



PUBLIC EXPENDITURE AND FINANCIAL ACCOUNTABILITY
Improving public financial management.
Supporting sustainable development.
www.pefa.org

MONGOLIA



PUBLIC EXPENDITURE AND FINANCIAL ACCOUNTABILITY (PEFA) PERFORMANCE ASSESSMENT REPORT

Ulaanbaatar City Sub-National Government

June 30, 2022

© 2023 The World Bank
1818 H Street NW, Washington, DC 20433, USA
Telephone: 202-473-1000; Internet: www.worldbank.org
Some rights reserved

Standard Disclaimer:

This work is a product of the staff of The World Bank. The findings, interpretations, and conclusions expressed in this work do not necessarily reflect the views of the Executive Directors of The World Bank or of the governments they represent. The World Bank does not guarantee the accuracy of the data included in this work.

Rights and Permissions

The material in this work is subject to copyright. Because The World Bank encourages dissemination of its knowledge, this work may be reproduced, in whole or in part, for non-commercial purposes as long as full attribution to this work is given. All queries on rights and licenses, including subsidiary rights, should be addressed to World Bank Publications, The World Bank Group, 1818 H Street NW, Washington, DC 20433, USA; fax: 202-522-2625; e-mail: pubrights@worldbank.org.



MONGOLIA

Ulaanbaatar City

Public Expenditure and Financial Accountability (PEFA) Assessment

April 2023

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

PEFA Secretariat
April 20, 2023

ASSESSMENT MANAGEMENT AND QUALITY ASSURANCE

The assessment was undertaken jointly by the Government of Mongolia (GoM), the World Bank staff and consultants hired by the World Bank. The Ulaanbaatar City (UB City) of Mongolia played the lead role on the Government's side, while the World Bank coordinated the assessment on behalf of the development partners. Development partners have reviewed the draft PEFA assessment and provided feedback on the quality of the review process as well as to the overall narrative.

The core of the assessment oversight team included representatives of the World Bank who were responsible for undertaking the PEFA assessment and its quality assurance. The oversight team of the GoM was chaired by Mr. Sandagsuren. J, First Deputy Governor of Ulaanbaatar in charge of Economic Development and PPPs. UB City facilitated the provision of data and coordinated the reviews of the Concept Note and draft assessment report.

Box 1.1 below shows the assessment management, oversight, and quality assurance. The assessment was funded by the World Bank utilizing internal funding sources. A management team has been established, which includes government officials of UB City for the SNG PEFA assessment.

PEFA Check

The quality assurance framework has been reinforced as of January 1, 2018 (www.pefa.org) and oversight team together with the quality assurance process of this report is shown in Box 1.1 below. The draft report was submitted for peer review on September 16, 2022.

Box 1.1. Management and oversight team and Quality assurance

Name, position, and organization	Role
Mr. Sandagsuren. J, First Deputy Governor of Ulaanbaatar in charge of Economic Development and PPPs	Chairman
Mr. Naranbaatar. N, Head of the Finance and Treasury Division, Ulaanbaatar Governor's Office	Team Member (predictability and control in budget execution; accounting, recording and reporting)
Mr. Mungunshagai. B, Head of the Legal Affairs Division, Ulaanbaatar Governor's Office	Team Member (credibility of the budget; comprehensiveness and transparency; policy-based budgeting)
Mr. Misheelt. G, Head of the Development Policy and Planning Division, Ulaanbaatar Governor's Office	Team Member (credibility of the budget; comprehensiveness and transparency; policy-based budgeting)
Ms. Ayasgalan. M, Head of the Economic Development and PPP Division, Ulaanbaatar Governor's Office	Team Member (donor practices, predictability and control in budget execution)
Mr. Javzan. B, Head of the Ulaanbaatar Internal Audit Unit	Team Member (predictability and control in budget execution)

Mr. Gantulga. S, Officer of the Finance and Treasury Division, Ulaanbaatar Governor’s Office

Team Member (predictability and control in budget execution; accounting, recording, and reporting)

Review of concept note and/or terms of reference:

- Date of reviewed draft concept note by the PEFA Secretariat: February 23, 2022
- Other invited reviewers who submitted written comments: Batsukh Tumurtulga, MoF (Senior Consultant), Bolor Erdene, European Union Delegation to Mongolia (Project Manager), Min Zhao, World Bank (Senior Economist) and PEFA Secretariat.
- Review of the assessment report: September 16, 2022
- Peer reviewers: Batsukh Tumurtulga, MoF (Senior Consultant), Bolor Erdene, European Union Delegation to Mongolia (Project Manager), Min Zhao, World Bank (Senior Economist) and PEFA Secretariat.
- PEFA Secretariat’s review: First review: September 16, 2022. Second review: April 4, 2023.

<https://pefa.org/sites/default/files/20180111-PEFA Check from January 1 2018-Final.pdf><http://www.pefa.org/>

Box 1.2. Assessment team

Name, position, and organization	Role
Ms. Badamchimeg Dondog, Senior Public Sector Specialist, World Bank	Task Team Leader and Assessor
Mr. Kris Kauffmann, Senior Consultant on Public Financial Management, World Bank	Coordinating Consultant and Assessor
Ms. Naida Trkic-Izmirlija, Consultant, World Bank	Team member and Assessor
Ms. Ganchimeg Perenlei, Consultant, World Bank	Team member and Assessor
Ms. Khaliun Myanganbayar, Consultant, World Bank	Team member and Assessor
Ms. Naranzul Ganzorig, Consultant, World Bank	Team member and Assessor
Ms. Doloonjin Tserennadmid, Consultant, World Bank	Team member

Methodology

The assessment is conducted according to the 2016 SNG PEFA Framework and used the Guidance for SNG PEFA Assessments issued by the PEFA Secretariat in 2022. The full set of SNG indicators has been applied according to the 2022 SNG framework (based on the 2016 PEFA methodology), including the SNG pillar on intergovernmental fiscal relations.

The service delivery assessment module (the SD module) is applied in order to identify bottlenecks in service delivery due to PFM performance and thus inform efforts to improve service delivery in future. The Service Delivery assessment was conducted according to the SD module set out in the Guidance for SNG PEFA assessments and is contained in Annex 4.

The scope of the service delivery covered by the SD assessment include¹ health, education, maintenance, and transport. As these services are predominantly delivered by districts and public (as well as private) enterprises but financed mainly by national government, the SD module seeks to describe how the relationship between UB City and such entities impacts on service delivery.

¹ It is noted that responsibility for aspects of service delivery is shared, and retained elements of central control are in transition and/or being clarified as part of the decentralization process.

Scope and coverage

This SNG PEFA assesses the PFM systems of UB City, primarily focused on the budgetary units of UB City. The existence and transparency of any extra budgetary operations are covered by PI-6 and such extrabudgetary units included within the scope of other indicators and dimensions according to the SNG PEFA framework. Public corporations, some of which receive financial support from UB City, are covered by PI-10 but are otherwise out of scope of the assessment.

Nine districts within UB City are effectively separate levels of government, with their own governance and fiscal arrangements and therefore are not included within the set of budgetary and extrabudgetary units of UB city. Therefore, these lower-tier governments are not within the coverage of most indicators. However, the financial arrangements between UB City and districts are assessed by PI-7 and, because UB City funds service delivery by such entities, they are also included within the scope of PI-8.

Timelines

In-country field work:	April 21-28, 2022; June 21-28, 2022
Country fiscal year:	January 1 – December 31
Last three fiscal years covered:	2019, 2020 and 2021
Latest budget submitted to legislature:	2022
Time of assessment:	April 30, 2022 ²

Sources of information

The key sources of data for this assessment are the budget and associated documents, budget execution reports, annual reports of government entities, data obtained from the Government Financial Management Information System (GFMS) and associated reporting modules, annual financial statements, and the Glass Account Portal.

A consolidated list of documents used for this assessment, including by indicator, is presented in Annex 2.1. The names of all persons interviewed are listed in Annex 2.2.

Exchange rate (effective as of June 30, 2022)

Currency unit = Mongolian National Tugrik

USD 1 = MNT 3,134

² The concept note indicated the time of assessment to be April 30, 2022, however the assessment continued until June 30, 2022.

TABLE OF CONTENT

ABBREVIATIONS AND ACRONYMS	7
1. INTRODUCTION	9
Institutional Arrangements for PFM	14
2. SUMMARY OF FINDING	21
Main strengths and weaknesses of the PFM systems of UB City	22
Impact of PFM performance on budgetary and fiscal outcomes	24
Summary of performance indicators	27
3. ASSESSMENT OF PFM PERFORMANCE	28
SNG PILLAR: INTERGOVERNMENTAL FISCAL RELATIONS	31
HLG-1. TRANSFERS FROM HIGHER-LEVELS OF GOVERNMENT	31
PI-1. Aggregate expenditure outturn	37
PI-2. Expenditure composition outturn	39
PI-3. Revenue outturn	40
PILLAR TWO: Transparency of public finances	42
PI-4. Budget classification	42
PI-5. Budget documentation	44
PI-6. Subnational operations outside financial reports	46
PI-7. Transfers to SNGs	47
PI-8. Performance information for service delivery	51
PI-9A. Public access to fiscal information	55
PI-9B. Public Consultation	57
PILLAR THREE: Management of assets and liabilities	61
PI-10. Fiscal risk reporting	61
PI-11. Public investment management	65
PI-12. Public asset management	69
PI-13. Debt management	72
PILLAR FOUR: Policy-based fiscal strategy and budgeting	74
PI-14. Medium-Term Budget Strategy	74
PI-17. Budget preparation process	77
PI-18. Legislative scrutiny of budgets	80
PILLAR FIVE: Predictability and control in budget execution	84
PI-19. Revenue administration	84
PI-20. Accounting for revenue	89
PI-21. Predictability of in-year resource allocation	91
PI-22. Expenditure arrears	94
PI-23. Payroll controls	96

PI-24. Procurement	99
PI-25. Internal controls on non-salary expenditure	104
PI-26. Internal audit	106
PILLAR SIX: Accounting and reporting	111
PI-27. Financial data integrity	111
PI-28. In-year budget reports	114
PI-29. Annual financial reports	116
PILLAR SEVEN: External scrutiny and audit	119
PI-30. External audit	119
PI-31. Legislative scrutiny of audit reports	124
CONCLUSIONS OF THE ANALYSIS OF PFM SYSTEMS	127
Integrated assessment across the PIs	127
<i>Intergovernmental fiscal relations</i>	127
<i>Budget reliability</i>	128
<i>Transparency of public finances</i>	128
<i>Management of assets and liabilities</i>	129
<i>Policy-based fiscal strategy and budgeting</i>	130
<i>Predictability and control in budget execution</i>	131
<i>Accounting and reporting</i>	133
<i>External scrutiny and audit</i>	133
Strengths and weaknesses of the PFM systems	134
Impact of PFM performance on budgetary and fiscal outcomes	135
PUBLIC FINANCIAL MANAGEMENT REFORM	138
ANNEX 1. PERFORMANCE INDICATOR SUMMARY	146
ANNEX 2.1 EVIDENCE FOR SCORING INDICATORS	152
ANNEX 2.2 LIST OF PERSONS INTERVIEWED	154
ANNEX 3. CALCULATION OF BUDGET OUTTURNS FOR HLG-1, PI-1, PI-2 AND PI-3	155
ANNEX 4. SERVICE DELIVERY ASSESSMENT	164

