditures, salary, utilities, lending, inter-governmental transfers etc. Those reports were prepared for the general and special budget funds separately, with no consolidation for the overall budgets. This method does not allow direct comparison with the original budget.

418. **The presentation of in-year budget reports on expenditures do not allow direct comparison with the original budget.**

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

28.2 Timing of in-year budget reports

Performance level and evidence for scoring the dimension

420. **The Treasury submits the various following reports to the Finance Department of Khmelnytskyi oblast administration in accordance with Article 80 of the Budget Code.** These reports are (1) monthly oblast budget execution reports within 15 days of the month-end; (2) detailed monthly oblast budget execution information by the 25th day of the month following the reporting month; and (3) budget debt (if any) reports by the first day of the second month following the reporting month at the latest. The Treasury shares quarterly reports within 35 days of the end of the quarter. Details of the timeliness of the submission of the 2018 oblast budget execution reports are provided in Table 28.2.

Table 28.2. Timing of in-year budget reports for 2018

Period covered by the report	Actual submission date
Monthly reports	
January	February 9, 2018
January to February	March 12, 2018
January to March	April 10, 2018
January to April	May 10, 2018
January to May	June 11, 2018
January to June	July 10, 2018
January to July	August 10, 2018
January to August	September 10, 2018
January to September	October 10, 2018
January to October	November 12, 2018
January to November	December 10, 2018
January to December	January 11, 2019
Quarterly Reports	
Quarter 1	April 27, 2018
Quarter 2	July 27, 2018
Quarter 3	October 19, 2018

421. **The Treasury prepares and submits monthly reports to the Finance Department within two weeks after the end of the reporting period.**

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

28.3 Accuracy of in-year budget reports

Performance level and evidence for scoring the dimension

423. **Subnational bodies of the Treasury perform all the oblast budget transactions that are accounted for in the TSA.** This applies to all the oblast budget transactions (revenues and expenditure) of all its spending units. This arrangement makes thorough and regular control and reconciliation of financial information and flows of funds (for instance, by subjecting them to cross-checks).

424. **The Treasury reports include both planned (the enacted budget law with all amendments) and actual figures according to the cash accounting method.** The expenditure and lending reports are produced by budget program, function, and economic type.

425. **The revenue and financing reports are also produced by budget classification codes.** The revenue reports specify the actual revenues only and do not contain any information about accrued revenues. Quarterly reports contain an explanation on the status of execution of subnational budget indicators⁵⁹.

426. **These reports contain the information at the payment stage and do not contain complex information about the expenditure commitments.**

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

Recent or ongoing reform activities

428. **Starting in 2019, quarterly reports also provide information about the status of any subnational debt, the guaranteed debt, and the underwritten subnational guarantees.** The amendments introduced in the Budget Code of Ukraine on November 22, 2018 vested oblast councils with the ability to underwrite guarantees and raise foreign borrowings by obtaining credit facilities from international financial institutions.

PI-29. Annual financial reports

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

429. **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 (FY 2016-2018). Coverage is Budgetary SNG.

Summary of scores and performance table

Indicator/dimension	Scoring Method M1 (WL)	
	2019 Score	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. Treasury's reports on expenditure are based on economic and functional classifications, but not on administrative classification, what does not allow for their direct comparison with the original budget. The OSA prepared additional annual reports based on the administrative classification, but reports are not presented in the form of original budget. They do not contain information on consumption and development expenditures, salary etc. and are separated for general and special budget funds. These does not allow direct comparison with the original budget

⁵⁹ In accordance with Article 60(2)(10) of the BCU.

Indicator/dimension	Scoring Method M1 (WL)	
	2019 Score	Brief justification for score
29.2. Submission of reports for external audit	D	Treasury draws up and submits financial statements of the oblast to the Finance Department of the oblast administration within three months after the expiry of the reporting year. The annual financial report is not submitted for external audit
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. The standards used and accounting policies are presented in the Notes to Financial Statements. However, the differences between the applicable national and international 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

430. **The Treasury produces the financial reports of the oblast and is responsible for their reliability**⁶⁰. Each year, the Ministry of Finance specifies the terms and procedure which the Treasury must follow in drawing up and presenting annual financial statements for all spending units in Ukraine. These requirements have been met for the oblast. The annual financial statements contain a comparison of actual figures with the latest version of the oblast budget, which includes all amendments made during the fiscal year.

431. **The annual financial statements of the oblast are part of the national annual reporting on budget execution system.** These reports must be produced within three months of the end of the fiscal year⁶¹. The annual report presents information on financial assets, liabilities, including long-term, budget revenue, expenditure, lending and financing indicators. The reports also cover: (i) the financial position (balance) of the oblast's budget; (ii) financial performance of the budget and cash flow; (iii) accounts receivable and payable; (iv) data on the reserve fund expenditure. Coverage and classification of revenue reports allow direct comparison to the original budget. Expenditure reports provide information by economic and functional classifications but lacking the administrative classification which does not allow for their direct comparison with an approved budget.

432. **The OSA prepared additional annual reports based on the administrative classification, but reports are not presented in the form of original budget.** They do not contain information on consumption and development expenditures, salary etc. and are separated for general and special budget funds. These does not allow direct comparison with the original budget.

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

29.2 Submission of reports for external audit

Performance level and evidence for scoring the dimension

434. **The Treasury is responsible for drawing up and reporting on the execution of the oblast Budget (financial and budget reporting)**⁶². These are published on the website of the Treasury: <https://www.treasury.gov.ua/ua/file-storage/vikonannya-derzhavnogo-byudzhetu>. 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 with the last 3 years.

⁶⁰ According to BCU (Articles 58, 80).

⁶¹ In accordance with the requirements of the Budget Code of Ukraine (BCU).

⁶² According to Article 58 of BCU.

435. **The annual financial report is submitted to the Finance Department of the oblast administration and is not submitted for external audit.**

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

29.3 Accounting standards

Performance level and evidence for scoring the dimension

437. **Accounting and generation of all public sector financial reports are conducted in accordance with the requirements of NPSAR(S) of Ukraine whose norms incorporate most of IPSAS.** 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 the financial reports and include the accounting policy used. However, the differences between the national provisions that have been applied and IPSAS are not presented in the notes to the financial reports. 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.

438. **The public sector accounting system applied in the oblast applies the national standards that are consistent with the IPSAS in more than 80 percent of standards.**

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

PILLAR SEVEN: External Scrutiny and Audit

PI-30. External audit

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

440. **This indicator examines the characteristics of external audit.** The time period is last three completed fiscal years. Coverage is SNG.

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

442. **The Law of Ukraine “On the Accounting Chamber of Ukraine” specifies the responsibilities and activities of the Accounting Chamber.** These activities follow the principles of the International Organization of Supreme Audit Institutions, including the International Standards of Supreme Audit Institutions (ISSAI), and the European Organization of Supreme Audit Institutions insofar as these do not contradict the Constitution and laws of Ukraine. Since 2019, ACU’s activities have provided for the partial use of ISSAI principles to improve the compliance of Ukrainian practice with international standards.

443. **The core powers of the ACU are as follows:**

- 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 addressing 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.

444. **ACU conducts audits using its own guidelines derived from certain provisions of ISSAI however is not fully compliant with ISSAI.** Plans were established in 2019 for the partial implementation of ISSAI by switching focus from a performance audit to a full review of financial statements on budget execution.

445. **For subnational entities, the ACU focuses on auditing the transfers from central government and the use of these transfers.**

Summary of scores and performance table

Indicator/dimension	Scoring Method M1 (WL)	
	2019 Score	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 Khmelnytskyi oblast would cover 86.6 percent of budget, such an audit has never been carried out. There were audits of some oblast spending units that covered 20 percent of total expenditure
30.2. Submission of audit reports to the legislature	D	ACU reports go directly to the National Parliament and its relevant committees to whom the ACU is related to. Copies go to the Cabinet and the relevant oblast 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	Scoring Method M1 (WL)	
	2019 Score	Brief justification for score
30.4. Supreme Audit Institution independence	B	ACU is the body independent of the Government of Ukraine in essential aspects: (i) determination and election of ACU members, including the Head of the ACU, who are appointed and dismissed by the Parliament; (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 limited to Board members of the ACU

30.1 Audit coverage and standards

Performance level and evidence for scoring the dimension

446. **ACU conducts audits in accordance with the Guidelines for Financial Audit by ACU as of 2019⁶³.** They have been developed based on the requirements and provisions of 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.

447. **The Department for Monitoring Public Administration and Inter Budgetary Relations of the ACU performs an audit of the transfers from the central government and their use.** This 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 has not been part of that sample at any time. In addition, the ACU carries out audits of projects funded through the Regional Development Fund and a school building project in the oblast has recently been audited.

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

449. **While an audit of the transfers from the Central Government to the Khmelnytskyi a oblast would cover all of the budget, such an audit has never been carried out.** The SAS reported to the assessment team that it carried out financial audits of 28 oblast spending units under its mandate and that this covered 20 per cent of the oblast's expenditures.

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

30.2 Submission of audit reports to the legislature

Performance level and evidence for scoring the dimension

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

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

⁶³ 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

453. **As there have been no audits and therefore no recommendations that can be implemented the dimension is not applicable.**

30.4 Supreme audit institution independence

Performance level and evidence for scoring the dimension

454. **ACU is the independent body of the central government in the essential aspects of its activities⁶⁴.** These relate to (i) determination and election of ACU members, including the head of the ACU, who are appointed and dismissed by the Parliament⁶⁵; (ii) independence in planning audits and making public audit findings; (iii) ACU's budget planning and execution; and (iv) access of ACU's representative to the records, documentation and information to conduct audits.

455. **The ACU does not submit its budget directly to the legislature as ISSAI requires but submits it to the MoF for inclusion in the CG budget in accordance with 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 while considering the State budget. That ensures the ACU independence with respect to approval of its budget. However, such cases have not taken place in the past three years.

456. **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 executed it without interference of the CG.

457. **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 limited to Board members of the ACU. This constraint limits the ability of the ACU to build a risk-oriented control system.

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

459. **Given the limitations noted above 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

460. **The 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 SNG.

⁶⁴ According to the Law of Ukraine on the Accounting Chamber of Ukraine adopted in 2015,

⁶⁵ Article 20 the Law of Ukraine on the Accounting Chamber of Ukraine adopted in 2015.

Summary of scores and performance table

Indicator/dimension	Scoring Method M2 (AV)	
	2019 Score	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 on the oblast's financial statements submitted to the oblast's council.
31.2 Hearing of audit findings	N/A	There were no audit reports on the oblast's financial statements submitted to the oblast's council.
31.3 Recommendations on audit by the legislature	N/A	There were no audit reports on the oblast's financial statements submitted to the oblast's council.
31.4 Transparency of legislative scrutiny of audit reports	N/A	There were no audit reports on the oblast's financial statements submitted to the oblast's council.

31.1 Timing of audit report scrutiny

Performance level and evidence for scoring the dimension

461. **There were no audit reports submitted to the oblast's council.** However, unaudited financial reports are sent to the council on an annual basis. The Western Office Department of State Audit Service has submitted its reports to the council in 2018; this covered 28 spending units which represents 20 per cent of the oblast budget.

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

31.2 Hearing on audit findings

Performance level and evidence for scoring the dimension

463. **There are no audit reports on the financial statement for the council to consider.** The Budget Committee of the council does examine the annual financial statement (unaudited) and compares performance with the previous year as well as the reports of the SAS.

464. **This dimension is not applicable.**

31.3 Recommendations on audit by the legislature

Performance level and evidence for scoring the dimension

465. **There were no audit reports submitted to the council so recommendation cannot be made.** The Budget Committee of the council does examine the annual financial statement (unaudited) and makes informal recommendations that are contained in the minutes of its meetings⁶⁶. A letter is sent to the oblast administration containing these recommendations with a desired response timetable. Responses are generally positive and if there is failure to respond senior executives are called to meet the committee.

466. **This dimension is not applicable.**

31.4 Transparency of legislative scrutiny of audit reports

Performance level and evidence for scoring the dimension

467. **There were no audit reports submitted to the council.** The discussion on the financial statements by the Council Budget Committee is open to the public and media.

468. **This dimension is not applicable.**

⁶⁶ It also examines the reports of the SAS that it receives.

4. Conclusions of the analysis of PFM systems

4.1 Integrated assessment across the performance indicators

469. **This section examines the indicator assessments of Chapter 3 and their 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.*

470. **The challenges of 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 OSA caution revenue planning, "windfall" income from own revenues of budgetary institutions. While the score for HLG-1.1 was an A, this was because the scoring methodology is not symmetrical between PI-3 and HLG-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 D (PI-1), with the expenditure composition by function scoring B (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 two budgets (PI-21.4 'A'). However, the process of controlling budget allocations to match the availability of cash has not been supported by cash forecasting (PI-21.2 'C') which reflects the uncertainty of revenue. This aspect has been offset by spending units having certainty in the availability of funds to execute their budgets as planned (21.3 'A'). The stock of arrears is not significant being less than 1 per cent of the total (PI-22.1 'A') which reflects strong commitment control (PI-25.2 'A'). Procurement scores B+ overall which indicates good control but cost savings through competitive tendering (PI-24.2 'C') could be improved.

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.*

471. **Ukraine has an impressive array of information regarding the finances of budgetary government at the central and subnational levels.** The Chart of Accounts, which underpins budget preparation, execution and reporting, is comprehensive and consistent with GFS standards (PI-4 'A'). Information is included in the budget on a timely basis. The budget documents include two of the basic, and much of the supplementary information, required to support a transparent budget process (PI-5 'D'). There is the lack of rule-based approach to allocate inter-government transfers from oblast budget to lower level governments, which may impact service delivery in a significant way (PI-7.1 'C'). Reporting from lower level of government is timely, but only four of lower-tier SNGs with direct financial relationship has been audited (PI-10.2 'C'). Information on performance plans and achievements in service delivery outputs and outcomes in the oblast is very good and reflects the program budgeting system, with performance plans, performance achieved and performance evaluation three dimensions scoring A reflecting the "program budget passport" system and one scoring B (PI-8.4) since the results of work of the Balance Commission were not published regularly. Tracking of resources to service delivery units (PI-8.3 'A') reflecting the strong accounting (PI-27 'B+').

472. **Public access to fiscal information is strong (PI-9 'A').** All four applicable basic elements are made available (audited financial statements are not applicable since they do not exist). There is a citizen's (summary) budget available.

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.*

473. **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 A reflecting the interagency commission and its standard criteria for choosing projects. There are no public corporations in the oblast (PI-10.1 'N/A'). Unaudited reports on the majority of municipalities under the oblast are produced annually with some delay of up to nine months (PI-10.2 'C'). However, there are no contingent liabilities outside of the public corporations and municipalities and the dimension is not applicable (PI-10.3). Public assets management is not applicable as it is managed by the central government. There is no acknowledgment of any disposal or transfer of assets in the budget documents or other reports (PI-12.3 'C'). The oblast has no debt as at the time of the assessment as it was 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.*

474. **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 'A'). A medium-term approach is taken by KSUs to calculate their budget proposals stage. However, annual budgets are presented for the up-coming year only (PI-16.1 'D'), what had impact on the fact that the Parliament considers fiscal policies and budget allocations for the upcoming budget year and not the medium-term (PI-18.1 'B'). The scores D or D+ of PI-1, PI-2, and PI-3 reflect weaknesses of fiscal strategy and the lack of mid-term budget. The overall fiscal strategy focuses on the budget and following two years, but adopted for one budget year and does not examines changes from previous forecasts (PI-15.2 'C'). No medium-term budget has been adopted during the assessed period (PI-16.4 'N/A') 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 procedures (PI-18.2 'B') for budget scrutiny are respected.

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.*

475. **State Fiscal Service of Ukraine is responsible for revenue collection at the time of the assessment on behalf of the oblast.** 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 oblast. All revenues are paid into the oblast account with the Treasury account (PI-20.2 'A'). All accounts are reconciled on a timely basis. State Fiscal Service of Ukraine 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').

476. **The consolidation of cash balances in TSA at the National Bank of Ukraine is made on a daily basis (PI-21.1 'A').** The Finance Department forecasts the annual cash flow broken down by month but updates it periodically only (PI-21.2 'C'). Spending units know their annual budget within one month of approval of the oblast State 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 'A') and the number of adjustments to the annual budget is only two (PI-21.4 'A').

477. **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 but there is no checking against the

previous month's payroll data (PI-23.1 'C'). Changes to the employee information and on salary are made within three months (PI-23.2 'B'). 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'). The State Audit Service and the Accounting Chamber of Ukraine, on the basis of regular inspections, monitor the eligibility, timeliness and completeness of salary payments. However, full payroll audits are conducted on average once every three years (PI-23.4 'C').

478. **The public procurement system (PI-24), which is subordinated to the national policy, scores A in three dimensions and C in procurement methods (PI-24.2).** Only 65 percent of purchases were carried out by competitive methods. Overall the indicator scores a B+ which reflects the ProZorro electronic procurement system which has been recognized internationally and has received a number of awards.

479. **Internal controls on non-salary expenditure (PI-25) scores a B+ with effective commitment controls (PI-25.2 'A') and compliance with payment rules and procedures (PI-25.3 'A').** Improved segregation of duties with clear responsibilities (PI-25.2 'C') would lead to a higher overall score. This achievement is ensured by the management information system ("E-Treasury") that supports the TSA. The internal audit function is split between the oblasts' small internal audit unit and the Western Directorate of the State Audit service. In 2018 SAS audited 6.2 percent of total oblast budget expenditures (PI-26.1 'D'). Internal audit activities are primarily focused on compliance with some assessment of efficiency. Internal audit activities are guided by Ukrainian Internal Audit Standards (PI-26.2 'C'). The implementation of internal audit recommendations ensures its effectiveness (PI-26.4 'C').

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

480. **Accounts reconciliation and financial data integrity (PI-27) are areas of strengths.** The bank reconciliation for the TSA takes place on a daily basis (Score A). There are no Suspense accounts. Generally advance accounts are reconciled monthly on the basis of reporting by spending units (Score B). Data integrity is good (Score B) as access and changes to records are restricted and recorded, and results in a sufficient audit trail. However, the system lacks a dedicated operational unit.

481. **With respect to in-year budget reports, coverage and classification does not fully allow direct comparison to the original budget.** Treasury's reports on expenditure submitted to the oblast are based on economic and functional classifications, but not on administrative classification. Information includes all budget estimates for the spending units. The OSA prepared additional quarterly reports based on the administrative classification but they are not presented in the same format with original budget (PI-28.1 'D'). There are both monthly and quarterly budget execution reports are issued within 15 days from the end of month and within 35 days from the end of the quarter (PI-28.2 'A'). Initially, basic information is provided monthly with detailed follow up information quarterly. There are no material concerns regarding data accuracy. Information on expenditure is provided at the payment stage (only unpaid commitments are shown) (PI-28.3 'B').

482. **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. Treasury's reports on expenditure are based on economic and functional classifications, but not on administrative classification which does not allow their direct comparison with an original budget. In addition to the Treasury's reports, the OSA prepared annual reports based on the administrative classification but they are not presented in the format of 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.*

483. **External audit at the oblast 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 oblast council.

4.2 Effectiveness of the internal control framework

484. **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.

485. **The internal control environment, as set forth 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 SNG 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.

486. **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.

487. **There is a limited emerging risk-based approach supported by a developing internal audit function.** Risk assessment is becoming an important part of the control framework that applies to internal audit and analysis, but there is limited capacity to conduct them. Similarly, certain activities, such as advances and 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 oblast's full financial statements.

488. **Control activities are generally strong, in particular about reconciliation of accounts.** Segregation of duties requires better definition of responsibilities and an operational body focusing on financial data integrity processes. Rules for supplementary budgets and virement are met.

489. **Information and communication of internal control awareness 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.

490. **Budget execution reporting system that provides information on performance relating to service delivery enhances the overall control environment.** The oblast's Balance Commission reviews expenditure performance in relation to service delivery and provides independent evaluation and makes recommendations on service delivery performance, but the results were not published regularly.

4.3 Strengths and weaknesses of PFM

Aggregate Fiscal Discipline

491. **Aggregate fiscal discipline is achieved due to control over spending during budget execution, but is weak 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 Budget Code. Treasury operations and cash management enables expenditures to be managed within the available resources. Control of contractual commitments from both the OSA side and the Treasury side is effective and has removed expenditure arrears, which accounted less than 2 percent of total oblast budget expenditure for the last three fiscal years. The absence of a full external audit function may inhibit fiscal discipline, but the operations of the State Audit Services go some way to partially replace it. The share of the oblast's procurement that uses competitive tenders is weaken the fiscal discipline.

Strategic allocation of resources

492. **The Chart of Accounts caters to a multi-dimensional analysis of expenditure.** The provision of budget information to citizens make them aware of what is being spend and encourages them to demand resources to be directed to serve their needs. There is a medium-term perspective in KSU's expenditure budgeting but it is not reflected at annual oblast budgets. Performance indicators are specified, and there is assessment of, and independent evaluation of performance achievement. The work of the oblast's 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. Better management of investment would improve the strategic allocation of resources. This would ensure that recurrent cost implication of investment is better factored into the budget process and investments are also subjected to economic analysis and selected to generate the best return.

Efficient use of resources for service delivery

493. **The strength in the procurement process is good and impacts on efficiency in service delivery though it may be possible to have more contracts based on competitive bidding.** 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 monthly (and quarterly) and annual budget execution reports do not provide a full picture of usage of resources relating to the planned budget (since there is no reporting based on expenditures in the same form as an original budget). 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 oblast's PFM system.

5. Government PFM reform process

5.1 Approach to PFM reforms

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

495. **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 reallocating resources 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.

496. **Positive developments and remaining gaps 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
Enhanced 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
Introduction of fiscal risk management and increase of 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
Improved 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
Approved 2025 Public Sector Accounting Strategy.	Implementing the Public Sector Accounting Strategy, improving public sector accounting and financial reporting; strengthening fixed asset management
Increased transparency in public financial management	Increasing the efficiency of budget expenditures and responsibility of key spending units, including introducing regular spending reviews
Improved quality and efficiency of tax administration; improved VAT refund process through the single refund registry.	Comprehensive State Fiscal Service of Ukraine and Customs Service Reform
Creation of a legal background to introduce expenditure reviews.	Developing a Methodology of expenditure reviews

Source: 2017-2020 PFM Reform Strategy.

497. **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 at the central government and subnational levels.

498. **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 Khmelnytskyi oblast. 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 LGs debt management capacities, and improving transparency.

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

Objective number ²	Objective formulation	Key actions taken by end of Q3 2018 ¹
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 work in progress. 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 bln. 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
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). As of the beginning of 2017, the Government abandoned transfers of transportation subsidies to LGs, but instead introduced direct debits of beneficiaries’ (personal) accounts
4	Introducing medium-term budget planning 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
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 a large number of LG representatives were held
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

¹ from the PFM Reform Strategy implementation report of Q3 2018.

² within priority area 2 of the PFM strategy (“improvement of resource allocation efficiency at the government policy making level”).

499. **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 effort still to be provided.** 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 as well as limited possibilities to introduce and change tax rates on some local taxes and fees. Starting from 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. As of December 2018, the Budget Code 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 concept of local budgets external audit.

500. **Challenges faced by local governments, in particular new 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

501. **Overall reforms across the Ukrainian PFM system have proceeded gradually and progressively.** The New Budget Code 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 Verkhovna Rada 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.

502. **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 of Ukraine 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

503. **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 of Ukraine.

504. **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 end of 2018, 806 new entities (AH) were established covering nearly 40 percent of Ukraine's rural population (i.e. over 8 million people). At the end of 2014, amendments to the Budget Code 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 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 changed to accommodate the new functional mix and the Tax Code modifications.

505. **Prior to 2014, a 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.

506. **Following the reforms, the system of transfers became based on the equalization of financial provisions.** 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 (base subsidy); stabilization subsidy, additional grants and subsidies. In 2018, the share of inter-budgetary transfers was 53.2 percent of local budgets revenues.
- Horizontal equalization (of revenue collection capacity of regional 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; (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.

507. **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 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.

508. **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 sub-national government, which have not necessarily reflected the ambition to promote amalgamation and limit the scope of oblasts and rayons.

509. **Only municipalities of a certain size can issue debt within clear thresholds on the level of debt and debt service.** For instance, large cities, i.e., oblast capitals 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 Budget Code of Ukraine, 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 Budget Code 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) and its servicing: in the amount not exceeding 10 percent of general fund expenditures.

5.3 Institutional considerations

510. **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 Budget Code (№ 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.

511. **After the decentralization reforms the key functions of oblasts and rayons became:**

- (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.