ABBREVIATIONS AND ACRONYMS

BCG	Budgetary Central Government
CCAO	Capital City Audit Office
CG	Central Government
CGKh	Citizens General Khural
CRKh	Citizens Representative Khural
CSC	Civil Service Council
CSO	Civil Service Organization
COFOG	Classification of Functions of Government
DBG	Direct Budget Governor
DMD	Debt Management Division
EBUs	Extra Budgetary Units
FDI	Foreign Direct Investments
FY	Fiscal Year
GG	General Governor
GAL	Glass Account Law
GAP	Glass Account Portal
GBG	General Budget Governor
GDP	Gross Domestic Product
GDT	General Department of Taxation
GFS	Government Financial Statistics
GMIS	Government Financial Management Information System
GTL	General Tax Law
GoM	Government of Mongolia
HLG	Higher Level of Government
IBL	Integrated Budget Law of Mongolia
IPS	Integrated Payroll System
IPSAS	International Public Sector Accounting Standards
IMF	International Monetary Fund
INTOSAI	International Organization of Supreme Audit Institutions
IT	Information Technology

JSC	Joint Stock Companies
KPIs	Key Performance Indicators
LATUG	Law on Administrative and Territorial Units and their Governance
LDF	Local Development Fund
LLSCCU	Law on the Legal Status of the Capital City Ulaanbaatar
LOEs	Locally Owned Enterprises
LSLP	Law on State and Local Property
MoF	Ministry of Finance
MNAO	Mongolian National Audit Office
MNT	Mongolian National Tugrik
MTFF	Medium-Term Fiscal Framework
MUB	Municipality of Ulaanbaatar City
PEFA	Public Expenditure and Financial Accountability
PFM	Public Financial Management
PID	Public Investment Department
PIM	Public Investment Management
POEs	Publicly Owned Enterprises
PPP	Public Private Partnership
PPLM	Public Procurement Law of Mongolia
SAI	Supreme Audit Institution
SAO	State Audit Office
SGK	State Great Khural
SNG	Sub-National Government
SOE	State-Owned Enterprise
SPT	Special Purpose Transfer
TSA	Treasury Single Account
UB	Ulaanbaatar



INTRODUCTION

1. INTRODUCTION

Rationale and purpose

Ulaanbaatar (“UB City”) is the capital city and the largest unit of subnational government (SNG) in Mongolia, with a population of 1.5 million.

Decentralization is a key feature of the public governance landscape in Mongolia. A policy on decentralization was approved by resolution number 350 in 2016 and reflects a goal of increasing the efficiency, quality and accessibility of public services by ensuring uninterrupted citizen participation in decision-making and creating conditions to support economic and social development through open accountability and good governance. This is reflected in changes to the legal framework, including an enacted new Law on Administrative and Territorial Units and their Governance (LATUG).

In accordance with the Constitution of Mongolia, UB City is the capital of Mongolia. A Law on the Legal Status of the Capital City Ulaanbaatar (LLSCCU) was enacted in 2021, which outlines the responsibilities and rights of UB City in terms of its functions and its ability to raise revenue, including specific taxes and the right to raise public debt (via issuance of securities). UB City has the right to issue concessions and guarantees and to establish legal entities as well as a Capital City Development Fund.

Revenue of MNT 975 billion was collected by UB City in 2021, representing around 42% of all subnational revenue.

Subnational governments in Mongolia have been highly reliant on transfers from the Central Government (CG). During the period covered by this assessment, these transfers included transfers to cover general budget deficits, specific-purpose transfers and also grants for Local Development Funds (LDFs). In some cases, subnational governments, including Ulaanbaatar (due to its enhanced capacity for raising revenue), share the proceeds of net fiscal surpluses with the CG. The purpose of the PEFA is to establish a baseline assessment of PFM performance, reflecting that recent changes to intergovernmental governance and financing arrangements has resulted in a significant increase in the autonomy of UB City as well as to inform the design of future technical assistance.

Country economic situation

Mongolia is a landlocked, lower-middle-income country with growth potential owing, in part, to its rich mineral resource endowment. A traditionally agriculture-based economy has shifted to a mining-based economy during the past two decades, following the exploration of large mineral deposits and a large flow of foreign direct investments (FDI) to the mining sector. The country’s economy has experienced rapid yet volatile growth over the last 15 years, creating a wave of economic prosperity across the country with investments in its infrastructure and social services. However, the mining-led growth has resulted in severe

macroeconomic instability and is susceptible to external shocks, concentrated and enclave development, excessive capital accumulation, and little innovation. The poverty rate dropped between 2010 and 2018 from 38.8% to 28.4% and dropped even further to 27.8% in 2020.

The country's economic performance has been volatile since 2011, when the economy grew by 17.3%, with periods of growth and contraction in Gross Domestic Product (GDP). For example, in 2016, the country's GDP expanded only by 1.5%, but then accelerated in subsequent years to 6.3% on average in 2017-19. During this period, the fiscal balance was in surplus in two of the three years, while the public debt to-GDP ratio also declined for three consecutive years, and more than 2.5% of GDP was annually being transferred to the Stabilization and Future Heritage Funds.

The outbreak of COVID-19 and its consequences on demand for commodities and capital flows resulted in a contraction that aggravates existing macroeconomic vulnerabilities. The country's fiscal position in 2020 deteriorated substantially, triggered by rising spending demands (health care costs and fiscal measures set in place by the government to counteract the economic downturn caused by COVID-19) and revenue shortfalls following the economic contraction.

The Government of Mongolia (GoM) has set an agenda to diversify its economy and achieve sustainable economic growth. The key development strategies, set out in the Three-Pillar Development Policy of 2018, the Mongolia Sustainable Development Vision 2030, and, more recently, the Mongolia Vision 2050, propose diversifying Mongolia's economy towards the agriculture, tourism, and industry sectors. However, infrastructure inadequacy that inhibits the competitiveness of these sectors has been highlighted as one of the key bottlenecks to realizing Mongolia's diversification agenda.

The government's main economic challenges and government-wide reforms

Public finances in Mongolia were strained by COVID-19. Mongolia's fiscal support through the pandemic was larger than many regional comparators, with COVID-related measures costing around 18% of GDP, including 1.5% of GDP in additional health spending. According to the 2023 World Bank: Public Expenditure Review, medium-term fiscal sustainability remains a concern under current policy setting, despite improvements in economic outlook. Though the outlook for fiscal revenue is positive due to resumption of trade and increased mining production, spending is also expected to remain above historical levels, reflecting a structural increase in expenditure from a pre-COVID average of 30.5% of GDP to over 34% of GDP over 2022 – 2026. This structural increase is driven by a sustained increase in capital spending associated with the implementation of the NRP, combined with higher current spending (relative to pre-COVID levels) due to the permanent increase in social protection spending and a growing pension deficit. Despite public debt being projected to trend down over the medium term, it remains elevated in the near term, while large gross financing needs and higher bond spreads have increased rollover risks given low buffers.

The macroeconomic outlook for the medium term dictates the need to supplement strict fiscal discipline with a stronger emphasis on the allocative and operational efficiency of public spending during the coming years. Growing debt and spending constrain future fiscal choices. High public investment spending and the leading role of the state in the economy call for the productivity of public spending and better management of fiscal risks. The tax revenues have decreased from above 23% of GDP in 2019 to 21.2%. The tax base remains narrow and weaknesses in tax administration lead to an extra burden on compliant businesses that do not enjoy tax exemptions.

Key selected economic indicators

TABLE 2: Selected national economic indicators

	2019	2020	2021	2022
GDP (billion USD)	14.2	13.5	15.7	16.8
GDP per capita (USD)	4,450	4,128	4,657	5,033
Real GDP growth (%)	5.5%	-4.4%	1.6%	4.7%
CPI (annual average change) (%)	7.3%	3.7%	7.3%	15.2%
Gross government debt (% of GDP)	69.2	79.0	64.5	63.8
External terms of trade (annual percentage change)	4.5%	7.5%	45.6%	-1.5%
Current account balance (% of GDP)	-15.2%	-5.0%	-13.4%	-15.8%
Total external debt (% of GDP)	216.1%	240.3%	215.5%	198.5%
Gross official reserves (million USD)	4,341.1	4,526.4	4,358.5	3,632.5

Data source: National Statistics Office, Bank of Mongolia

Main facts and economic indicators of the SNG

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

Table 3: Summary of main facts of the SNG

SNG	Detail
Name of the SNG	Ulaanbaatar City
Tier of government	Second tier level of government
Population	1,597.2 thousand people
Main characteristics	Regional capital, National capital
Economy	Health, education, production and financial operations
Services provided by the SNG	Public transport, maintenance, water and sanitation, energy

Table 4: Selected economic indicators for UB City (2019-2022)

Economic indicators	2019	2020	2021	2022
GDP (million USD)	9,465.2	8,598.0	9,632.9	10,789.1
Share of sectors (%)				
Agriculture	0.3	0.26	0.3	-
Industry	42.1	42.25	42	-
Services	57.7	57.49	57.7	-
GDP per capita (USD)	6,503.5	5,799.1	6,340.8	6,881.7
Nominal GDP growth (%)	15.9%	-4.1%	13.5%	23.6%

Fiscal performance

Table 5 below outlines the SNG's fiscal and budgetary trends. Actual total revenue in 2020 decreased by 14% compared to the previous year due to the tax and non-tax revenue collection reduction of UB City, which then increased by 35% in 2021. The revenue decrease in 2020 was because of the negative impact of COVID-19 and impacted national economic outlook, however the trend is back on track in 2021 despite the pandemic. Total expenditure figures show the same trend as revenue; reducing in 2020 by 14% compared to 2019 (mainly due to the recurrent expenditure reduction) and then increased by 35% the following year. Recurrent spending decreased in 2020, due to the COVID-19 lockdown, but then increased in 2021.