512. **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 Budget Code 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 Budget Code, 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. Transfers 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	Within the last three years actual transfers from a higher level of government were above 95 percent of the original budget (2016 – 114.1 percent, 2017– 119.3 percent, 2018 – 97.8 percent)
	HLG-1.2. Earmarked grants outturn	C	Deviations between original budget and actual inter-government transfers in the last three financial years was less than 10 percent (2016 – 7.7 percent, 2017 – 8.6 percent, 2018 – 7.1 percent)
	HLG-1.3. Timeliness of transfers from higher-level government	A	There is an agreed schedule for transferring grants and subsidies from the higher-level government. A monthly plan for inter-government transfers is prepared and coordinated at the beginning of the year. Over 75 percent of actual transfers (by quarter) were received on time in the last three years
Budget Reliability	PI-1 Aggregate expenditure outturn	D	In 2016–2017, the deviation between aggregate expenditure outturn compared to originally approved budget exceeded 15 percent (16.8 percent in 2016 and 19.4 percent in 2017). Deviation was insignificant only in 2018 at 2.6 percent
	PI-2 Expenditure composition outturn	D+	Scoring Method M1 (WL)
	(i) Expenditure composition outturn by function	B	Variance in expenditure composition by functional classification was less than 10 percent in two of the past three years (3.0 percent in 2016, 6.5 percent in 2017, and 10.1 percent in 2018)
	(ii) Expenditure composition outturn by economic type	D	Variance in expenditure composition by economic classification was more than 15 percent in two of the past three years (4.2 percent in 2016, 23.7 percent in 2017, and 18.8 percent in 2018)
	(iii) Expenditure from contingency reserves	A	No expenditure charged to a contingency vote was actually made in 2016–2018 (the annual budget included contingency expenditure which never exceeded 1 percent of aggregate expenditure of the original budget)
	PI-3 Revenue outturn	D	Scoring Method M1 (WL)
	(i) Aggregate revenue outturn	D	Actual revenue was higher than 116 percent of budgeted revenue in each year (129.6 percent in 2016, 163.4 percent in 2017, and 130.1 percent in 2018)
	(ii) Revenue composition outturn	D	Variance in revenue composition was more than 15% in each of the past three years (19.1 percent in 2016, 43.9 percent in 2017, 25.0 percent in 2018)

COUNTRY NAME: UKRAINE		Current assessment		
Pillar	Indicator/dimension	Score	Description of requirements met	
Transparency of Public Finances	PI-4	Budget Classification	A	Budget formulation, execution and reporting are based on economic, functional and administrative classifications. The functional classification meets the requirements of the IMF Government Finance Statistics Manual/Classification of the Functions of Government. Moreover, programmatic classification is applied
	PI-5	Budget Documentation	D	The budget documentation contains two of four basic elements and two out of 8 additional elements (three of which are not applicable). All of them are available to the oblast council
	PI-6	Central government operations outside financial reports	A	Scoring Method M2 (AV)
		(i) Expenditure outside financial reports	A	All expenditures made by the oblast are included in the TSA. There are no extrabudgetary expenditures
		(ii) Revenue outside financial reports	A	All revenues accrued by the oblast 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	D+	Scoring Method M2 (AV)
		(i) System for allocating transfers	C	In 2018, 54.5 percent of total amount of own transfers was allocated as per formula or criteria
		(ii) Timeliness of information on transfers	D	Rayons, cities of oblast significance and ATCs received the intergovernmental transfers in amounts approved by the oblast administration after the specified deadline. This applies to both transfers received from the national budget, which are allocated via the oblast budget, and own transfers from the oblast budget. Almost all the volumes of own transfers from the oblast budget were received after the beginning of the fiscal year
	PI-8	Performance information for service delivery	A	Scoring Method M2 (AV)
		(i) Performance plans for service delivery	A	Key Performance Indicators of outputs and outcomes are established and published at the level of individual entities based on established norms relating to achievable service delivery based on performance and efficiency targets
		(ii) Performance achieved for service delivery	A	Each spending unit reports on the realization of the KPI outputs and outcomes specified in their KPI passports. There is the budget execution report for the oblast which contains this information
		(iii) Resources received by service delivery units	A	There is a sub-account for each spending unit within the TSA. This allows spending and revenues to be tracked down to the individual spending units such as hospital and schools
		(iv) Performance evaluation for service delivery	B	The results of independent assessment of the efficiency and effectiveness of service delivery were published departments covering 67 percent of the total expenditure represented by service delivery activities for the oblast
PI-9	Public access to information	A	The local governments disclose four basic elements out of five, one of which is not applicable, and three additional elements	

COUNTRY NAME: UKRAINE		Current assessment		
Pillar	Indicator/dimension	Score	Description of requirements met	
Management of assets and liabilities	PI-10	Fiscal risk reporting	C	Scoring Method M2 (AV)
		(i) Monitoring of public corporations	N/A	Khmelnyskyi oblast administration does not control or own any share in a public corporation
		(ii) Monitoring of sub-national government (SNG)	C	The Head of the State Treasury Office at the oblast level prepares the consolidated report of local budgets under the Khmelnytskyi oblast and publishes them annually on its web-site within nine months of the end of the fiscal year
		(iii) Contingent liabilities and other fiscal risks	N/A	Khmelnyskyi oblast does not have 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 of a major investment project financed from the oblast budget was not conducted
		(ii) Investment project selection	A	A major investment project was selected as per published standard criteria
		(iii) Investment project costing	D	Total capital cost of a major investment project with a year-by-year breakdown was included into the project proposal submitted for selection but was not included into budget documentations even for the forthcoming budget year. That cost was included at the later stage though changes to the 2018 oblast Budget, once SRDF completed the selection procedure. Estimation of recurrent costs was not calculated
		(iv) Investment project monitoring	D	Monitoring of financial aspects of a major investment project was conducted but did not include information about physical progress. The monitoring report was not published in 2018
	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 at the oblast level, with no control from the Khmelnytskyi oblast administration
		(ii) Nonfinancial asset monitoring	N/A	The records on nonfinancial assets are maintained by the central government with no control from the Khmelnytskyi oblast administration
		(iii) Transparency of asset disposal	C	Procedures and rules for the transfer and disposal of nonfinancial assets are established. However, there is no acknowledgment of any 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	Khmelnyskyi oblast did not engage in subnational borrowing and guarantee transactions during the period under review because oblast councils were vested with the right to do so at the end of the year 2018
		(ii) Approval of debt and guarantees	N/A	Khmelnyskyi oblast did not engage in subnational borrowing and guarantee transactions because oblast councils were vested with the right to do so at the end of the year 2018
	(iii) Debt management strategy	N/A	Khmelnyskyi oblast has not had any debt management strategy or target ranges for borrowing indicators as of September 2019, because oblast councils were vested with the right to raise subnational borrowings and issue subnational guarantees no sooner than at the end of the year 2018	

COUNTRY NAME: UKRAINE		Current assessment		
Pillar	Indicator/dimension	Score	Description of requirements met	
Policy-based fiscal strategy and budgeting	PI-14	Macroeconomic and fiscal forecasting	B	Scoring Method M2 (AV)
		(i) Macroeconomic forecasts	N/A	OSA has no capacity to forecast regional GDP. 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. However, the document did not include explanations of the main differences from the forecasts made in the previous year's budget
		(iii) Macro-fiscal sensitivity analysis	N/A	Three scenarios are developed as part of the oblast budget process: best case, no change and realistic (central). These scenarios are prepared for the budget but were not a part of the budget documentation. However, the OSA 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	C+	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	C	The oblast 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 oblast. The published budget passed by the council includes the fiscal balance for the budget year only.
		(iii) Reporting on fiscal outcomes	A	The oblast 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	The annual budget presents estimates of expenditure for the budget year allocated by administrative classification and for the two following fiscal years – by functional classification
		(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 oblast administration at the time of the circular but only at the time of the finalization of the budget
		(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 internal strategies which are linked to the oblast'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	There is an established budget calendar. The budget circular is issued in October and spending units are given less than four weeks to prepare their budgets. All KSUs are able to complete their detailed estimates on time	

COUNTRY NAME: UKRAINE			Current assessment	
Pillar	Indicator/dimension		Score	Description of requirements met
		(ii) Guidance on budget preparation	C	A clear and comprehensive budget circular is issued. The budget estimates are approved by the oblast administration after budget requests been completed by KSUs
		(iii) Budget submission to the legislature	D	The draft budget has been submitted to the oblast council less than one month before the start of the 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	B	The permanent budget and finance committee of the oblast council considers in detail the estimates for the planned year, prepared for the draft budget. Medium-term forecasts are not considered
		(ii) Legislative procedures for budget scrutiny	B	The timetable for consideration of the draft oblast budget for 2019 at the oblast council was approved by Khmelnytskyi oblast council order. Members of the public may attend meetings related to the draft oblast budget without the right to come up with proposals
		(iii) Timing of budget approval	A	The oblast budgets 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 Budget Code allows redistributing the expenditure without amending the oblast budget throughout a year. There are clear rules for this redistribution that are always respected. At the same time, there are no clear limits established on the amount of amendments. Thus, significant administrative redistribution may be allowed
Predictability and control in budget execution	PI-19	Revenue administration	N/A	Scoring Method M2 (AV)
		(i) Rights and obligations for revenue measures	N/A	Administered by the State Fiscal Service
		(ii) Revenue risk management	N/A	Administered by the State Fiscal Service
		(iii) Revenue audit and investigation	N/A	Administered by the State Fiscal Service
		(iv) Revenue arrears monitoring	N/A	Administered by the State Fiscal Service
	PI-20	Accounting for revenues	A	Scoring Method M1 (WL)
		(i) Information on revenue collections	A	There is a monthly revenue report to the oblast administration detailing the revenue statistics with an explanation.
		(ii) Transfer of revenue collections	A	Tax revenue is paid into the oblast's revenue sub account on a daily basis
		(iii) Revenue accounts reconciliation	A	The State Fiscal Services 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 State Fiscal Services 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 oblast's revenue and expenditure are maintained in sub-accounts of the TSA at the National Bank of Ukraine. All sub-accounts are consolidated on a daily basis	
	(ii) Cash forecasting and monitoring	C	At the start of the financial year the oblast's Finance Department prepares the cash forecast for each month based on estimated revenue and expenditure. It is only updated in March and September if revenues are greater than forecast	

COUNTRY NAME: UKRAINE		Current assessment	
Pillar	Indicator/dimension	Score	Description of requirements met
	(iii) Information on commitment ceilings	A	The annual budget is allocated to spending departments on a monthly basis at the start of the year for the whole year.
	(iv) Significance of in-year budget adjustments	A	In 2018 there were two supplementary budgets and these were voted on in the council
	PI-22 Expenditure arrears	B+	Scoring Method M1 (WL)
	(i) Stock of expenditure arrears	A	The share of total expenditure arrears for the last three fiscal years was less than 2 percent
	(ii) Expenditure arrears monitoring	B	Data expenditure arrears are 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	The payroll and personnel records are maintained separately and are linked and supported by full documentation that is not fully computerized. The authorization and verification process is done monthly. There is no checking against the previous month's payroll data
	(ii) Management of payroll changes	B	The payroll is updated by the relevant departments to reflect changes in information on personnel based on the relevant orders issued by the institution's director within period of up to three months Retrospective payroll adjustments are not made
	(iii) Internal control of payroll	A	There are clear and detailed rules and procedures for making changes in personnel and payroll records, which provide for signatures of authorized persons and high-quality audit trail
	(iv) Payroll audit	C	Only partial payroll audits have been conducted during the last three financial years. In case of health care institutions (about 50 percent of full-time employees of all institutions), staffing level audits are conducted every 2-3 years as a part of healthcare institution accreditation process. The payroll is audited by the State Audit Service within the framework of regular audits, inspections and verifications. For example, six audits and inspections of educational and healthcare institutions were conducted during the assessment period
	PI-24 Procurement	B+	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 oblast contracts are procured through the national ProZorro electronic procurement system and each spending unit of OSA is responsible for accuracy and completeness of information
	(ii) Procurement methods	C	Thirty-five percent of the value of the contracts in the oblast in 2018 was conducted using single source procurement and 65 percent 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)