TABLE 5: Aggregate fiscal data (million Mongolian National Tugrik [MNT])

	2019	2020	2021	2022
Total revenue	841,419.2	720,661.1	975,476.7	1,155,063.5
- Tax and Non-tax revenue	693,680.0	588,307.2	820,487.4	514,109.6
- Transfer (LDF and SPF) from the State Budget	23,139.9	21,470.7	29,934.0	13,056.6
- Transfer from Districts	81,265.3	110,883.2	125,055.3	627,897.3
- Balance of Budget Revenue from the previous year	43,334.0	0.0	0.0	0.0
Total expenditure	803,257.4	729,764.1	924,426.6	994,893.0
- Recurrent expenditure	291,599.5	190,323.1	375,079.1	418,920.0
- Capital expenditure	192,626.8	228,202.1	99,904.0	469,158.3
- Transfer to the State Budget	289,146.9	279,813.5	420,788.2	98,895.9
- Financial Support to Districts	29,884.2	31,425.0	28,655.3	7,919.8

Data source: Financial Statements and Budget documents of UB City

Intergovernmental fiscal arrangements

Assignment of expenditure responsibility

As the capital city of the country, Ulaanbaatar City has a wide mandate as defined in the Law on Administrative and Territorial Units and their Governance (LATUG). The main responsibilities of the city, include, inter alia, capital city development policy and planning; use, possession, disposal, and oversight of capital city property; capital city budget, planning, execution, reporting, and oversight; setting rates of locally collected taxes, fees, and charges within limits specified in the legislation; planning, allocation of the capital city Local Development Fund (LDF) and the formation, expenditure, reporting and oversight of other funds. Among its other mandates, UB City is also responsible for the planning and oversight of the capital city population's drinking water, sewage lines, and sewage drainage facilities; use, maintenance, and servicing of capital city buildings, movable properties and public spaces; regulation of public transportation services and traffic regulations as well as transport and road infrastructure, planning and location of roads and parking lots; planning, operation, and oversight of communication, electricity, and heat distribution networks; and integrated waste planning and management. The Law on the Legal Status of the Capital City Ulaanbaatar (LLSCCU) further defines special and other functions to be performed by the capital city (Article 8). The Integrated Budget Law of Mongolia (IBL) provides UB City with the responsibility for financing the above-listed activities and functions from its budget.

Prior to 2022, when the latest amendments to the LATUG went into force, UB City was also responsible for financing preschool and general education, primary health services, and land affairs as well as family, child, and youth development agencies through earmarked transfers, i.e. special purpose transfers from the CG. This arrangement was cancelled at the beginning of FY22 and these functions were centralized to the relevant line ministries.

UB City relationship with districts

There are four levels of government within the unitary government structure in Mongolia. UB City is at the second tier of government. Under UB City, there are nine districts and 204 khoros (urban sub-districts). UB City provides budget support transfers to its districts in circumstances where the district is assessed as being unable to cover its mandated expenditure from the revenues that district collects. Conversely, where a district collects more revenue than required to meet its mandated revenues, such funds transfers to UB City. UB City does not control the districts, as each district has its own democratically elected parliament (Khural), which approves its own budget. This assessment focuses on UB City itself and the districts are treated as lower-tier governments.

PFM functions

- Payments - UB City commits and pays for its expenditure upon issuance of quarterly and monthly financing and spending warrants by the central government/Ministry of Finance (MoF);
- Revenue administration - it raises the local revenues to ensure timely and full receipt of local taxes, fees, and other local revenues to the local budgets (into the Treasury Single Account [TSA]) in line with the Budget and Tax Laws of Mongolia; as per the Integrated Budget Law of Mongolia (IBL), the General Department of Taxation (GDT) is responsible for tax revenue collection at both central and local government levels;
- Monitoring of lower tiers of sub-national governments -UB City monitors fiscal transfers made to the districts, e.g. general purpose transfers to cover deficits and the LDF, thus reviewing their budget decrees approved by local Citizens Representative Khural (CRKh) for the purpose;
- Public investment - public investment is managed by the UB City Governor's office (Development Policy and Planning Division) which is responsible for economic policy development in the capital city;
- Management, monitoring, and recording of assets - the management, monitoring, and recording of fixed assets is decentralized, with each budgetary unit responsible for managing and safeguarding its assets. Disposal of fixed assets requires a resolution/decision of the local CRKh to be issued;
- Debt management - not all local governments in Mongolia are allowed to borrow (district CRKhs have no borrowing powers); starting from 2022 UB City was given the right to borrow but subject to the upper-level government's approval according to IBL and Debt Management Law;
- Macroeconomic forecasting - the UB City government prepares three-year macroeconomic forecasts of selected indicators related to the local economy;
- Cash monitoring and forecasting – annual cash forecasting is prepared by the Treasury;
- Payroll – Integrated Payroll System (IPS), introduced and rolled out in 2020, is used by the budgetary units for managing their payroll. The payroll system is interfaced with the centralized human resource management system of the Civil Service Council (CSC) for the key personnel data needed for payroll processing;
- Procurement - each budgetary unit prepares an annual procurement plan, and the procurement process is managed within the government's procurement system <https://tender.gov.mn/>. The system also allows public disclosure of the relevant procurement data;

- Internal audit - the internal audit function is decentralized, and the Government's Internal Audit Charter requires each budgetary unit to have either an internal audit unit or a staff member responsible for internal audit. They prepare annual internal audit plans, perform internal audits and prepare reports to be presented to the relevant internal audit committees;
- Financial reporting – semi-annual and annual financial reports for UB City are prepared and the latter is submitted for external audit;
- External audit - the Mongolian National Audit Office (MNAO), the country's Supreme Audit Institution (SAI) under Parliament, has a Capital City branch, which has the responsibility for auditing the revenues and expenditures of UB City districts.

Budgetary systems

The IBL guides the budget process to be followed at both central and local levels. UB City and its districts prepare their budget proposals that are then submitted for approval by the respective CRKh of the city/districts without requiring prior CG approval.

UB City budget is less dependent on transfers from the state (national) budget because UB City is a net contributor to the state budget and thus does not receive any general budget support from the CG (noting however that UB City did receive specific purpose transfers from the CG during the period being assessed). UB City/district governments maintain and manage accounts at the Treasury. Local governments in Mongolia are not allowed to borrow, except UB City, which is given a right to borrow starting from 2022, though all borrowings must be approved by the Government according to the legislation.

Institutional (political and administrative) structures

UB City/district governments have their governance structures as well as some economic autonomy and judicial powers. They also have legislatures (local councils or CRKhs) and executive authorities. UB City/district governments prepare, and local CRKhs approve, the respective budgets and enact resolutions and regulations for the territory; however, these legal acts must be in line with the IBL and other national legislation. Therefore, the budget and financial management processes at the central and local levels are streamlined based on the principle of unity of the budgetary system for the country.

Local self-governing bodies/CRKhs have the power to appoint their executives, which in turn appoint its budget and accounts officers (except for the Chief Accountant, who is appointed in consultation with the MoF (CG)). Hiring and appointments are carried out under the Civil Service Law of Mongolia and the LATUG.

Tax revenue sharing

As at the time of the assessment, the main sources of revenue for UB City are personal income tax, immovable property tax, and land fees. Starting from 2022, corporate income tax is to be shared between the CG and UB City at the portion of 60:40, as opposed to being fully retained by the CG. Revenues from the exploitation of oil resources and license fees for oil exploration and extraction are shared between central and local governments, but since the revenue is to be retained at origin, it is less relevant for UB City. The collection of tax revenue is administered by the GDT and Capital City Tax Office.

Intergovernmental transfers

With the adoption of the IBL in 2011, Mongolia embarked on major fiscal decentralization reforms per the LATUG. The country has three levels of sub-national governments - aimags (provinces) and the capital city (Ulaanbaatar); soums and districts, which are sub-units of aimags and the capital city; and baghs and khoroo, which are the sub-units of soums and districts. Aimags/the capital city and soums/districts have democratically elected parliaments, i.e. CRKh, which approve budgets for their respective levels. Expenditure functions, revenue sources, and inter-governmental transfers are specified in detail in the IBL.

Since 2012, the authorities of local governments have been significantly enhanced, with the capital city and aimag governments responsible for basic education, primary healthcare, urban planning and construction, social welfare services, water supply and sewerage, public transport, urban roads and bridges, and municipal services such as street lighting and garbage removal. These functions are financed from the local government's own-source revenue and intergovernmental transfers. Intergovernmental transfers are provided by the CG budget to local governments to finance the primary budget deficit, to support local development and, during the period of the assessment, specific purpose transfers to support the provision of necessary basic services (e.g., primary health and education). The nature and value of such transfers are closely defined by the respective line ministry of the CG, based on norms and standards regarding where, how, when, and by whom services should be provided and at what cost. Prior to FY22, Mongolia transferred a number of these special-purpose transfers to the capital city, but those have ceased, with general purpose transfers for deficit financing (which support SNGs operating at agreed standards) and the LDF transfers remaining. The latter is formula-based and allocation depends on the size of the population, population density, remoteness and the size of the local government, and the level of local development.

Institutional Arrangements for PFM

Overall institutional arrangements for PFM

The responsibilities and functions of public finance management are defined and assigned by the IBL, the LATUG, the LLSCCU, and other relevant legislation. The responsibilities and powers regarding the finances and financial management of UB City and its districts are governed through a gradually evolving legal framework resulting from Mongolia's transition out of a centrally planned economy. Overall, the net effect of the evolution in the legal framework has been a gradual strengthening of subnational levels of government. The current legal framework includes norms and procedures for the entire public sector. It covers the national and subnational levels of government, including UB City and its nine districts. It is important to acknowledge that the effort to decentralize roles and responsibilities across different levels of government is still incomplete and that additional regulations are needed to implement these laws more efficiently.

The following main legal laws are relevant to UB City governance:

IBL: This law sets out the general budget composition, classification, and financing scope. It establishes principles, systems, composition, and a classification of the budget, all used to implement special fiscal requirements, i.e. fiscal rules. It also defines both the authority of the local governments and the responsibilities of budgetary bodies that participate in the budget process. In addition, it regulates relations that arise in connection with budget preparation, approval, spending, accounting, reporting, and auditing. The law also determines tax and non-tax revenues of the capital city/aimags as well as districts/soums. Issues directly related to the formulation of local budgets, their planning, approval, and implementation, and inter-government relations between budgets of different levels are regulated in Section IX (Articles 56-60) of the IBL.

LATUG: This law regulates relations concerning administrative and territorial units of Mongolia, their functions, economic basis, reasons and procedures for change, self-governing and state administration systems in the administrative and territorial units. It also determines operation principles, powers and organizational arrangements of local self-governing bodies, powers of Governors at all levels, and relationship/interaction of local governing bodies with other organizations. The law determines the functions of local government including functions of the capital city, districts, and khoroos and delegation of state functions. This law establishes the administrative system, structure, and authorities of different levels of assemblies and governors.

The law states that UB City, aimags, soums, and districts shall have an independent budget and the budget sources shall consist of tax and non-tax revenues, state budget financing, and other sources permitted by law; and these budgets shall be spent on implementation of functions provided by this law.

The law defines forms of local self-governing bodies, which are CRKhs of aimags, the capital city, soums, and districts as well as a Citizens General Khural (CGKh) with direct participation of citizens at the bagh and khoroo level. LATUG (Article 35) determines the powers of the CRKh, including the following:

1. to approve medium-term policies of territorial development and annual guidelines for economic and social development, and make amendments to them;
2. to discuss and approve the budget of the respective aimag, the capital city, soum and district upon submission of the Governor, adjust and approve its execution;
3. to set tax rates, fees, and charges within the limits established by law;
4. to exercise ownership rights of local property;
5. to make decisions on the establishment, reorganization, and liquidation of locally owned legal entities, approve their charters, and exercise the right of stakeholders.

Law on the Legal Status of the Capital City Ulaanbaatar (LLSCCU): This law was newly drafted by the Constitution in 2021 and went into force in 2022. The law defines special and other functions of the capital city including those about development policy, management and organizational features, satellite cities, special economic zones, state supreme and state central administrative and other territorial units. Chapter 3 of this law defines economic relations of the capital city, which include issues concerning economic base, budget, tax, property, securities, the capital city development fund, and investment in promotion issues. The law defines (Article 20) the powers of the CRKh and Governor of the capital city and the Mayor of Ulaanbaatar.

General Tax Law (GTL): This law defines the authorities of the CG, UB City, and aimag regarding the setting of tax rates as well as tax administration responsibilities. While the functions performed by UB City to be covered by the budget sources are set in the LATUG and LLSCCU, revenue assignment and sources are defined in the IBL, which causes inconsistency in the budgeting process. An unstable legal environment causes uncertainty in the budgeting process of local government and budget entities. The Customs Law of Mongolia regulates issues related to the customs policy and administration of customs duties.

Public Procurement Law: The Public Procurement Law regulates the public procurement process, as well as the responsibilities and functions of its various actors, such as the MoF, and procurement agencies at central and local levels.

Sub-national institutional arrangements for PFM

CRKh of UB City as a legislative body, and together with the Governor and the Mayor of UB City, represents the local authorities. Local authorities in Mongolia have some independence in their decision-making including budgetary issues because of numerous reforms in public finance and local government that has been implemented by the Government in recent years.

Below are the institutional responsibilities for PFM:

Ministry of Finance (MoF): The Fiscal Policy and Planning Department provides the relevant local governments with the guidelines for budget preparation and organizational and methodological requirements for drafting local budgets as defined in the IBL for the relevant budgetary period. The Treasury Department handles servicing of budgets; control over budgetary powers regarding the entry of budget revenues; control over the compliance of the budget estimates of the spending units with the indicators of the budget allocation plans and compliance of the budget commitments with the budget allocations and the passport of the budget program.

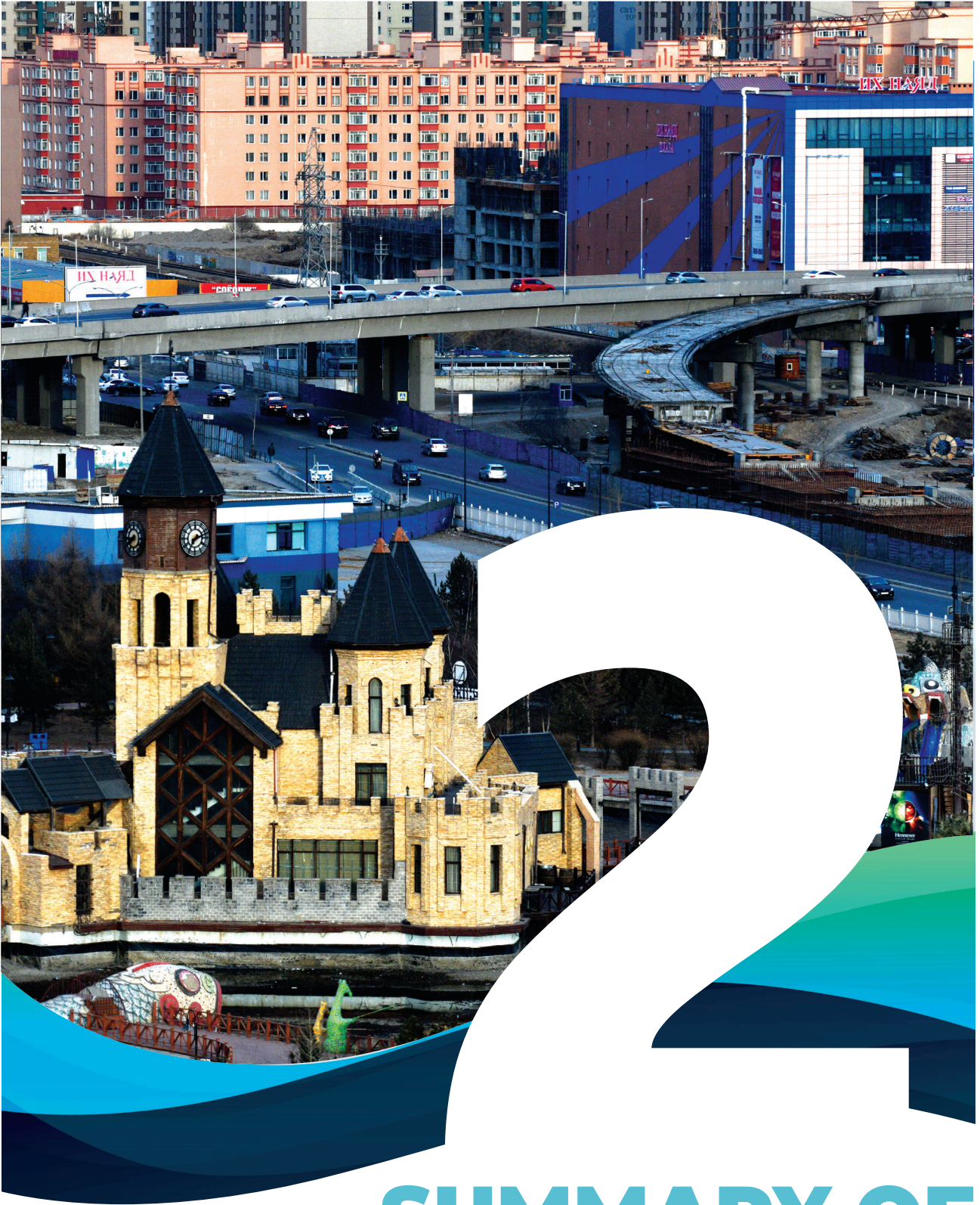
GTD/CCTD: They handle the administration of taxes and duties to local budgets and control the collection of budget revenues. The GTD has a vertical structure and therefore has the city and district tax offices reporting to it. Tax revenues transferred to the GDT account are reconciled daily and transferred to the TSA at the MoF.

CRKh of UB City: It reviews and makes the decision on the local budget, oversees the implementation of the decision on the local budget, and exercises control over budget performance with the approved local budget, the budget allocation plans, the budgetary institution's outlay, and other documents used in the budget. The CRKh also discusses and approves budget execution of UB City.

Finance and Treasury Division, MUB: It develops and submits local budget forecasts and drafts local budgets to the UB City CRKh and oversees the observance of budget legislation at every stage of the budget process regarding local budgets.

Capital City Audit Office (CCAO): Reporting to the Mongolian National Audit Office (MNAO), it is responsible for both central and local government external audits and control over a targeted, efficient, and effective use of local budget funds.

Districts: Districts make independent decisions on economic and social issues, deliver services to citizens specified in the law, implement legislation, and exercise unified management for khoroos within functions specifically provided by law. Districts prepare and approve their own budgets.



SUMMARY OF FINDINGS

SUMMARY OF FINDINGS

Main strengths and weaknesses of the PFM systems of UB City

A clear strength of the PFM system of UB City is the coverage of the budget and financial reporting, as both include the districts and the Publicly Owned Enterprises (POEs) as well as external sources of funding. This ensures a high degree of transparency of the policy choices and operations of UB City, and of the financial performance of associated entities. This helps to reduce the potential for unforeseen fiscal risks.

Another key strength is the robust nature of the collection and accounting for tax revenues, where the banking system and Treasury Single Account (TSA) structures are used to ensure timely recording of revenues. While much of this architecture belongs to the central treasury, its application in UB City adds to the transparency and efficiency of UB City's operations and enhances the efficiency of its financial interactions with the CG.

This same central treasury architecture extends to processes for the release of recurrent funding and the operation of controls over the use of recurrent expenditure, which are generally robust. This is despite some reliance on manual processes (which impacts on efficiency rather than effectiveness of such controls). The introduction of the new electronic payroll system, which links to the HR system, is an example of how further use of technology solutions could improve internal controls over spending. Internal audit is in place for most of UB City. Overall, there is a reasonable degree of integrity of revenue as well as payroll and non-payroll expenditure data.