COUNTRY NAME: UKRAINE		Current assessment		
Pillar	Indicator/dimension	Score	Description of requirements met	
	(i) Segregation of duties	C	For some procedures, the segregation of duties is prescribed by law; in other cases, it is necessary to segregate duties at the level of the institution. A more specific definition may be required for some duties related to the spending units. It is necessary to more clearly define the segregation of duties in the course of the development of tender proposals and the ascertainment of a successful tenderer. There is no generalized information about the conformity of the internal control in all oblast-level institutions with requirements for the internal control organization	
	(ii) Effectiveness of expenditure commitment controls	A	In line with internal procedures, spending units exercise control to make sure that commitments are assumed only within the scope of budgets and monthly budget allocations. The Treasury Information System is applied to public administration bodies at all levels; it includes a module that provides for the registration of all budget commitments and their entry into record only if they are within the budget allocations of the relevant spending unit	
	(iii) Compliance with payment rules and procedures	A	There is a link between commitment and payment accounting. The inappropriate and inefficient use of budget funds were 1.2 percent of total amount of expenditures covered by SAS' control in 2018	
	PI-26	Internal audit effectiveness	D+	Scoring Method M1 (WL)
	(i) Coverage of internal audit	D	While the actual numbers of internal audits carried out is still few, internal audit is operational for all of the oblast's activities based on the audit selection process. None of the oblast's operations should be excluded from the internal audit process, however in 2018 SAS audited 6.2 percent of total oblast budget expenditures	
	(ii) Nature of audits and standards applied	C	Overall the Internal audit function provides for assessing the effectiveness of internal control processes in the public organizations. The practical introduction of IAU's is described by the Ukrainian Internal Audit Standards which are based on IIA. Methodical recommendations and Guidelines on conducting internal audit procedures were also updated to be more aligned with international standards and practice	
	(iii) Implementation of internal audits and reporting	A	Internal audits are carried out in relation to an audit plan	
Accounting and Reporting	(iv) Response to internal audits	C	The response rate to recommendations is good but typically take more than 12 months to fully implement	
	PI-27	Financial data integrity	B+	Scoring Method M2 (AV)
	(i) Bank account reconciliation	A	The State Treasury Service records all transactions in a system of electronic payments in a TSA (with sub-accounts) the National Bank of Ukraine which allows daily reconciliation	
	(ii) Suspense accounts	N/A	The Finance Department reports that the oblast does not have any suspense accounts	
	(iii) Advance accounts	B	Advance accounts are reconciled monthly to ensure that advances are for the purpose stated and can be monitored on a daily basis. Advance accounts are closed if there is no activity after 3 years or the contractor requests closure	
	(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)	

COUNTRY NAME: UKRAINE		Current assessment	
Pillar	Indicator/dimension	Score	Description of requirements met
	(i) Coverage and comparability of reports	D	Coverage and classification of revenue in Treasury's reports allow direct comparison to the original budget. Treasury's reports on expenditure are based on economic and functional classifications, but not on administrative classification, what does not allow for their direct comparison with the original budget. The OSA prepared additional quarterly reports based on the administrative classification, but those reports are not presented in the format of original budget. In particular, they do not contain information on consumption and development expenditures, salary, utilities, lending, inter-governmental transfers etc. and are not consolidated (separate for the general and special budget funds). These does not allow direct comparison of reported expenditures with the original budget
	(ii) Timing of in-year budget reports	A	The Treasury produces monthly oblast budget execution reports within 15 days of the month-end.
	(iii) Accuracy of in-year budget reports	B	There are no issues with quality of information. 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. Treasury's reports on expenditure are based on economic and functional classifications, but not on administrative classification, what does not allow for their direct comparison with the original budget. The OSA prepared additional annual reports based on the administrative classification, but reports are not presented in the form of original budget. They do not contain information on consumption and development expenditures, salary etc. and are separated for general and special budget funds. These does not allow direct comparison with the original budget
	(ii) Submission of reports for external audit	D	Treasury draws up and submits financial statements of the oblast to the Finance Department of the oblast administration within three months after the expiry of the reporting year. The annual financial report is not submitted for external audit
	(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 The standards used and accounting policies are presented in the Notes to Financial Statements. However, the differences between the applicable national and international standards (IPSAS) are not presented at time of assessment

COUNTRY NAME: UKRAINE			Current assessment	
Pillar	Indicator/dimension		Score	Description of requirements met
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 Khmelnytskyi oblast would cover 86.6 percent of budget, such an audit has never been carried out. There were audits of some oblast spending units that covered 20 percent of total expenditure
		(ii) Submission of audit reports to the legislature	D	ACU reports go directly to the National Parliament and its relevant committees to whom the ACU is related to. Copies go to the Cabinet and the relevant oblast administration, but these are not statutory obligations
		(iii) External audit follow-up	N/A	As there have not been any financial audits, there are no recommendations nor any follow-up
		(iv) Supreme Audit Institution (SAI) independence	B	ACU is the body independent of the Government of Ukraine in essential aspects: (i) determination and election of ACU members, including the Head of the ACU, who are appointed and dismissed by the Parliament; (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 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 on the oblast's financial statements submitted to the oblast's council
		(ii) Hearings on audit findings	N/A	There were no audit reports on the oblast's financial statements submitted to the oblast's council
		(iii) Recommendations on audit by the legislature	N/A	There were no audit reports on the oblast's financial statements submitted to the oblast's council
		(iv) Transparency of legislative scrutiny of audit reports	N/A	There were no audit reports on the oblast's financial statements submitted to the oblast's council

Annex 2: Summary of observations on the internal control framework

Internal control components and elements	Summary of observations
Control Environment	
<p>1.1 The personal and professional integrity and ethical values of management and staff, including a supportive attitude toward internal control constantly throughout the organization</p>	<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 State Audit Service (SAS) is responsible for internal control. The oblast Administration has also set up an Internal Audit unit which works closely with the SAS in the Western Region</p> <p>The Budget Code 2010, 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 Ukraine of the internal audit systems provide the regulatory framework upon which Internal Audit Units have been established</p>
<p>1.2 Commitment to competence</p>	<p>In January 1, 2017 the function of the harmonization of the state internal financial control in the public sector was shifted from the State Audit Service 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 evidence by the B+ scores in PI 25. But there is low level of coverage of internal audit (D+ in PI-26)</p>
<p>1.3 The 'tone at the top' (i.e. management's philosophy and operating style)</p>	<p>There is a positive approach to implementing internal controls as evidenced by the organisational structure which ensures that there is response to recommendations</p>

Internal control components and elements	Summary of observations
1.4 Organizational structure	<p>The roles of the various parties involved in the financial management control system are established in the Budget Code 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 promote the establishment and development of public internal 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 oblast has set up an I-A unit that works closely with 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 internal audit and financial control is in place and follows standard public sector policies and practices. The Internal Audit function has been established in the oblast with 1 member of Staff and the Western Directorate of the SAS serves the oblast
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 ‘D’ in 11.1 – Economic analyses are conducted to assess some major investment projects.</p> <p>Macro-fiscal sensitivity analysis is rated ‘N/A’ in 14.3 – The oblast 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, the SAS in a State entity and the reporting structure is to the State though audit reports go to the oblast administration. 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. With respect to the oblast’s own internal audit unit there is a planning and reporting structure. Every six months, there is a report to the administration through the Internal Advisory Committee of the oblast Administration. (Implementation of internal audits and reporting – 26.3 rated A). However, Quality Assessment System for Internal Audit activities is in the process of being developed (Nature of internal audits and standards applied – 26.2 rated ‘C’)</p>
2.4 Risk appetite assessment	The development and implementation of identification and assessment of risk indicates a positive risk appetite which will grow as these become more mature

Annex 2: Summary of observations on the internal control framework

Internal control components and elements	Summary of observations
2.5 Responses to risk (transfer, tolerance, treatment, or termination)	Standard public sector HR policies are in place throughout the areas of control
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 no unit or team in charge.</p> <p>Effectiveness of expenditure commitment controls is rated 'A' in 25.2. Commitment control applies to all payments made from the TSA. Actual expenditures 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. There is no checking against the previous month's payroll data.</p> <p>Management of payroll changes is rated 'B' in 23.2. Personal records are updated at least quarterly 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)	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
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 but there is no overall body in charge</p>
3.4 Verifications	Accuracy of in-year budget reports which 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 oblast Department of Finance as well to the Ministry of Finance
3.5 Reconciliations	Banks account reconciliations are rated 'A' in 27.1. A TSA is in place and is reconciled on a daily basis
3.6 Reviews of operating performance	Business processes, operations, and activities are included within the scope of internal and external audits. There are some performance audits by SAS. 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. For example, all 36 Health Care units in the oblast are reviewed over a period of two days
3.7 Reviews of operations, processes and activities	The audit trail in place indicates a supervisory focus. The Balance Commission meets during January and February once the previous year's budget has been executed. All the meetings are minuted

Internal control components and elements	Summary of observations
Supervision (assigning, reviewing, and approving, guidance and training)	The audit trail in place indicates a supervisory focus. Staff are appropriately qualified
4. Information and communication	
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 'A' in 8.3. The information on the resources received by the service providers is collected and recorded through the TSA.</p> <p>Monitoring of SNGs is rated 'C' in 10.2. Unaudited annual financial statements for SNGs are published within 9 months after the end of the financial year.</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>Quality of central government financial asset monitoring is rated 'N/A' in 12.1. The records on the financial holdings are maintained by the oblast Office of the State Treasury, with no control from the OSA.</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 in the electronic procurement system.</p> <p>Implementation of internal audits and reporting is rated 'A' in 26.3. In 2018, 100 percent of audit plans to be conducted in the oblast have been implemented</p>
5.2 Evaluations	Performance evaluation for service delivery is rated 'B' in 8.4. Investment project selection is rated 'A' in 11.2
5.3 Management responses	<p>Response to internal audits is rated 'C' in 26.4. The response rate to recommendations is good but typically take more than 12 months to fully implement.</p> <p>The oblast 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 2019 – Public Finance Management Performance Report	November 20, 2019	

Annex 3B: List of people interviewed

No	Institution	Department	Person	Position
1	Khmelnyskyi OSA	Financial Department	Mr. Oleksii Petrychuk	Deputy Director
2		Financial Department	Ms. Yaroslava Dmytryshen	Deputy Director
3		Department for Economic Development, Industry and Infrastructure	Mr. Serhii Flentin	Deputy Director
4		Department for Economic Development, Industry and Infrastructure	Mr. Oleh Harnyk	Deputy Head of Department- Head of Unit
5		Industry Development Unit; Department for Economic Development, Industry and Infrastructure	Ms. Inna Tanyuk	Specialist
6		Department for Economic Development, Industry and Infrastructure	Ms. Hanna Glinska	Chief-Specialist - Accountant
7		Department for Regional Development and Construction	Ms. Vira Bryhadyr	Head
8		Department for Regional Development and Construction	Ms. Stephania Krulyk	Head of Unit
9		Department for Regional Development and Construction	Ms. Myroslava Tymoshchshchya	Chief Specialist
10		Information and Communication Department	Ms. Inna Mykhailova	Head
11		Information and Communication Department	Ms. Lyudmyla Cherevchenko	Chief-Specialist - Accountant
12		Internal Audit	Mr. Volodymyr Kucheriavy	Chief specialist
13		Department for Education and Science	Mr. Oleh Fasolya	Director
14		Department for Education and Science	Ms. Tetyana Makorta	Chief Specialist
15		Department of Health	Ms. Olena Martynyuk	Head of Unit
16		Department of Health	Ms. Valentyna Kurulyuk	Senior Specialist
17	Khmelnyskyi oblast Council	Department for Joint Ownership of Amalgamated Communities and Economic Development	Mr. Eduard Monastyrsky	Head of Department
18		Unit for Budget and Economic Analysis	Ms. Lyudmyla Levytska	Head
19		Budget Committee	Ms. Oksana Berehova	Deputy Head

No	Institution	Department	Person	Position
20	The State Treasury Service	Department of Methodology for Budget Services, Accounting, Reporting and Treasury Development	Ms. Natalia Botsman	Acting Director
21		Main Department of STS in Khmelnytskyi oblast	Ms. Kateryna Trynos	Deputy Head
22		Main Department of STS in Khmelnytskyi oblast	Mr. Oleh Peshkov	Head of Unit
23	The State Fiscal Service/ Main Department in Khmelnytskyi oblast		Ms. Viktoria Orlovska	Deputy Head of Department- Head of Unit
24		Department for Taxes and Duties on Individuals	Ms. Oksana Dmytriyeva	Head of Department
25		Department for Debt Repayment	Mr. Vasyl Shkarpeta	Head of Department
26	The State Audit Service	Department for Strategic Planning, Reporting and Coordination of State Financial Control	Mr. Ihor Volyanskiy	Director
27		Directorate of Regulatory and Methodological Support of the Public Financial Control Process	Ms. Viktoria Hanushchak	Deputy Head
28		Department of Western Office of SAS in Khmelnytskyi oblast	Mr. Serhii Moskalets	Deputy Head of the Department
29		Department of Western Office of SAS in Khmelnytskyi oblast	Mr. Velerii Dzyublyuk	Deputy Head of the Department
30		Department of Western Office of SAS in Khmelnytskyi oblast	Mr. Anatolii Martseniyuk	Deputy Head of the Department
31	The Accounting Chamber of Ukraine	Public Administration and Inter-Budgetary Relations Control Department	Mr. Ihor Stefanyuk	Deputy Director
32		Public Administration and Inter-Budgetary Relations Control Department /Public Administration Audit Unit	Mr. Leonid Nikiforov	Head of Unit
33	Center for Organizational and Economic Support of Educational Institutions		Ms. Tetyana Yemets	Head of Unit
34			Ms. Nataliya Popyk	Head of Unit
35			Ms. Natalia Shtykalo	Senior Economist