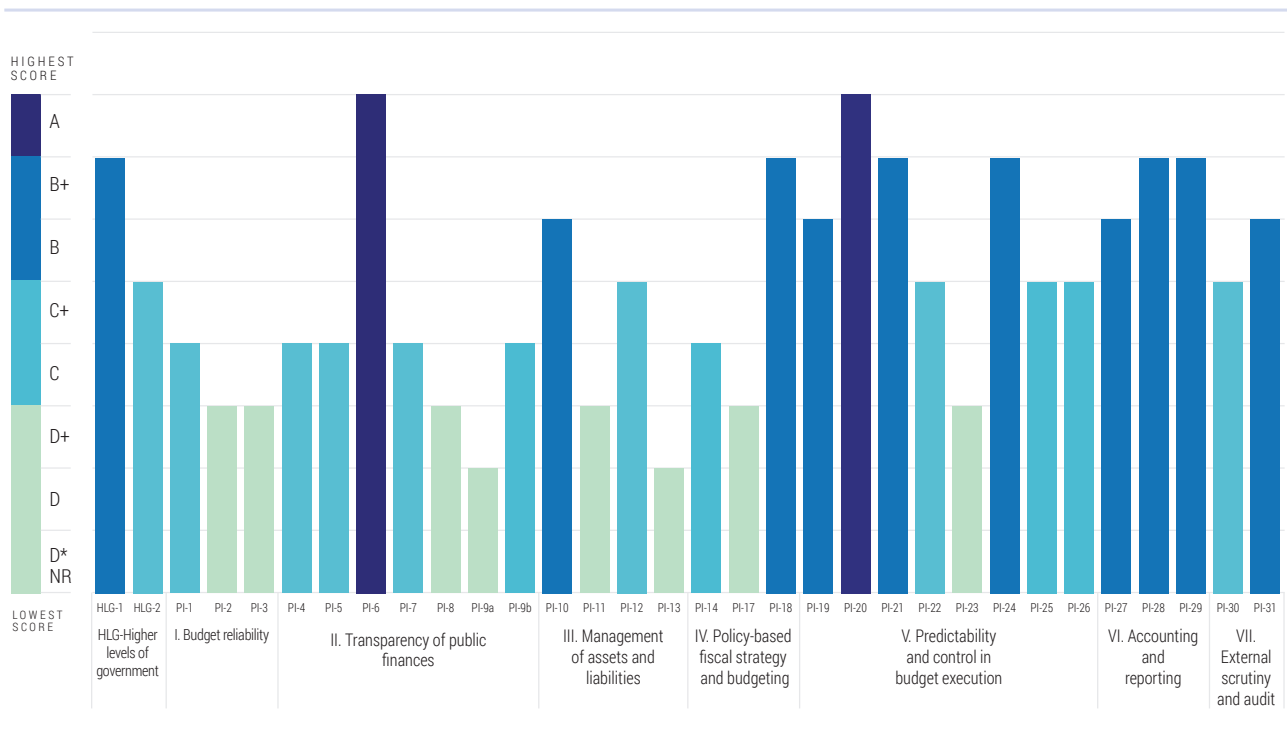
A further strength of the PFM system is the timely preparation of within year reports. Financial statements are prepared according to a stable set of accounting policies (although not yet IPSAS compliant). There is generally fast turnaround on audits of the annual financial statements, which are conducted according to international auditing standards. Similarly, there is timely completion of hearings regarding audit reports by the Citizen's Representative Khural (CRKh).

On the downside, there has been large within-year shifts in the aggregate value and composition of revenue and expenditure during budget execution over the last three years that could not be readily explained. It is noted that there was some shifting in the nature of expenditure and revenue mandates and it is anticipated that these are driving some of these deviations in data – nonetheless, UB City should be capable of explaining these to readers of its key budget and reporting documents.

Concerns regarding major movement in resource allocations during the year might be tempered if there were a strong focus on the measurement and management of program performance in terms of the outcomes realised for citizens. However, the performance frameworks in place during the assessment period were mainly focused on measuring the volume of activities rather than on measuring the outcomes for the citizens of UB City and there is no evaluation mechanism for seeking to understand how the design and management of programs has impacted on those outcomes.

Regarding fiscal policy setting, the imposition of a de facto fiscal rule requiring a balanced annual budget, and the absence of a medium term approach to planning and tight timeframes for SNGs to engage with resource allocation decisions, make it difficult to effectively plan for changes in policy at either aggregate or program level.

Figure 1: Summary of PEFA scores by indicators – PEFA 2020 framework



Impact of PFM performance on budgetary and fiscal outcomes

Aggregate Fiscal Discipline

Over the last three years, UB City's budget has not been a reliable indicator of actual fiscal outcomes. Both expenditure and revenue have deviated significantly from the original budget in aggregate and in terms of their composition. In 2021 UB City realised a large surplus, equivalent to around one third of its original budget.

UB City's budget has a single year focus, reflecting an historical approach of SNGs being funded each year only to deliver services to a standard determined by the CG (where planned surpluses are required to be transferred to CG). To the extent that there are unplanned retained earnings from under execution of the budget in the prior year, these are planned to be spent in the following year (effectively treated as revenue). Estimates of the fiscal impact of new policies and projects are costed for the budget year and the budget notes the total project cost but, consistent with the single-year approach, there is no breakdown of the annual costs of the project in future years. Recurrent costs of capital are not evident in the budget documents. The budget notes revenue policy changes and these are reflected in the overall revenue forecast but the precise impact of the policy (on a standalone basis) is not evident in the budget documents.

Strategic Allocation of Resources

There is a precisely defined approach by the CG to determine the level of funding required to fund services delivered by SNGs. Baseline levels of funding are determined based on precisely defined norms and standards for the required consumption of inputs based on historical reference points. As an example, a CG regulation determines the precise number of sheets of paper to be used by particular units. These funding norms were intended to define the level of financial support that was provided for specific purpose by the CG and to determine the level of resourcing that each aimag (or UB City) would require to deliver services at the mandated standard (norm) – with any shortfall covered by the CG and any surplus transferred to the CG.

This funding mechanism should be transparent but in recent years the CG deviated from its own standards in determining the largest of these special purpose transfers (SPTs) – this being the general education SPT.

This approach to funding also reflects a highly centralized, backward looking and control-oriented approach which, until some recent reforms in the health sector, provided very little flexibility for UB City to determine how it would utilize resources to achieve program goals. Such lack of flexibility is exacerbated by funding determinations by the CG being confirmed to UB City and its districts late in the budget process. As these SPTs are determined mainly on the norms-based funding of specific inputs to be consumed, performance targets in budget documents are essentially a list of planned activities rather than planned outcomes to be achieved by undertaking such activity.

UB City takes a very similar approach in relation to how it funds and manages its own Locally Owned Enterprises (LOEs) in their delivery of services. UB City tightly controls prices for such services (such as bus fares) and then subsidizes delivery in terms of specific funding per unit of activity. UB City then undertakes its performance management by taking an external measurement of the outputs produced, rather than the outcomes achieved, and then applying a financial penalty if outputs are not produced on time.

While UB City's baseline budget is closely defined, it does have the ability to raise and spend revenue above the baseline and there is some discretion as to how capital expenditure is allocated. A new national approach to public investment management (PIM) has been implemented, supported by legislation, procedures and systems which is better at organizing PIM decision making. While this new PIM approach is not mandated for SNGs, UB City has adopted the methodology and there is evidence of this approach being used for prioritizing projects. However, the evidence of detailed economic assessment being completed is not available for the largest projects and it is not clear that UB City's prioritization of projects is yet having the desired impact on the funding of capital projects.

UB City follows a consistent budget process that is well understood by participants but is not highly supportive of medium-term policy making. A clear budget circular is made available to internal budget governors and the districts which provides an opportunity for each to propose a budget for the coming year. There are some formal mechanisms for public consultation built into the budget process to assist UB City in prioritizing discretionary spending. However, as the timeframe for providing such submissions is short (around three weeks) and there are no ceilings, the submissions reflect a wish list of current and new spending rather than a prioritized set of new initiatives based on performance information and policy priorities.

The UB City budget cannot be submitted to the CRKh until the national budget is ratified and therefore the budget is not submitted to the CRKh until late November. The CRKh however has a defined scope and clear procedures for reviewing the budget and this enables the budget to be approved before the end of the year (typically in early December). Nonetheless, the timeframes for budget approval provides little time for districts and internal budget governors to adapt to changes in funding prior to the start of the year.

Efficient Use of Resources for Service Delivery

As outlined above, there is a precisely defined approach by the CG to determining the level of special purpose funding transferred to UB City and its districts for service delivery functions. This should be transparent but in some recent years the CG deviated from its own standards in determining the largest of these SPTs.

Once funding is allocated for service delivery functions, there is generally a high degree of predictability in the allocation of recurrent budget resources. All available cash resides in the national treasury single account framework and a schedule is agreed for the release of budget funds on a monthly basis, which enables the budget governors of UB City to make firm spending plans for the month ahead. Capital budgets are allocated during the year on a more ad hoc basis according to the planned timing of obligations being incurred. It is understood that national treasury has implemented some tight controls over release of funds for discretionary spending, such as capital, and that this contributed to a large underspending of capital by UB City in 2021.

In relation of program delivery, the procurement system (www.tender.gov.mn) provides data on what has been procured, and the new procurement law, which mandates open competitive tendering, has resulted in the UB City favoring such methods. There is a broad range of information available to the participants and public regarding tendering processes and outcomes, including complaints mechanisms. However, these complaints mechanisms are led by the procuring entity and thus lack independence. In addition, there is no recording of expenditure commitments prior to (or just after) goods or services are procured – which would ensure that budgeted funds are set aside and available to meet the resulting obligations.

It is an observed concern of program managers that the norms and standards which are used to define the budget for service delivery units, as well as regulated prices for services, are many years out of date and this creates a situation where large changes to the budget are required during execution to address these budget shortcomings. The absence of a medium term approach to budgeting makes it difficult for UB City to manage major changes in program funding, design and/or delivery, as the most significant of these would take multiple years to manage.

Like the resource allocation decisions, performance continues to be planned and measured based on what activities are required to produce planned outputs rather than focusing on the outcomes hoped to be realized. The use of performance information to punish/financially penalize service providers, rather than as a tool to improve policy making, represents a lost opportunity for UB City. Nonetheless, the reforms introduced to the health sector which provide greater flexibility as to how the budget envelope for health is internally allocated, are a beacon that indicate a pathway toward a more policy focused approach to budget preparation.

Summary of performance indicators

The following table (2.1) sets out the results of the assessments.

Table 2.1: Summary of performance indicators

PFM PERFORMANCE INDICATOR		SCORING METHOD	DIMENSION RATINGS				OVERALL RATING
			i	ii	iii	iv	
SNG Pillar: Intergovernmental fiscal relations							
HLG-1	Transfers from Higher Levels of Government	M2	A	A	A	D	B+
HLG-2	Fiscal rules and monitoring of fiscal position	M1	C	C	B		C+
Pillar One: Budget reliability							
PI-1	Aggregate expenditure outturn	M1	C				C
PI-2	Expenditure composition outturn	M1	C	D	A		D+
PI-3	Revenue outturn	M2	D	C			D+
Pillar Two: Transparency of public finances							
PI-4	Budget classification	M1	C				C
PI-5	Budget documentation	M1	C				C
PI-6	SNG operations outside financial reports	M2	A	A	NA		A
PI-7	Transfers to SNG	M2	C	C			C
PI-8	Performance information for service delivery	M2	C	D	C	D	D+
PI-9a	Public access to fiscal information	M1	D				D
PI-9b	Public consultation	M2	B	C	D		C
Pillar Three: Management of Assets and Liabilities							
PI-10	Fiscal risk reporting	M2	B	A	D		B
PI-11	Public investment management	M2	D	C	C	C	D+
PI-12	Public asset management	M2	C	C	B		C+
PI-13	Debt management	M2	D*	D	D		D
Pillar Four: Policy-based fiscal strategy and budgeting							
PI-14	Medium-term budget strategy	M2	B	C	D	NA	C
PI-17	Budget preparation process	M2	C	D	C		D+
PI-18	Legislative scrutiny of budgets	M1	A	A	A	B	B+
Pillar Five: Predictability and control in budget execution							
PI-19	Tax administration	M2	A	B	B	C	B
PI-20	Accounting for revenue	M1	A	A	A		A
PI-21	Predictability of in-year resource allocation	M2	A	A	C	A	B+
PI-22	Expenditure arrears	M1	A	C			C+
PI-23	Payroll controls	M1	A	A	A	D	D+
PI-24	Procurement management	M2	A	A	A	D	B+
PI-25	Internal controls on non-salary expenditure	M2	B	D	B		C+
PI-26	Internal audit	M1	A	C	A	A	C+
Pillar Six: Accounting and reporting							
PI-27	Financial data integrity	M2	B	NA	B	B	B
PI-28	In-year budget reports	M1	B	A	B		B+
PI-29	Annual financial reports	M1	B	A	B		B+
Pillar Seven: External scrutiny and audit							
PI-30	External audit	M1	A	C	C	A	C+
PI-31	Legislative scrutiny of audit reports	M2	A	A	D	C	B





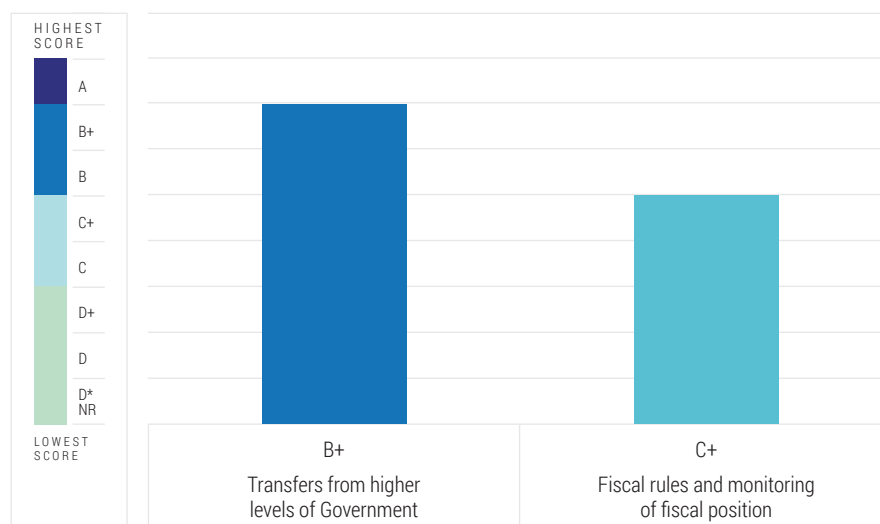
ASSESSMENT OF PFM PERFORMANCE

ASSESSMENT OF PFM PERFORMANCE

This section provides an assessment of each of the 31 indicators and 98 dimensions that make up the PEFA framework. Each dimension score is calibrated to reflect a level of PFM practice as set out in the table below. Dimension scores are aggregated using PEFA Framework guidance to arrive at indicator-level scores.

SCORE	LEVEL OF PFM PRACTICE
A	High level of performance that meets good international practices.
B	Sound performance in line with many elements of good international practices.
C	Basic level of performance.
D	Either less than the basic level of performance or insufficient information to score (D*).

SNG PILLAR: INTERGOVERNMENTAL FISCAL RELATIONS



HLG-1. TRANSFERS FROM HIGHER-LEVELS OF GOVERNMENT

Summary of scores and performance table

Indicator/Dimension	Score	Brief justification for score
HLG-1. TRANSFERS FROM HIGHER LEVELS OF GOVERNMENT	B+	This indicator uses the M2 (AV) method for aggregating the following dimension scores.
HLG.1.1: Outturn of transfers from higher-levels of government	A	Actual transfers were between 97% and 106% of the original budget estimate in the last three years.
HLG.1.2: Transfers composition outturn	A	Transfers composition outturn was less than 5% in the last three years.
HLG.1.3: Timeliness of transfers from higher-levels of government	A	A detailed budget circular of UB City budget includes the transfers from HLG which are distributed evenly across the year.
HLG.1.4: Predictability of transfers	D	UB City identifies and explains the composition and purpose of the transfers from the central budget for the fiscal year (FY) only.

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

This indicator assesses the extent to which transfers to the SNG from higher levels of government (HLG) are consistent with originally approved budgets of the HLG and are provided according to agreed time frames. The indicator contains four dimensions and uses the M2 (AV) method for aggregating dimension scores.

Financial support and revenue collection from the upper-level budget to the lower-level budget is implemented by Article 56 of the IBL.

In Article 56.1.1 of the IBL, transfers from the upper-level budget to the lower-level budget shall be in the form of financial support to finance the lower-level budget deficit. As of FY21 and FY22, 16 of the 22 local budget units (among Mongolia's 21 aimags and the capital city) are receiving financial support from the state budget as they are unable to cover their expenses with their revenues.

In Article 56.1.1 of the IBL, transfers from the HLG to the SNG budget shall be made for revenue transfers from higher-level budgets for the implementation of lower-level budget investments, programs, projects, and activities. According to this provision, starting from 2017, the LDF is to be reallocated to aimags and the capital city through the redistribution of the state budget to support local development in aimags and the capital city, to ensure the balance of regional development, and to create a stable living environment.

Aimags and the capital city distribute these funds to their soums and districts following established procedures and, based on the votes/opinions of soum and district citizens, use these funds as investment sources to address pressing social service issues.

HLG.1.1: Outturn of transfers from higher-levels of government

Transfers from HLG to UB City budget include certain types such as LDF, preschool, general education, primary healthcare, and land and child protection.

Performance level and evidence for scoring the dimension

	2019	2020	2021
Outturn as a percentage of budget	100%	100%	99.6%

The actual transfers from HLG to UB City budget was approximately 99% in the last three years, hence the score for this dimension is A.

HLG.1.2: Transfers composition outturn

As indicated in the previous dimension, transfers from HLG to UB City budget include certain types, LDF, preschool, general education, primary healthcare, and land and child protection. In the last three FYs, transfer composition outturn was assessed as below.

Performance level and evidence for scoring the dimension

	2019	2020	2021
Transfers composition outturn	0%	0.6%	0.1%

Transfers’ composition outturn in the last three completed FYs was approximately 0.2% which means the score for this dimension is A.

HLG.1.3: Timeliness of transfers from higher-levels of government

Performance level and evidence for scoring the dimension

UB City mayor and the MoF of the central government agree in advance on a schedule of the release of transfers during the year, which are generally distributed evenly across the 12 months. Discussions with UB City, the MoF, and the available data indicate that transfers have been consistently made available according to this schedule for the last three fiscal years.

Hence the score for this dimension is A.

HLG.1.4: Predictability of transfers

Performance level and evidence for scoring the dimension

In the annual budget proposal, UB City identifies and explains the composition and purpose of the transfers from the central budget for the FY only, with no data regarding future years.

Therefore, the score for this dimension is D.

HLG-2 FISCAL RULES AND MONITORING OF FISCAL POSITION

Summary of scores and performance table

Indicator/Dimension	Score	Brief justification for score
HLG-2 Fiscal Rules and Monitoring of Fiscal Position	C+	This indicator contains three dimensions and uses the M1 (WL) method for aggregating the following dimension scores.
HLG-2.1: Fiscal rules for SNGs	C	There is an effective fiscal rule in place that is respected by SNGs, but with no apparent exemptions from this rule .
HLG-2.2: Debt rules for SNGs	C	There is effectively no ceiling on subnational debt but a monitoring system is established.
HLG-2.3: Monitoring of SNGs	B	Annual financial statements are submitted between 3 and 6 months following the end of the year.

HLG-2 assesses the extent to which the Central Government (CG) sets fiscal rules framing the budget and granting SNGs the right to borrow. It also assesses the extent to which the CG monitors the financial position of SNGs. For the purpose of this assessment, this indicator assesses the rules and monitoring arrangements between the CG and the next lower tier of government, being the aimags and UB City (which both sit at this second level below the CG). The indicator does not assess the relationship between the CG and other lower tiers of SNG, such as soums and districts, which are the next level below aimags and UB City respectively.

The general principle of subnational fiscal management in Mongolia is that local governments, including aimags and UB City, should operate under a balanced budget (Article 57.2 of the IBL). The system of intergovernmental financing is designed such that SNGs that operate under a deficit receive a grant from the CG to achieve a balanced budget situation. There is some degree of variability in the size of the total spending of an SNG – principally due to variability in the amount of own-source revenue allowed to be retained and spent by an SNG, which is specified in the IBL (Article 56.2).

There are regulations that assign norms for both revenue and expenditure, which define what an underlying balanced budget should be for each SNG. Base revenue represents tax and non-tax revenues to be collected at the local level and base expenditure represents expenditures associated with the local government to deliver on its mandate outlined in the LATUG; the difference between the base revenue and expenditure yields a primary balance. An SNG in receipt of revenues above the expenditure norm is not able to independently decide to spend or save the additional revenue – as there are rules which specify precisely how much of such surplus may be retained by the SNG (60% in 2019 and 70% starting from 2020, of the base expenditure or the primary balance depending on the magnitude of the primary budget surplus). Further, an SNG is not in a position to decide unilaterally to increase the expenditure norms (making a trade-off between service levels and fiscal outcomes) that would create a primary deficit which would then be funded by the CG. Each SNG, therefore, achieves a balanced budget but the size of such budget, and how any excess or shortfall of revenue compared to expenditures is contributed to or funded by the CG, depends on the degree of own-source revenue collected.

The interactions between the CG and the SNG in the budget process are largely focused on ensuring that the budget of each SNG is compliant with the spending and revenue norms, thus ensuring that the CG receives any excess revenue of an SNG above the limits specified in the IBL and also that any subsidies paid to support the SNG deficits are not excessive.

Unlike other SNGs, which are all reliant on transfers from the CG, UB City can raise revenue that is greater than its base expenditure due to the size and strength of its economy and the high income per capita of UB City compared to the rest of the country. This enables UB City to raise comparatively higher revenue per citizen from its key revenues: income tax and property tax. As such, UB City is generally a net contributor of surplus funds to the CG.

While there is limited flexibility regarding the balanced budget requirement, UB City has discretion over the allocation of funds. As an example, while a balanced budget is planned for 2022, with the imprematur of the CG, UB City is planning to utilize surplus own-source revenues to undertake several hundred million in capital spending to address traffic congestion.

At the time of the assessment, no SNG undertakes any borrowing on its own behalf but they do benefit from some on-lending arrangements, particularly lending by international development partners for specific development projects. It is therefore the case that SNGs do not borrow for fiscal policy purposes (i.e. deficit financing) or cash flow purposes. Essentially, due to the balanced budget requirements and the nature of intergovernmental fiscal relations, the burden of fiscal deficits and associated borrowing falls on the CG.