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 Khmelnytskyi oblast budget for 2016-2018;
HLG-1.1. Outturn of transfers from higher-level government	Treasury's quarterly and annual reports on Khmelnytskyi oblast budget execution for 2016, 2017, and 2018
HLG-1.2. Earmarked grants outturn	Order of Cabinet dated March 4, 2002 № 256
HLG-1.3. Timeliness of transfers from higher-level government	Order of Cabinet dated December 15, 2010 № 1132
Budget reliability	
PI-1. Aggregate expenditure outturn	The oblast budgets for 2016-2018;
1.1. Aggregate expenditure outturn	Treasure annual reports on oblast budget execution for 2016, 2017, and 2018
PI-2. Expenditure composition outturn	The oblast budgets for 2016-2018;
2.1. Expenditure composition outturn by function	Treasure annual reports on oblast 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	The oblast budgets for 2016-2018;
3.1. Aggregate revenue outturn	Treasure annual reports on oblast budget execution for 2016, 2017, and 2018
3.2. Revenue composition outturn	
Transparency of public finances	
PI-4. Budget classification	Budget Code of Ukraine (08. July 2010 № 2456-VI);
4.1 Budget classification	MoF's Decree dated 14.01.2011 № 11 «On Budget Classification»; The oblast budget for 2018; Treasury's report on execution of the oblast 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 Khmelnytskyi OSA dated September 18, 2017 № 39 n and November 8, 2018 № 60 n On approving the Instruction on preparation of budget requests for the draft oblast budget for 2018 and 2019.
PI-5. Budget documentation	Budget Code of Ukraine (08. July 2010 № 2456-VI);
5.1. Budget documentation	Draft oblast budget for 2019 and explanatory note to it, submitted by the OSA to oblast council on December 6, 2018; Annual report on execution of the oblast budget for 2018, submitted by the OSA to oblast council; The oblast budget for 2019.
PI-6. Central government operations outside financial reports	Budget Code of Ukraine (08. July 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	

Indicator/dimension	Data Sources
PI-7. Transfers to subnational governments	Budget Code of Ukraine (July 08,2010 № 2456-VI);
7.1. System for allocating transfers	The oblast budget for 2018 and changes to it;
7.2. Timeliness of information on transfers	Resolutions of Cabinet: <ul style="list-style-type: none"> - 16.09.2015 № 727; 31.01.2007 № 77; - 28.03.2018 № 214; 15.02.2012 № 91; - 12.09.2018 № 734; 0404.2018 № 237; - 06.02.2012 № 106; 14.09.2015 № 700; - 14.02.2018 № 110; Department's of Finance of Khmelnytskyi OSA letters: <ul style="list-style-type: none"> - 21.08.2017 № 02.01-13/1559; - 28.08.2017 № 02.01-13/1604; - 21.09.2017 № 02.01-13/1782; - 04.12.2017 № 02.01-13/; - 22.12.2017 № 02.01-13/2446
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 oblast budget for 2019.
8.2. Performance achieved for service delivery	Passports of Budget Programs` for 2019 of Department of Education and Science and Department of Healthcare.
8.3. Resources received by service delivery units	Planned and actual performance indicators for 2018 on budget programs:
8.4. Performance evaluation for service delivery	<ul style="list-style-type: none"> - on the provision of outpatient care and inpatient care to the population - of the Khmelnytsky oblast Hospital and the Khmelnytsky oblast Children's Hospital; - on appropriate conditions for the upbringing and development of orphans and children deprived of parental care in orphanages, incl. family type, foster families, foster care families - of the Orphanage of the Khmelnytsky oblast council; - for continuing education, retraining of personnel by institutions of postgraduate education - of the Khmelnytsky oblast Institute of Postgraduate Pedagogical Education. Reports on the implementation of passports of budget programs for the 2018 of the Department of Health and the Department of Education and Science of the OSA. Information on actual own revenues of the Khmelnytsky oblast Hospital, Khmelnytsky oblast Children's Hospital, the Orphanage of the Khmelnytsky oblast council and the Khmelnytsky Institute of Postgraduate Pedagogical Education for 2016-2018; Information on the assessment of the effectiveness of budget programs for 2016-2018 of the Department of Education and Science and the Department of Health of the OSA. The audit report of the Western Office of the SAS about results of the state financial audit of the implementation of the program "Centralized provision of medical institutions with expensive medical equipment, medicines and medical appliance for 2016-2018" by the Department of Health of the Regional State Administration for the period from 01.01.2016 to 30.09.2018

Indicator/dimension	Data Sources
PI- 9. Public access to fiscal information	Budget Code of Ukraine (08.07.2010 № 2456-VI);
9.1. Public access to fiscal information	Laws of Ukraine: <ul style="list-style-type: none"> - 11.02.2015 № 183-VIII; 13.01.2011 № 2939; - 27.02.2014 № 794; 23.09.1997 № 539. Khmel'nitsky oblast council's site (http://km-oblrada.gov.ua/) Khmel'nitsky Regional State Administration's site (https://www.adm-km.gov.ua) The State Audit Service's of Ukraine site (http://www.dkrs.gov.ua/kru/uk/index) The Main Office's of the State Treasury Service of Ukraine in the Khmel'nitsky oblast site of (https://khm.treasury.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 (08.07.2010 № 2456-VI);
10.2. Monitoring of sub-national government	Law of Ukraine dated 05.10.2017 № 2164-VIII;
10.3. Contingent liabilities and other fiscal risks	Resolutions of Cabinet: <ul style="list-style-type: none"> - 28.02.2000 № 419; - 03.02.2016 № 43; Reports on the implementation of local budgets of the Khmel'nitsky oblast, published on the websites of relevant local councils; State financial audit of budget execution: Yarmolinetsky rayon for 2012-2014 and 9 months of 2015; the amalgamated territorial community of Novoushytsky rayon for 2016-2017 (date: May 3, 2018); the amalgamated territorial community of Letychivsky rayon for the period from January 1, 2016 to June 30, 2018 (date: September 26, 2018); of the amalgamated territorial community of the Polonsky rayon for the period from January 1, 2016 to September 30, 2018 (date: December 21, 2018) Site of the Main Office of the State Treasury Service of Ukraine in the Khmel'nitsky oblast (https://khm.treasury.gov.ua)
PI-11. Public investment management	Budget Code of Ukraine (08.07.2010 № 2456-VI);
11.1. Economic analysis of investment proposals	The oblast budget for 2018;
11.2. Investment project selection	Resolutions of Cabinet:
11.3. Investment project costing	<ul style="list-style-type: none"> - 18.03.2015 № 196; - 18.05.2011 № 520; - 06.02.2012 № 106; - 06.12.2017 № 983;
11.4. Investment project monitoring	Decree of the Ministry of regional development, construction and housing and communal services of Ukraine dated 24.04.2015 № 80; Order of the Ministry of Infrastructure dated 21.09.2012 № 573/1019; Decision of the Khmel'nitsky oblast council of 05.25.17 № 634; The minutes of the meeting of the commission of the assessment and preliminary competitive selection of investment programs and regional development projects, which can be implemented at the expense of the State Regional Development Fund № 1 dated February 13, 2018 and № 2 dated February 20, 2018; The general rating list of projects which participated in the preliminary competitive selection of investment programs and projects that can be implemented at the expense of the State Regional Development Fund in 2018

Indicator/dimension	Data Sources
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; Inventory lists of fixed assets; The balance of the oblast budget as of January 1, 2019
PI-13. Debt management	Budget Code of Ukraine (08.07.2010 № 2456-VI);
13.1. Recording and reporting of debt and guarantees	Resolutions of Cabinet:
13.2. Approval of debt and guarantees	- 16.02.2011 № 110;
13.3. Debt management strategy	- 14.05.2012 № 541; - MoF's Decrees as of - 17.01.2019 № 12; - 25.07.2012 № 866; Treasury's report on execution of the oblast budget in 2018
Policy-based fiscal strategy and budgeting	
PI-14. Macroeconomic and fiscal forecasting	Explanatory notes to the draft oblast budget for 2016-2019;
14.1. Macroeconomic forecasts	Draft oblast budget for 2018
14.2. Fiscal forecasts	
14.3. Macro-fiscal sensitivity analysis	
PI-15. Fiscal strategy	Budget Code of Ukraine (08.07.2010 № 2456-VI);
15.1. Fiscal impact of policy proposals	Explanatory note to the draft oblast budget for 2019;
15.2. Fiscal strategy adoption	Information on the implementation of the oblast budget for 2018
15.3. Reporting on fiscal outcomes	submitted by the OSA to the oblast council
PI-16. Medium-term perspective in expenditure budgeting	Budget Code of Ukraine (08.07.2010 № 2456-VI); MoF's Decree as of 17.07.2015 № 648;
16.1. Medium-term expenditure estimates	Decrees of the Finance Department of the Khmelnytsky OSA as of
16.2. Medium-term expenditure ceilings	18.09.2017 № 39 n and as of 08.11.2018 № 60 n on approval of
16.3. Alignment of strategic plans and medium-term budgets	the Instructions for the preparation of budget requests to the draft oblast budget for 2018 and 2019;
16.4 Consistency of budgets with previous year's estimates	Budget requests of the Department of Education and Science, of the Department of Culture, Nationalities, Religions and Tourism and of the Department of Population Social Protection of the OSA for 2019-2021. Letters of the Financial Department of the OSA as of: - 10.10.2018 № 02.02-20/1830; - 10.10.2018 № 02.02-20/1831; - 10.10.2018 № 02.02-20/1833; - 11.10.2018 № 02.02-20/1846; - 27.11.2018 № 02.02-20/2091; - 27.11.2018 № 02.02-20/2092; - 27.11.2018 № 02.02-20/2093; - 27.11.2018 № 02.02-20/2094; Explanatory note to the draft oblast budget for 2019

Indicator/dimension	Data Sources
PI-17. Budget preparation process	Budget Code of Ukraine (08.07.2010 № 2456-VI);
17.1. Budget calendar	The plan for the preparation of the draft oblast budget for 2019, approved by the First Deputy Head of the OSA on 02.15.18;
17.2. Guidance on budget preparation	The plan for the preparation of the question “On the draft decision of the session of the oblast council “On the oblast budget for 2019” at the meeting of the board of the OSA of December 6, 2018 and the membership of the working group approved by the First Deputy Head of the OSA on 03.12.18;
17.3. Budget submission to the legislature	<p>Decree of the Finance Department of the Khmelnytsky OSA dated 08.11.2018 № 60 n on approval of the Instructions for the preparation of budget requests to the draft oblast budget for 2019;</p> <p>Letters of the:</p> <ul style="list-style-type: none"> - Department of Health of the OSA dated 27.11.2018 № 03-01 / 3041; - Department of Social Protection of the OSA of 27.11.2018 № 02.03 / 7468; - Department of Youth and Sports of the OSA dated 27.11.2018 № 1096-02 / 2018; - Department of Culture, Nationalities, Religions and Tourism of the OSA dated 27.11.2018 № 03-2263; - Services in the affairs of children of the OSA dated 27.11.2018 № 165011; - Department of Information Activities and Communications of the OSA dated 27.11.2018 № 03-02-768 / 2018; - Department of Education and Science of the OSA dated 27.11.2018 № 3314-41 / 2018. <p>Letters from Khmelnytsky OSA dated:</p> <ul style="list-style-type: none"> - 12.12.2016 № 67 / 27-14-5464 / 2016; - 11.12.2017 № 67 / 27-14-6244 / 2017; - 06.12.2018 № 67 / 27-14-5818 / 2018
PI-18. Legislative scrutiny of budgets	Budget Code of Ukraine (08.07.2010 № 2456-VI);
18.1. Scope of budget scrutiny	Regulation of the Khmelnytskyi oblast council, approved by the Decision of the oblast council as of 26.12.2015 № 5-2 / 2015;
18.2. Legislative procedures for budget scrutiny	Regulations on standing committees of the Khmelnytskyi oblast council, approved by the Decision of the oblast council as of 04.12.2015 № 8-1 / 2015;
18.3. Timing of budget approval	Schedule of meetings of standing committees of the oblast council, approved by the order of the Khmelnytskyi oblast council dated 16.10.2018 № 172/2018-o;
18.4. Rules for budget adjustments by the executive	<p>The work plan of the standing budget and finance committee of the oblast council for 2018, approved at a meeting of the standing committee on 15.12.2017;</p> <p>oblast budgets for 2017, 2018, 2019;</p> <p>Report on the implementation of the oblast budget for 2018</p>
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 (08.07.2010 № 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 (08.07.2010 № 2456-VI);
21.1. Consolidation of cash balances	The oblast 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;
	Samples of the daily information of the Main Office of the STS in
	the Khmelnytskyi oblast, using which the Finance Department of the
	OSA monitors the balances of appropriations on the accounts of
	institutions
PI-22. Expenditure arrears	Budget Code of Ukraine (08.07.2010 № 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 oblast 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 Statistics as of:
23.3. Internal control of payroll	- 28.09.2005 № 286;
23.4. Payroll audit	- 05.12.2008 № 489;
	Copies of examples of job descriptions of persons with access to
	make changes to personnel records and payroll accounting;
	Information on the number of subordinate institutions having infor-
	mation systems for personnel records and payroll;
	Copy of the approved staff schedule;
	Copies of extracts from audit reports for 2016-2018 regarding pay-
	roll;
	Information received from the State Audit Service
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 received from the Department of Economic Develop-
	ment, Industry and Infrastructure of the Regional State Administra-
	tion