HLG-2.1 Fiscal rules for SNGs

The nature of intergovernmental fiscal relations in Mongolia is such that SNGs are required to realize a balanced budget. This arrangement is effectively a fiscal rule.

The current legal framework for requiring a balanced budget does not contain explicit exemptions for specific circumstances, nor any sanctions or enforcement mechanisms. In practice, the size of the total expenditure is a matter of discussion during the budget process and there is some flexibility applied as to the amount of expenditure by an SNG as long as there are no implications on the size of the approved deficit (or in the case of UB City, the surplus that will be transferred to the CG). While there are no specific sanctions for non-compliance with a “fiscal rule”, and despite some outward antagonism between UB City and the CG recently regarding how the surplus funds of UB City were applied for other purposes during the COVID-19 pandemic, SNGs, including UB City, have complied with the balanced budget requirement.

As there is effectively a fiscal rule in place and respected by the SNGs, but the exemptions are not clearly stated, the score for this dimension is C.

Recent or ongoing reform activities

The LATUG was amended in 2020 attempting to provide adequate decentralization and performance incentives for local governments (at the aimag/UB City as well as soum/district levels) and reassign responsibilities between local governments and CG. Amendments to the IBL in late 2021 provided for a significant increase in local revenues including retaining 40% of corporate income taxes at the aimag/UB City level, and 100% of personal income tax, property tax, and land tax to be retained at the soum/district level. At the same time, special purpose transfers (education, health, culture, etc.) were taken away from local governments and included in the sectoral ministries’ budgets starting in 2022. The above-mentioned changes, however, did not affect the arrangements about deficit financing to the local budget and had no impact on the balanced budget requirement.

HLG-2.2 Debt rules for SNGs

At the time of the last completed FY, aimags and UB City could borrow via on-lending from the CG but could not borrow in their own right without prior approval from the CG. The Debt Management Law (Article 10) outlines the powers of aimags and the capital city to borrow. Government Resolution no. 211 of 2020 provides for on-lending arrangements from the CG to UB City. In practice, UB City has benefited from several loans from international development partners and IFIs via on-lending from the CG. In 2021 the interest on such loans increased from 0.5% of budgeted expenditure to 3.0% budgeted for 2022.

The CG monitors the on-lending to aimags and UB City in the context of both the annual budget process but also in reviewing potential new on-lending arrangements. Any on-lending would be covered by national fiscal rules but such a rule does not define the limits of central versus local borrowing. There is therefore a CG monitoring mechanism for UB City debt.

There is no ceiling established which would have limited the extent of on-lending that the CG would agree to for SNGs. However, it is noted that any borrowing by the CG for SNGs would be subject to the fiscal rules of the CG, which include a debt ceiling. Nonetheless, such rules do not guide the split between the CG and SNGs or between SNGs in terms of how the debt ceiling is distributed.

As there is effectively no ceiling on subnational debt but a monitoring system is established, the score for this dimension is C.

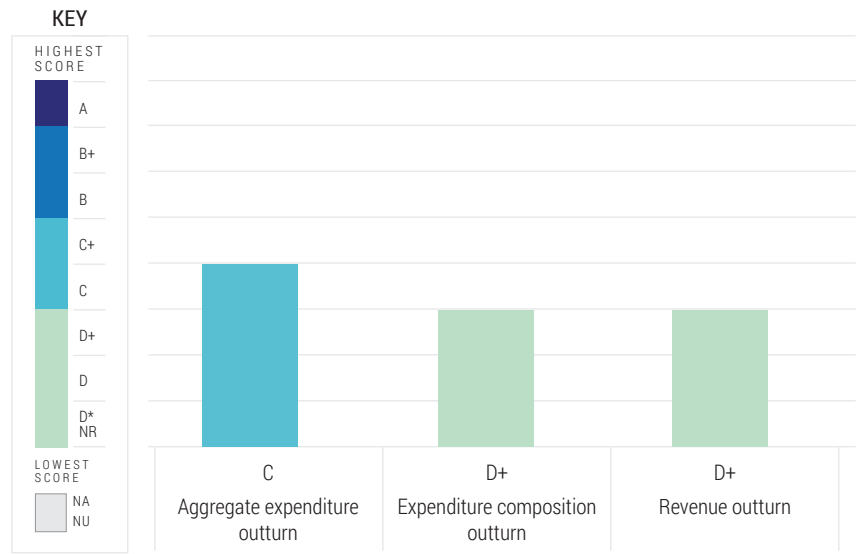
Recent or ongoing reform activities

Recent changes to the system of intergovernmental fiscal relations, including the passing of the LLSCCU and the associated revision to the Debt Management Law (Article 19) provide UB City with clearer authority to borrow in its own right. Accordingly, the UB City governor may request borrowing to be reviewed by the MoF and approved by the Cabinet, so UB City is transitioning away from the existing on-lending arrangements to more independent forms of borrowing under CG monitoring. This came into force in 2022 and thus after the period for assessment of this indicator.

HLG-2.3 Monitoring of SNGs

The IBL (Articles 8.9.4) requires each SNG to submit its annual financial statements to the State Audit Institution (SAI) within the legal deadline of April 1 and submit the audited financial statements to the MoF by April 20 of each year, together with the audit report. In 2019-21, the audited annual financial statements of the aimags and UB City were submitted to the MoF within the legal deadlines; hence within 6 months, but not within 3 months. The score for this dimension is therefore B.

PILLAR ONE: BUDGET RELIABILITY



PI-1. AGGREGATE EXPENDITURE OUTTURN

Summary of scores and performance table

Indicator/Dimension	Score	Brief justification for score
PI-1. Aggregate expenditure outturn	C	This indicator has only one dimension. Therefore, the score for this indicator is C.
1.1 Aggregate expenditure outturn	C	Aggregate expenditure outturn (as a % of original approved budget) was 86.5% in 2019, 66.7% in 2020 and 92.8% in 2021. The aggregate expenditure outturn was between 85% and 115% in two of the last three fiscal years.

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

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.

Evidence for score

Annex 3 presents the PEFA framework spreadsheets showing the original budgets approved by the CRKh of UB City compared with the actual outturns from the audited financial statements (for 2019, 2020, and 2021).

Table 1-1: Aggregate expenditure outturn

Aggregate expenditure (million MNT)	2019	2020	2021
Approved budget	928.3	1,093.9	995.6
Outturn	803.2	729.8	924.4
Outturn as a percentage of budget	86.5%	66.7%	92.8%

Data source: Annual Budget execution reports of UB City 2019-2021; Originally approved budgets 2019-2021

Over the last three years, the expenditure outturns were 86.5%, 66.7% and 92.8% in 2019, 2020 and 2021 respectively. The aggregate expenditure outturn compared with the original approved budget of UB City was lower than 115% in the last three fiscal years and below 85% in 2020. Therefore, the score for this dimension is C.

It is noted that the COVID-19 global pandemic had an impact on fiscal planning, due to declines in revenue and the need to make rapid policy responses; therefore the budget amendments were made to the original budget in the last three FYs.

However, there was no implication on the budget or the spending in 2019, UB City budget was amended 3 times by resolution numbers 23/15, 26/23 and 29/34 of the CRKh.

In the following FYs, there were significant changes between the original planned and the amended budget, mainly due to the expenditure decrease because of the COVID 19 impact. It follows the same trend in FY21 which illustrates inconsistent and inaccurate planning and estimation of the budget.

Another issue on the budget approval is not being able to compare the "original budget" with the "actual outturn" because the original budget does not include expense types such as "Current transfer to the Government" in the budget table. Instead, the current transfer amount was approved as a separate sentence which makes it confusing for readers. Additionally, the annual budget execution reports compare "actual outturn" with the revised budget, with no reference to the original budget.

PI-2. EXPENDITURE COMPOSITION OUTTURN

Summary of scores and performance table

Indicator/Dimension	Score	Brief justification for score
PI-2. Expenditure composition outturn	D+	Scoring of this dimension uses M1 (weakest link) method which makes the overall score D+.
2.1 Expenditure composition outturn by function	C	Variance in expenditure composition was less than 15% in two of the last three fiscal years.
2.2 Expenditure composition outturn by economic type	D	Economic composition outturn was more than 15% in two of the last three fiscal years.
2.3 Expenditure from contingency reserves	A	Actual expenditure charged contingency vote was 0.7% on average in the last three fiscal years.

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

This indicator measures the extent to which reallocations between the main budget categories during execution have contributed to variance in expenditure composition. It contains three dimensions and uses the M1 (WL) method for aggregating dimension scores.

UB City's budget is classified by administrative, function, and economic type. The economic classification is equivalent to 2-digit budget GFS and the functional classification is equivalent to Classification of Functions of Government (COFOG).

2.1. Expenditure composition outturn by function

Performance level and evidence for scoring the dimension

Variance in expenditure composition by administrative classification was 10%, 26.5% and 7.4% in 2019, 2020 and 2021 respectively.

As the composition variance by functional classification was more than 15% in 2020 and less than 15% in two of the last three fiscal years, the score for this dimension is C.

The major variance was an expenditure increase on the Capital City's Mayor Office and City Governor's office due to the COVID-19 restrictions and safeguard activities, which was sufficient to alter the mix expenditure by functional classification between original and actual outturn in 2020.

2.2. Expenditure composition outturn by economic type

Performance level and evidence for scoring of the dimension

Variance in expenditure composition by economic classification was 25.1% in 2019; 22% in 2020 and 9.3% in 2021.

In 2019, the major factor contributing to the difference was the reduction in Capital spending, whereas in 2020 the transfer to the CG was decreased by almost 50% due to the COVID-19 impact on the revenue collection. As the composition variance by economic classification was more than 15% in two of the last three fiscal years, the score for this dimension is D.

2.3. Expenditure from contingency reserves

Performance level and evidence for scoring of the dimension

UB City has a small contingency reserve in its budget, representing only 0.83%. Actual spending against the reserve was 0.6%, 1% and 0.9% in 2019, 2020 and 2021 respectively. As such, contingency spending was less than 1% of the budget on average, hence a score for this dimension of A.

PI-3. REVENUE OUTTURN

Summary of scores and performance table

Indicator/Dimension	Score	Brief justification for score
PI-3. Revenue outturn	D+	This indicator uses the M2 (AV) method for aggregating the following dimension scores.
3.1 Aggregate revenue outturn	D	The actual revenue was 91%, 69% and 103% in 2019, 2020 and 2021 respectively. This was below the threshold of 92% in two of the last three fiscal years. Therefore, the score for this dimension is D.
3.2 Revenue composition outturn	C	The revenue composition outturn was higher than 15% in only one of the last three fiscal years, hence the score for this dimension is C.

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

This indicator measures the change in revenue between the original approved budget and the end-of-year outturn.