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 (08.07.2010 № 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: <ul style="list-style-type: none"> - 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; Decree of the Ministry of Economic Development and Trade of Ukraine as of 30.03.2016 № 557; Provisions on tender committees of some educational and healthcare institutions; Decree of the Department of Education and Science of the OSA as of 26.06.2019; Copies of examples of agreements on individual liability; Copies of extracts from audit reports on procurement procedures
PI-26. Internal audit	Budget Code of Ukraine (08.07.2010 № 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	<ul style="list-style-type: none"> - 04.10.2011 № 1247; - 29.09.2011 № 1217; - 27.03.2014 № 347;
26.4. Response to internal audits	Decree of the Head of the OSA as of 30.12.2014 № 523/2014-r; Job description of a specialist (on internal audit) of the OSA; Strategic Action Plan for the Internal Audit of the OSA for 2019-2021; Internal Audit Declaration of OSA; Audit report dated 14.12.2018 №2 on the audit of efficiency in the State Archive of the Khmelnytskyi oblast on the issue: Evaluation of the activities of the State Archive of the Khmelnytskyi oblast regarding the efficiency and effectiveness of the functions, tasks and processes assigned to the archive (planned internal audit of effectiveness), an action plan for the implementation of audit recommendations on the results of this audit; and information from the State Archive on the implementation of these recommendations
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;
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: <ul style="list-style-type: none"> - 23.08.2012 № 938; 31.12.2013 № 1203; - 24.01.2012 № 44; 21.10.2013 № 885; Treasury's Decrees as of: <ul style="list-style-type: none"> - 17.05.2000 № 1; 17.11.2014 № 318; - 21.11.2011 № 127

Indicator/dimension	Data Sources
PI-28. In-year budget reports	Budget Code of Ukraine (08.07.2010 № 2456-VI);
28.1. Coverage and comparability of reports	Treasury's monthly and quarterly reports on execution of the oblast 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	Information of the Finance Department on dates of receipt of monthly and quarterly reports on the execution of the oblast budget in 2018
PI-29. Annual financial reports	Budget Code of Ukraine (08.07.2010 № 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's Report on execution of the oblast 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 oblast 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 (08.07.2010 № 2456-VI);
30.2. Submission of audit reports to the legislature	ACU Decision as of 22.09.2015 № 5-5
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 Khmelnytsky oblast council, approved by the Decision of the oblast council as of
31.3. Recommendations on audit by the legislature	04.12.2015 № 8-1/2015
31.4. Transparency of legislative scrutiny of audit reports	

Annex 4: Calculations for HLG-1

Annual data for 2016, UAH million

Grants	Budget	actual	adjusted budget	deviation	absolute deviation	percent
Equalization Grant	45.0	45.0	51.4	-6.3	6.3	12.4
Targeted Grants for Social Protection of Population	3,237.7	3,588.0	3,693.9	-105.9	105.9	2.9
Targeted Grant for Education	182.0	280.8	207.7	73.2	73.2	35.2
Targeted Grant for Health Care	623.5	643.2	711.3	-68.1	68.1	9.6
Other Grants	5.1	113.1	5.9	107.2	107.2	1,825.2
Grand Total	4,093.4	4,670.2	4,670.2		360.7	
<i>HLG-1 indicator variation</i>						<i>114.1</i>
<i>HLG-2 indicator structure</i>						<i>7.7</i>

Source: Annual Budget and Annual Budget Execution Reports.

Annual data for 2017, UAH million

Grants	budget	actual	adjusted budget	deviation	absolute deviation	percent
Equalization Grant	52.8	52.8	62.9	-10.2	10.2	16.2
Targeted Grants for Social Protection of Population	4,318.6	4,975.6	5,151.9	-176.3	176.3	3.4
Targeted Grant for Education	178.1	200.0	212.5	-12.5	12.5	5.9
Targeted Grant for Health Care	777.2	840.2	927.2	-87.0	87.0	9.4
Other Grants	249.3	583.5	297.5	286.0	286.0	96.2
Grand Total	5,576.0	6,652.0	6,652.0		572.0	
<i>HLG-1 indicator variation</i>						<i>119.3</i>
<i>HLG-2 indicator structure</i>						<i>8.6</i>

Source: Annual Budget and Annual Budget Execution Reports.

Annual data for 2018, UAH million

Grants	budget	actual	adjusted budget	deviation	absolute deviation	percent
Equalization Grant	64.7	64.7	63.3	1.4	1.4	2.3
Targeted Grants for Social Protection of Population	5,251.5	4,870.4	5,134.1	-263.6	263.6	5.1
Targeted Grant for Education	212.5	225.1	207.8	17.4	17.4	8.4
Targeted Grant for Health Care	872.8	952.9	853.3	99.6	99.6	11.7
Other Grants	1,196.4	1,314.9	1,169.6	145.2	145.2	12.4
Grand Total	7,597.9	7,428.1	7,428.1		527.3	
<i>HLG-1 indicator variation</i>						<i>97.8</i>
<i>HLG-2 indicator structure</i>						<i>7.1</i>

Source: Annual Budget and Annual Budget Execution Reports.

Quarterly data for 2016, UAH million

Title	2016 budget	2016 Actual	I Quarter Budget	I Quarter Actual	II Quarter Budget	II Quarter Actual	III Quarter Budget	III Quarter Actual	IV Quarter Budget	IV Quarter Actual
Grants	4,093.4	4,670.2	997.5	1,113.7	950.8	935.1	915.8	928.4	1,229.3	1,693.0
Equalization Grant	45.0	45.0	11.3	11.3	11.3	11.3	11.3	11.3	11.3	11.3
Targeted Grants for Social Protection of Population	3,237.7	3,588.0	797.8	907.6	719.3	694.4	709.7	706.2	1,010.9	1,279.8
Targeted Grant for Education	182.0	280.8	40.0	40.0	63.1	63.1	35.1	35.1	43.8	142.6
Targeted Grant for Health Care	623.5	643.2	147.4	147.4	155.7	155.7	158.3	158.3	162.0	181.7
Other Grants	5.1	113.1	1.0	7.4	1.4	10.6	1.4	17.5	1.4	77.6
Grants		114		112		98		101		138
Equalization Grant		100		100		100		100		100
Targeted Grants for Social Protection of Population		111		114		97		100		127
Targeted Grant for Education		154		100		100		100		326
Targeted Grant for Health Care		103		100		100		100		112
Other Grants		2196		750		752		1245		5741

Source: Annual Budget and Annual Budget Execution Reports.

Quarterly data for 2017, UAH million

Title	2017 budget	2017 Actual	I Quarter Budget	I Quarter Actual	II Quarter Budget	II Quarter Actual	III Quarter Budget	III Quarter Actual	IV Quarter Budget	IV Quarter Actual
Grants	5,576.0	6,652.0	1,581.5	2,299.5	1,296.6	1,192.7	1,038.2	1,462.9	1,659.8	1,696.9
Equalization Grant	52.8	52.8	11.0	13.2	13.9	13.2	13.9	13.2	13.9	13.2
Targeted Grants for Social Protection of Population	4,318.6	4,975.6	1,299.1	1,994.7	943.0	849.8	752.5	1,134.9	1,324.0	996.2
Targeted Grant for Education	178.1	200.0	41.1	41.1	64.3	68.6	25.3	24.7	47.5	65.6
Targeted Grant for Health Care	777.2	840.2	167.0	194.2	207.9	194.3	196.3	194.3	206.0	257.3
Other Grants	249.3	583.5	63.2	56.2	67.5	66.8	50.2	95.8	68.4	364.7
Grants		119		145		92		141		102
Equalization Grant		100		120		95		95		95
Targeted Grants for Social Protection of Population		115		154		90		151		75
Targeted Grant for Education		112		100		107		98		138
Targeted Grant for Health Care		108		116		93		99		125
Other Grants		234		89		99		191		533

Source: Annual Budget and Annual Budget Execution Reports.

Quarterly data for 2018, UAH million

Title	2018 budget	2018 Actual	I Quarter Budget	I Quarter Actual	II Quarter Budget	II Quarter Actual	III Quarter Budget	III Quarter Actual	IV Quarter Budget	IV Quarter Actual
Grants	7,597.9	7,428.1	2,166.9	2,265.3	1,709.1	2,032.9	1,440.1	1,318.8	2,281.8	1,811.1
Equalization Grant	64.7	64.7	16.2	16.2	16.2	16.2	16.2	16.2	16.2	16.2
Targeted Grants for Social Protection of Population	5,251.5	4,870.4	1,609.7	1,764.2	1,105.5	1,361.8	878.9	684.7	1,657.3	1,059.7
Targeted Grant for Education	212.5	225.1	47.7	50.5	72.2	82.0	30.7	25.8	61.9	66.9
Targeted Grant for Health Care	872.8	952.9	218.9	218.2	217.8	218.2	216.7	218.2	219.4	298.3
Other Grants	1,196.4	1,314.9	274.4	216.2	297.4	354.7	297.7	373.9	326.9	370.0
Grants		98		105		119		92		79
Equalization Grant		100		100		100		100		100
Targeted Grants for Social Protection of Population		93		110		123		78		64
Targeted Grant for Education		106		106		113		84		108
Targeted Grant for Health Care		109		100		100		101		136
Other Grants		110		79		119		126		113

Source: Annual Budget and Annual Budget Execution Reports.

Annex 5: Calculations for PI-1, PI-2 and PI-3

Data on the functional classification for 2016, UAH million

Functional head	budget	actual	adjusted budget	deviation	absolute deviation	percent
General public services	8.3	8.3	9.8	-1.5	1.5	15.4
Economic affairs	67.0	78.0	78.8	-0.8	0.8	1.0
Health care	645.9	824.7	759.6	65.1	65.1	8.6
Cultural and physical development	73.4	83.9	86.3	-2.4	2.4	2.7
Education	441.0	459.3	518.6	-59.3	59.3	11.4
Social protection and social security	129.1	140.0	151.9	-11.9	11.9	7.8
Intergovernmental transfers	3,240.0	3,826.9	3,810.1	16.8	16.8	0.4
(= sum of rest)	11.7	7.6	13.8	-6.2	6.2	44.8
allocated expenditure	4,616.5	5,428.7	5,428.7	0.0	163.9	
Interests	0.0	0.0				
Contingency	29.5	0.0				
total expenditure	4,646.0	5,428.7				
aggregate outturn (PI-1)						116.8
composition (PI-2) variance						3.0
contingency share of budget						0.0

Source: Annual Budget and Annual Budget Execution Reports.

Data on the functional classification for 2017, UAH million

Functional head	budget	actual	adjusted budget	deviation	absolute deviation	percent
General public services	10.9	11.7	13.1	-1.4	1.4	10.6
Economic affairs	86.8	269.1	103.7	165.4	165.4	159.5
Health care	886.4	1,037.9	1,058.6	-20.8	20.8	2.0
Cultural and physical development	99.2	108.3	118.4	-10.1	10.1	8.6
Education	657.3	665.4	785.1	-119.6	119.6	15.2
Social protection and social security	157.7	174.8	188.3	-13.5	13.5	7.2
Intergovernmental transfers	4,321.0	5,241.0	5,160.8	80.3	80.3	1.6
(= sum of rest)	73.7	7.7	88.0	-80.3	80.3	91.2
allocated expenditure	6,292.9	7,515.9	7,515.9	0.0	491.3	
Interests	0.0	0.0				
Contingency	0.5	0.0				
total expenditure	6,293.4	7,515.9				
aggregate outturn (PI-1)						119.4
composition (PI-2) variance						6.5
contingency share of budget						0.0

Source: Annual Budget and Annual Budget Execution Reports.

Data on the functional classification for 2018, UAH million

Functional head	budget	actual	adjusted budget	deviation	absolute deviation	percent
General public services	182.4	20.5	187.2	-166.7	166.7	89.0
Economic affairs	459.6	673.5	471.7	201.7	201.7	42.8
Health care	976.8	1,196.7	1,002.5	194.1	194.1	19.4
Cultural and physical development	111.6	116.7	114.5	2.2	2.2	1.9
Education	838.6	839.7	860.6	-20.9	20.9	2.4
Social protection and social security	186.1	224.8	190.9	33.9	33.9	17.7
Intergovernmental transfers	5,718.3	5,616.5	5,868.5	-252.0	252.0	4.3
(= sum of rest)	9.6	17.5	9.9	7.7	7.7	77.3
allocated expenditure	8,483.0	8,705.9	8,705.9	0.0	879.2	
Interests	0.0	0.0				
Contingency	1.5	0.0				
total expenditure	8,484.5	8,705.9				
aggregate outturn (PI-1)						102.6
composition (PI-2) variance						10.1
contingency share of budget						0.0

Source: Annual Budget and Annual Budget Execution Reports.

Data on economic categories for 2016, UAH million

Economic head	budget	actual	adjusted budget	deviation	absolute deviation	percent
Compensation of employees	575.6	588.9	676.8	-87.9	87.9	13.0
Use of goods and services	587.4	716.0	690.7	25.3	25.3	3.7
Consumption of fixed capital	8.2	71.9	9.7	62.2	62.2	642.7
Interest	0.0	0.0	0.0	0.0	0.0	
Grants to lower tiers	3,240.0	3,826.9	3,810.1	16.8	16.8	0.4
Grants	33.0	43.4	38.8	4.6	4.6	11.9
Social benefits	40.6	52.8	47.7	5.1	5.1	10.8
Other expenses	131.7	128.8	154.9	-26.1	26.1	16.9
Total expenditure (without reserve fund)	4,616.5	5,428.7	5,428.7	0.0	228.2	
composition variance						4.2

Source: Annual Budget and Annual Budget Execution Reports.

Data on economic categories for 2017, UAH million

Economic head	budget	actual	adjusted budget	deviation	absolute deviation	percent
Compensation of employees	907.5	420.7	1,083.9	-663.1	663.1	61.2
Use of goods and services	673.8	1,375.7	804.7	571.0	571.0	71.0
Consumption of fixed capital	83.5	46.3	99.7	-53.4	53.4	53.6
Interest	0.0	0.0	0.0	0.0	0.0	
Grants to lower tiers	4,321.0	5,241.0	5,160.8	80.3	80.3	1.6
Grants	46.0	294.4	55.0	239.4	239.4	435.3
Social benefits	63.0	44.5	75.3	-30.7	30.7	40.8
Other expenses	198.1	93.3	236.6	-143.4	143.4	60.6
Total expenditure (without reserve fund)	6,292.9	7,515.9	7,515.9	0.0	1,781.3	
composition variance						23.7

Source: Annual Budget and Annual Budget Execution Reports.

Data on economic categories for 2018, UAH million

Economic head	budget	actual	adjusted budget	deviation	absolute deviation	percent
Compensation of employees	463.1	435.7	475.3	-39.5	39.5	8.3
Use of goods and services	1,906.6	1,607.5	1,956.7	-349.2	349.2	17.8
Consumption of fixed capital	2.6	61.9	2.7	59.2	59.2	2,208.1
Interest	0.0	0.0	0.0	0.0	0.0	
Grants to lower tiers	5,718.3	5,616.5	5,868.5	-252.0	252.0	4.3
Grants	77.2	836.5	79.2	757.2	757.2	955.7
Social benefits	48.7	54.1	50.0	4.1	4.1	8.2
Other expenses	266.5	93.7	273.5	-179.8	179.8	65.7
Total expenditure	8,483.0	8,705.9	8,705.9	0.0	1,641.0	
composition variance						18.8

Source: Annual Budget and Annual Budget Execution Reports.

Data on revenues for 2016, UAH million

Revenue types	budget	actual	adjusted budget	deviation	absolute deviation	percent
Tax revenues						
Taxes on income, profit and capital gains	28.4	26.9	36.8	-9.9	9.9	26.8
Taxes on payroll and workforce	330.9	400.5	428.9	-28.4	28.4	6.6
Taxes on property	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	40.0	47.6	51.8	-4.2	4.2	8.1
Grants						
Grants from lower level government units	0.0	3.4	0.0	3.4	3.4	
Other revenue						
Property income	3.6	5.4	4.7	0.7	0.7	15.8
Sales of goods and services	113.4	121.0	147.0	-26.0	26.0	17.7
Fines, penalties and forfeits	0.0	0.1	0.0	0.1	0.1	
Sum of rest	36.7	111.7	47.5	64.2	64.2	135.0
Total revenue	552.9	716.7	716.7	0.0	136.9	
overall variance						129.6
composition variance						19.1

Source: Annual Budget and Annual Budget Execution Reports.

Data on revenues for 2017, UAH million

Revenue types	budget	actual	adjusted budget	deviation	absolute deviation	percent
Tax revenues						
Taxes on income, profit and capital gains	25.5	35.8	41.7	-5.9	5.9	14.1
Taxes on payroll and workforce	466.6	590.6	762.5	-171.8	171.8	22.5
Taxes on property	0.0	0.1	0.0	0.1	0.1	
Taxes on goods and services	0.0	0.0	0.0	0.0	0.0	
Other taxes	51.9	263.1	84.8	178.3	178.3	210.3
Grants						
Grants from lower level government units	0.0	3.1	0.0	3.1	3.1	
Other revenue						
Property income	4.9	5.8	7.9	-2.1	2.1	27.0
Sales of goods and services	133.1	140.0	217.5	-77.5	77.5	35.6
Fines, penalties and forfeits	0.1	0.2	0.2	0.0	0.0	1.7
Sum of rest	35.6	133.9	58.1	75.8	75.8	130.5
Total revenue	717.7	1,172.6	1,172.6	0.0	514.6	
overall variance						163.4
composition variance						43.9

Source: Annual Budget and Annual Budget Execution Reports.

Data on revenues for 2018, UAH million

Revenue types	budget	actual	adjusted budget	deviation	absolute deviation	percent
Tax revenues						
Taxes on income, profit and capital gains	37.4	51.3	48.7	2.6	2.6	5.3
Taxes on payroll and workforce	652.5	746.6	849.1	-102.4	102.4	12.1
Taxes on property	0.0	0.1	0.0	0.1	0.1	
Taxes on goods and services	0.0	0.0	0.0	0.0	0.0	
Other taxes	49.9	57.1	65.0	-7.9	7.9	12.1
Grants						
Grants from lower level government units	0.0	1.9	0.0	1.9	1.9	
Other revenue						
Property income	5.2	6.1	6.8	-0.7	0.7	9.9
Sales of goods and services	110.7	110.5	144.1	-33.5	33.5	23.3
Fines, penalties and forfeits	0.1	0.2	0.2	0.0	0.0	0.0
Sum of rest	31.0	180.4	40.4	140.0	140.0	346.6
Total revenue	886.9	1,154.2	1,154.2	0.0	289.1	
overall variance						130.1
composition variance						25.0

Source: Annual Budget and Annual Budget Execution Reports.

Annex 6: Structure of transfers from the oblast budget to local budgets in 2018, UAH million

No.	KPKVK (budget program code)	Key spending units	Approved for 2018, including amendments	of which:	
				allocated on the basis of clear and transparent criteria	allocated without clear and transparent criteria
		Transfers from the oblast Budget to Local Budgets—Total	5,696.9	5,601.2	97.7
		ratio to the total intergovernmental transfers, %	100.0	98.8	1.2
		At the expense of transfers from the national budget (including balances brought forward from the last year)— Total	5,574.5	5,562.1	12.4
1	3719120	Grant from the subnational budget at the expense of a stabilization grant from the national budget	2.3	2.3	
2	3719130	Grant from the subnational budget for expenses delegated from the national budget for the maintenance of education and healthcare establishments at the expense of the relevant additional grant from the national budget	402.3	402.3	
3	3719210	Subvention from the subnational budget for granting preferences and housing subsidies to households for the payment for the electrical energy, natural gas, heat and water supply, and water disposal services, the apartment rent (the upkeep of buildings, structures, and adjacent areas), apartment house caretaking, removal of household waste and liquid sewage at the expense of the relevant subvention from the national budget	2,914.2	2,914.2	
4	3719220	Subvention from the subnational budget for granting preferences and housing subsidies to households the population for the purchase of solid and liquid household oven fuel and liquefied gas at the expense of the relevant subvention from the national budget	107.0	107.0	
5	3719230	Subvention from the subnational budget for the disbursement of benefits to families with children, poor families, individuals ineligible for pension benefits, individuals with disabilities, children with disabilities, provisional public aid to children; provisional state social benefits to non-employed individuals of pensionable age who have not become eligible for pension benefits; benefits for taking care of individuals with Group I or II disabilities as a result of a mental disorder, compensation payments to a non-employed able-bodied individual taking care of an individual with a Group I disability or an individual in the age of more than 80 years at the expense of the relevant subvention from the national budget	1,847.8	1,847.8	

Annex 6: Structure of transfers from the oblast budget to local budgets in 2018, UAH million

No.	KPKVK (budget program code)	Key spending units	Approved for 2018, including amendments	of which:	
				allocated on the basis of clear and transparent criteria	allocated without clear and transparent criteria
6	3719241	Subvention from the subnational budget for the disbursement of the monetary compensation for residential premises to be provided to families of deceased individuals referred to in Article 10(1)(5-8) of the Law of Ukraine "On War Veteran Status and Guarantees of Their Social Protection", individuals with Group I and II disabilities resulting from a wound, blast injury, mutilation or disease contracted during the direct participation in the anti-terrorist operation and the support to the operation as prescribed by Article 7(2)(11-14) of the Law of Ukraine "On War Veteran Status and Guarantees of Their Social Protection", who are in need of the improvement of living conditions, at the expense of the relevant subvention from the national budget	23.2	23.2	
7	3719242	Subvention from the subnational budget for the disbursement of the monetary compensation for residential premises to be provided to internally displaced persons, who defended Ukraine's independence, sovereignty and territorial integrity and directly participated in the anti-terrorist operation, the support thereto, while staying directly in areas of the anti-terrorist operation during the pursuit thereof, and recognized as individuals with a Group III war disability in accordance with Article 7(2)(11-14) or combatants in accordance with Article 6(1)(19-20) of the Law of Ukraine "On War Veteran Status and Guarantees of Their Social Protection", who are in need of the improvement of living conditions, at the expense of the relevant subvention from the national budget	3.8	3.8	
8	3719243	Subvention from the subnational budget for the disbursement of the monetary compensation for residential premises to be provided to families of combatants killed in the territory of other states referred to in Article 10(1)(1) of the Law of Ukraine "On War Veteran Status and Guarantees of Their Social Protection", for individuals with Group I and II disabilities resulting from a wound, blast injury, mutilation or disease directly related to their stay in the said states referred to in Article 7(2)(7) of the Law of Ukraine "On War Veteran Status and Guarantees of Their Social Protection", who are in need of the improvement of living conditions, at the expense of the relevant subvention from the national budget	3.6	3.6	
9	3719250	Subvention from the subnational budget for the disbursement of the state social benefits for orphan children and children deprived of parental care, the pecuniary support to caregiver parents and foster parents for the provision of social services in family-type orphanages and foster families on a "money follows the child" basis, the payment for the provision of child patronage services and the disbursement of social benefits for living expenses of the child in the family of the patronage tutor at the expense of the appropriate subvention from the national budget	20.2	20.2	
10	3719260	Subvention from the subnational budget to fund measures related to the socioeconomic compensation of the population residing within the monitoring area for the risk at the expense of the relevant subvention from the national budget	3.2		3.2

Annex 6: Structure of transfers from the oblast budget to local budgets in 2018, UAH million

No.	KPKVK (budget program code)	Key spending units	Approved for 2018, including amendments	of which:	
				allocated on the basis of clear and transparent criteria	allocated without clear and transparent criteria
11	3719270	Subvention from the subnational budget for design, construction and repair activities, for purchase of housing and premises for the development of family-based and other family-like forms of upbringing, and for the provision of housing to orphan children and adult individuals, who were orphan children, at the expense of the relevant subvention from the national budget	14.8	14.8	
12	3719310	Subvention from the subnational budget for delegated expenses in the field of education at the expense of the educational subvention	15.4	15.4	
13	3719320	Subvention from the subnational budget at the expense of the balance of the educational subvention brought forward (Procurement of CD players for general secondary education establishments in order to create conditions for preparing for, and carrying out, the external independent evaluation in foreign languages)	0.7	0.7	
14	3719330	Subvention from the subnational budget for the provision of the public support to individuals with special educational needs at the expense of the relevant subvention from the national budget (support to individuals with special educational needs—consumption expenses)	5.7	5.7	
15	3719330	Subvention from the subnational budget for the provision of the public support to individuals with special educational needs at the expense of the relevant subvention from the national budget (equipment for rooms in inclusive resources centers—development expenses)	3.3	3.3	
16	3719350	Subvention from the subnational budget for the delivery of high-quality modern and affordable general secondary education in the New Ukrainian School at the expense of the relevant subvention from the national budget	38.4	38.4	
17	3719410	Subvention from the subnational budget for delegated expenses in the field of healthcare at the expense of the medical subvention (targeted expenses for the treatment of diabetes mellitus and insipidus patients)	26.5	26.5	
18	3719410	Subvention from the subnational budget for delegated expenses in the field of healthcare at the expense of the medical subvention	38.3	38.3	
19	3719460	Subvention from the subnational budget for the reimbursement for the cost of medicines required for the treatment of some diseases at the expense of the relevant subvention from the national budget	35.4	35.4	
20	3719570	Subvention from the subnational budget for the implementation of socio-economic development measures in some areas using the balance of the relevant subsidy from the national budget brought forward from 2017	3.4		3.4
21	3719620	Subvention from the subnational budget for holding elections of members of local councils and village, town, and city mayors at the expense of the relevant subvention from the national budget	1.8	1.8	

Annex 6: Structure of transfers from the oblast budget to local budgets in 2018, UAH million

No.	KPKVK (budget program code)	Key spending units	Approved for 2018, including amendments	of which:	
				allocated on the basis of clear and transparent criteria	allocated without clear and transparent criteria
22	3719320	Subvention from the subnational budget at the expense of the balance of the educational subvention brought forward	57.5	57.5	
23	3719610	Subvention from the subnational budget to cover the difference between the actual cost of thermal energy, district heating services, hot water supply, centralized water supply and waste water disposal services, cold water supply and waste water disposal services (using in-building systems) produced, transported, and supplied to households, budget-funded institutions and organizations, and/or other heat supply, centralized potable water supply and waste water disposal utilities providing such services to households, and the rates of payment for such services approved and/or endorsed by state authorities or local governments at the expense of the relevant subvention from the national budget	5.8		5.8
		Own transfers from the oblast budget—Total	122.4	66.7	55.7
		ratio to the total own transfers, %	100.0	54.5	45.5
24	3719770	Other subventions from the subnational budget	107.1	61.3	45.8
25	3719800	Subvention from the subnational budget for the implementation of regional socio-economic development programs	9.9		9.9
26	3719740	Subvention from the subnational budget for the implementation of environmental protection measures (oblast Environmental Protection Fund)	3.4	3.4	
27	3719750	Investment projects co-funding subvention from the subnational budget	2.0	2.0	

Source: Annual Budget.

Annex 7: List of communal enterprises that could be classified as public corporations as per PEFA definition

Public corporation	Date of audited financial statement	Total expenses, UAH '000	As a % of total expenditure of public corporations	Are contingent liabilities of the public corporation included in the financial report? (Y/N)	Notes
Oblpalyvo, Khmelnytskyi oblast corporation for fuel procurement and delivery to the public, utilities, and housing companies	Commission's meeting to summarize financial and business activities on 2/19/2019	5,804.6	9.97	no	
Komunalnyky Community-Owned Enterprise	Commission's meeting to summarize financial and business activities on 2/19/2019	3,796.2	6.52	no	In 2018, the State Audit Service re-viewed certain matters of financial and business activities
Khmelnytskyi lift Specialized Repair and Construction Enterprise	Commission's meeting to summarize financial and business activities on 2/19/2019	21,839	37.52	no	
Khmelnytskyi Learning Center for housing companies and utilities	Commission's meeting to summarize financial and business activities on 2/19/2019	4,703.2	8.08		
Farmatsia Khmelnytskyi oblast Firm	Commission's meeting to summarize financial and business activities on 2/19/2019	5,489.5	9.43	no	
Antoniny Drugstore No. 21	Commission's meeting to summarize financial and business activities on 2/19/2019	2,097.8	3.6	no	
Community-owned enterprise for architectural and construction design	Commission's meeting to summarize financial and business activities on 2/19/2019	1,398.8	2.4	no	
Khmelnytskyi Airport community-owned enterprise	Commission's meeting to summarize financial and business activities on 2/19/2019	2,739.5	4.7	no	
Khmelnytskyi Training and Course Center	Commission's meeting to summarize financial and business activities on 2/19/2019	886.3	1.52	no	
Community-owned motor carrier	Commission's meeting to summarize financial and business activities on 2/19/2019	4,025.2	6.92	no	
Kinovideoprokat oblast firm	Commission's meeting to summarize financial and business activities on 2/19/2019	5,425.9	9.32	no	

Annex 8: Information on proposals and recommendations made by the results of state financial audits conducted in Khmelnytskyi Oblast by the SAS Western Office Department in 2016-2018

	Topic and type of state financial audit	Number of proposals and recommendations								
		Imple-mented			Imple-mented			Imple-mented		
		Given*	In 2016	as of 1.01.2019	Given*	In 2017	as of 1.01.2019	Given*	In 2018	as of 1.01.2019
local budgets:										
1	State financial audit of the execution of local budgets of Yarmolynetsk rayon for 2012-2014 and 9 months of 2015 (report is not uploaded on the SAS site)	7	3	6						
2	State financial audit of execution of Novoushytsk's rural budget (amalgamated rural community) for 2016-2017/ May 3, 2018 http://dkrs.kmu.gov.ua/kru/doccatalog/document?id=139133							13	6	6
3	State financial audit of the execution of the Letichivsk rural budget (amalgamated territorial community), covering period from Jan.1, 2016 through June 30, 2018/ date – Sept 26, 2018 http://dkrs.kmu.gov.ua/kru/doccatalog/document?id=142898							18	13	13
4	State financial audit of the execution of the budget of Polonsk urban amalgamated territorial community, covering period from Jan.1, 2016 through Sept. 30, 2018/ date – Dec 21, 2018 http://dkrs.kmu.gov.ua/kru/doccatalog/document?id=144979							21	1	1
		7	3	6				53	20	20
execution of budget programs										
5	State financial audit of the efficiency of the execution of the oblast target social program on children's health improvement and resting (recreation) for the period till 2018, covering the period 2014-2015 and 5 months of 2016. (date of report – Feb 7, 2017) http://dkrs.kmu.gov.ua/kru/doccatalog/document?id=132054	5	3	5						
6	State Financial audit of the execution of the oblast targeted social program on HIV and AIDS by Health Care Dept of Khmelnytsk OSA for 2015-2018, covering the period from Jan.1, 2015 through Sept 9, 2017/ date of audit report – Dec 15, 2017 http://dkrs.kmu.gov.ua/kru/doccatalog/document?id=136000				7	0	5			
7	State financial audit of execution of budget programs on general secondary education provided by specialized general boarding schools, schools and other educational institutions for children that require correction of physical and/or mental development of Khmelnytsk oblast, covering period from Jan.1, 2015 through April 1, 2018. / date – July 19, 2018 http://dkrs.kmu.gov.ua/kru/doccatalog/document?id=141303							9	2	2
8	State financial audit of the execution of the budget programs of the Department for Culture and Tourism of Khmelnytsk City Council, covering period from Jan.1, 2016 through Aug. 31, 2018 / date – Nov 15, 2018 http://dkrs.kmu.gov.ua/kru/doccatalog/document?id=144072							8	0	0

	Topic and type of state financial audit	Number of proposals and recommendations								
		Implemented			Implemented			Implemented		
		Given*	In 2016	as of 1.01.2019	Given*	In 2017	as of 1.01.2019	Given*	In 2018	as of 1.01.2019
9	State financial audit of the execution of program “Centralized supply of costly medical equipment, medicines and medical products for 2016-2018” by Health Care Dept of the Khmelnytskyi OSA, covering period from Jan.1, 2016 through Sept 30, 2018. /date – Dec 29, 2018 http://dkrs.kmu.gov.ua/kru/doccatalog/document?id=145186							10	0	0
	Total	5	3	5	7	0	5	79	22	22
economic entities` activity										
public sector										
10	State financial audit of the SOE “KhmelnytskOblEnergO” covering period from Jan. 1, 2013 through Dec 31, 2015 (report is not uploaded on the SAS site)	13	12	12						
11	State financial audit of SOE “Novator” covering period March 1, 2015 through March 31, 2016 /date 23 Feb 2017 http://dkrs.kmu.gov.ua/kru/doccatalog/document?id=131981	14	6	11						
12	State financial audit of SOE “Shepetivka repair plant” covering period Sept 1, 2015 through July 1, 2016 /date 23 Feb 2017 http://dkrs.kmu.gov.ua/kru/doccatalog/document?id=131980	17	6	7						
13	State financial audit of SOE “Krasyliv aggregate plant” covering period Dec 1, 2015 through Sept 30, 2016 /Date 23 Feb 2017 http://dkrs.kmu.gov.ua/kru/doccatalog/document?id=131979	11	1	5						
14	State financial audit of Khmelnytsk state experimental prosthetic orthopedic enterprise covering period from Jan.1, 2012 through Nov 30, 2016/date – March 13, 2017 http://dkrs.kmu.gov.ua/kru/doccatalog/document?id=131841				12	8	12			
15	State financial audit of the SOE “Podil expert and technical center of the State Labour Service covering period from Jan 1, 2014 through Dec.31, 2016/ date – May 17, 2017 http://dkrs.kmu.gov.ua/kru/doccatalog/document?id=131840				7	3	6			
16	State financial audit of SOE “Dunayevetsky bakery plant” covering period from Oct 1, 2015 through Dec 31, 2016/date – Aug 15, 2017 http://dkrs.kmu.gov.ua/kru/doccatalog/document?id=132332				12	11	11			
17	State financial audit of SOE “Novator” covering period April 1, 2016 through June 30, 2017/date – 20 Sept 2017 http://dkrs.kmu.gov.ua/kru/doccatalog/document?id=133704				9	8	8			
18	State financial audit of the SOE “Shepetivka repair plant” covering period July 1, 2016 through June 30, 2017 /date – 13 Dec. 2017 http://dkrs.kmu.gov.ua/kru/doccatalog/document?id=135888				12	2	3			
19	State financial audit of the SOE “Krasuliv aggregate plant” covering period from October 1, 2016 through Sept 9, 2017/ date – April 19, 2018 http://dkrs.kmu.gov.ua/kru/doccatalog/document?id=138929							9	8	8

Annex 8: Information on proposals and recommendations made by the results of state financial audits conducted in Khmelnytskyi Oblast by the SAS Western Office Department in 2016-2018

	Topic and type of state financial audit	Number of proposals and recommendations								
		Given*	Imple- mented		Given*	Imple- mented		Given*	Imple- mented	
			In 2016	as of 1.01.2019		In 2017	as of 1.01.2019		In 2018	as of 1.01.2019
20	State financial audit of the SOE “KhmelnytskOblEnergo” covering period from April 1, 2017 through April 30, 2018 <i>(report is not uploaded on the SAS site)</i>							9	1	1
21	State financial audit of SOE “Khmelnytsk scientific and production center of standardization, methrology and certification” covering period from Jan.1, 2015 through March 31, 2018./ date – Oct 10, 2018 http://dkrs.kmu.gov.ua/kru/doccatalog/document?id=142406							10	0	0
22	State financial audit of SOE “Dunayevetsky bakery plant” covering period from Jan.1, 2015 through Dec 31, 2017/ <i>(report is not uploaded on the SAS site)</i>							3	3	3
23	State financial audit of SOE “Novator” covering period July 1, 2017 through June 30, 2018/date 26 Sept 2018 http://dkrs.kmu.gov.ua/kru/doccatalog/document?id=142897							8	3	3
24	State financial audit of the performance of the SOE “Scientific and technical complex “Factory of precise mechanics”, covering period from April 4, 2017 through August 31, 2018 / date – Dec 13, 2018 http://dkrs.kmu.gov.ua/kru/doccatalog/document?id=144755							9	1	1
	Total	55	25	45	52	32	40	48	16	16
municipal sector										
25	State financial audit of municipal enterprise “Khmelnytsk Airport covering period from Jan 1, 2014 through Dec 31, 2016 <i>(report is not uploaded on the SAS site)</i>				14	10	10			
26	State financial audit of Khmelnytsk communal enterprise “Spetscomuntrans” covering period from Jan 1, 2014 through Sept.30, 2017 <i>(report is not uploaded on the SAS site)</i>							14	8	8
27	State financial audit of Khmelnytsk oblast enterprise on stocking up and supply of fule to population, municipal utility enterprises and organizations of “Oblpalyvo” covering period from Jan 1, 2015 through Dec 31, 2017/report – April 10, 2018 http://dkrs.kmu.gov.ua/kru/doccatalog/document?id=138638							14	7	7
	Total				14	10	10	28	15	15
	Total all Audits	67	31	55 (82%)	73	42	55 (75%)	155	53	53 (34%)

* Covers only proposals and recommendations made by the results of audit completed in a relevant year.