The first dimension assesses the aggregate revenue outturn of the last three FYs, and the outturn was approximately 87% on average.

The second dimension assesses the revenue composition outturn of the last three FYs, and the result was 11.1% on average. UB City's budget comprises two types of main revenue: tax income and non-tax income.

3.1. Aggregate revenue outturn

Performance level and evidence for scoring the dimension

Table 1-1: Aggregate revenue outturn

Aggregate revenue (million MNT)	2019	2020	2021
Approved budget	877.4	1,039.2	944.9
Outturn	798.1	720.7	975.5
Outturn as a percentage of budget	91%	69%	103%

Data source: Annual Budget execution reports of UB City 2019-2021; Originally approved budgets 2019-2021

As indicated in the above table, the aggregate revenue outturns were 91%, 69% and 103% in 2019, 2020 and 2021 respectively. As actual revenue outturn was less than 92% of the original budget estimate in two of the last three FYs, the score for this dimension is D.

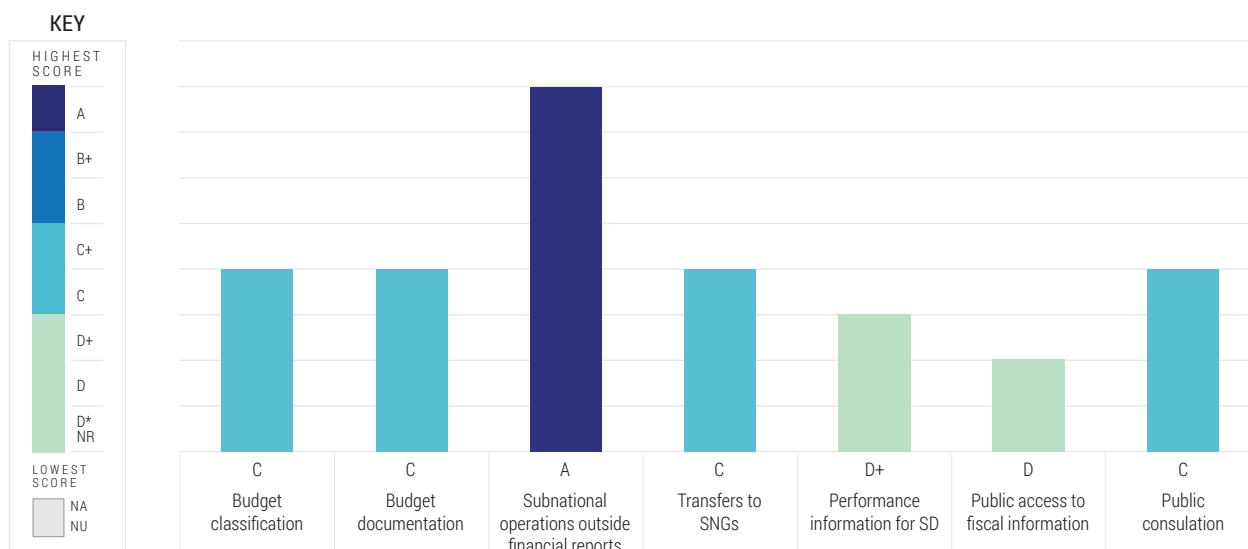
It should be noted that the low revenue collection in 2020 was impacted by the effect of the COVID-19 pandemic on the economy. By resolution No. II-02/06 of November 13, 2020 of the CRKh, the total budgeted revenue was reduced by MNT 181,154.6 million, including MNT 177,225.0 million in salary and personal income tax. This was due to the COVID-19 pandemic emergency measures taken by the Government, including “exemption of personal income tax on salaries, wages, bonuses, incentives and similar employment income earned by Mongolian citizens from April 1, 2020 to October 1, 2020” which was approved by the Government Resolution No. 114.

3.2. Revenue composition outturn

Performance level and evidence for scoring the dimension

The revenue composition outturn was 16.% in 2019; 13.8% in 2020 and 3.4% in 2021 which averages 11.1% approximately. As the level of variance was more than 15% in 2019 and less than 15% in two of the last three fiscal years, the score for this dimension is C.

PILLAR TWO: TRANSPARENCY OF PUBLIC FINANCES



PI-4. BUDGET CLASSIFICATION

Summary of scores and performance table

Indicator/Dimension	Score	Brief justification for score
PI-4. Budget classification	C	This indicator has one dimension.
4.1 Budget classification	C	Whereas administrative and economic classification equivalent to GFS is evident in the budget, budget execution reports and financial statements, the program classification (equivalent to COFOG) is only evident in the budget.

This indicator assesses the extent to which the government budget and accounts classification are consistent with international standards. There is one dimension for this indicator and the period covered is the last fiscal year.

4.1. Budget classification

Performance level and evidence for scoring the dimension

By Article 22 of the IBL, the budget is to be planned, implemented, recorded, and reported by the set classification, with the following categories:

- By budget level;
- By budget governors;
- By economic classification;
- By programs;
- By activities; and
- By financing sources.

The chart of accounts used for budgeting purposes is shared between the CG and SNGs, including UB City. It includes administrative, economic, and program classifications, which are reflected in budget documents, budget execution reports, and annual financial statements. The coding of the program classification is mapped to the COFOG functional classification (to the sub-function level) - a process that is facilitated by the first digit of the program classification being the first digit of COFOG. Economic classification is consistent with the common GFS system to at least 4 digits of GFS (and significantly more detailed for most expenditure types). Administrative and economic classification at this level of detail is included in the budget, budget execution reports, and annual financial statements of the last completed fiscal year 2021.

The chart of accounts used in the accounting systems of UB City budget governors enables accrual accounting and reporting, and therefore includes a more complete set of assets and liabilities within the economic classification, whereas the chart of accounts used for budgeting purposes is cash-only. It is also important to recognize that the systems used for reporting annual financial statements use data from these accounting systems, whereas data for budget execution reporting comes from the GFMS (FreeBalance) budget execution system hosted by the CG Treasury. Audit reports suggest that there are some instances where the conversion of local accounts within this reporting framework results in some inconsistencies, including recurrent costs being reflected as capital, but these are not considered material.

While there is the equivalent of functional classification in budget documents, the program reporting in budget execution reports in the last completed fiscal year did not equate to COFOG functional classification. Based on the analysis and supporting evidence, particularly noting the absence of functional classification from reporting, the score for the present dimension is C.

Recent or ongoing reform activities

The MoF has established a working group that is examining the chart of accounts and seeking to ensure that future changes to the chart of accounts will support the transition toward a more performance-informed approach to program budgeting, and the transition toward accrual accounting, while also enabling GFS and International Public Sector Accounting Standards (IPSAS)-compliant reporting.

PI-5. BUDGET DOCUMENTATION

Summary of scores and performance table

Indicator/Dimension	Score	Brief justification for score
PI-5. Budget documentation	C	Indicator has one dimension.
5.1 Budget documentation	C	The requirements for four (out of four) basic elements are met. Also, requirements for one (out of eight applicable) of the additional elements are met.

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

This indicator assesses the comprehensiveness of the information provided in the annual budget documentation as measured against a specified list of four basic and eight additional elements. The assessment covers the budgetary units of UB City and looks at the most recent budget submitted to the legislature (that for 2022).

In compiling its annual budget documentation, UB City is largely guided by the IBL and regulations of the Cabinet and the MoF³. The IBL (Article 67) prescribes that the local budget proposal must contain: a medium-term plan presenting the policy objectives of the local budget; budget estimates and a budget proposal prepared by the prescribed budget classification; a proposal of planned financial support and revenue transfers to district budgets; and amount of funds to be collected recovered by the higher-level government as approved in the budget of the central government. Local budget proposals must also contain selected mandatory elements stipulated in Article 32 of the IBL, namely: macroeconomic assessment; Government's budget policies and priorities and explanation of how those are reflected in the budget proposal; fiscal targets; key fiscal risks; actual and projected tax expenditures by type of revenues; investment projects and activities; projects and activities to be terminated or scaled back and their impact on the budget; projects and activities to be funded by foreign loans/grants and their total cost, estimates of revenues and expenditures of local special funds (e.g. those to support activities towards implementation of local government functions as per Article 17.1 of LATUG); dividends to be contributed to the budget by locally-owned legal bodies; programs and activities to be implemented by each aimag/the Capital along with inputs, outcomes and performance indicators; comments on how the budget proposal complies with the fiscal rules and the Medium-Term Fiscal Framework (MTFF); and draft legislation to be approved in relation to the budget proposal.

The IBL (Article 67.3) also stipulates that in the course of its preparation, the budget proposal must be presented to the public and that citizens' comments and suggestions must be included in the documentation presented to the CRKh.

³ MoF regulation No. 244 on formulation of local budget proposals (2012), Cabinet regulation No. 445 on methodology for calculating local base expenditure (2019), and the MoF regulation No. 190 on use of economic classification of expenditures (2021).

5.1. Budget documentation

Performance level and evidence for scoring the dimension

The below overview contains a list of basic and additional elements against which the budget documentation for the last budget proposal presented to the CRKh has been assessed. The requirements are met for all four basic elements. Of the eight recommended elements, two do not apply to SNGs in Mongolia, reducing the number of applicable elements to six. Of those, UB City meets one. Hence, the score for this dimension is C.

Table 5.1: Budget documentation benchmark

Element/ Requirement	Met	Evidence used/Comments
Basic elements		
1. Forecast of the 2022 fiscal deficit/surplus or accrual operating result	Yes	A forecast of the fiscal balance can be found in sections 1, 2 and 7 of the 2022 Budget Proposal of UB City. The following legal provision applies: "Local budgets shall be planned, approved and implemented without deficit." (IBL Article 57.2)
2. 2021 Budget execution presented in the same format as the 2022 budget proposal	Yes	Budget execution for 2021 is presented in the same format as the budget proposal for 2022 (p. 40 of the 2022 Budget Proposal of UB City).
3. Revised budget or the estimated outturn for 2021 presented in the same format as the 2022 budget proposal.	Yes	The estimated outturn of the 2021 budget is presented in the same format as the 2022 budget proposal (p. 40 of the 2022 Budget Proposal of UB City).
4. Aggregated expenditure and revenue data for 2022 according to the main heads of the classifications used. Also, detailed breakdown of expenditure and revenue data for 2021 and 2020.	Yes	Aggregated expenditure data for 2022 are presented by economic and administrative classifications (p. 42 and 43 and p. 44 respectively in the 2022 Budget Proposal of UB City). Aggregated revenue data can be found on p. 41. Detailed breakdown of expenditure and revenue data for 2021 and 2020 can be found in the same tables.
Additional elements		
5. Deficit financing, describing its anticipated composition.	N/A	Since local budgets are not permitted to run a deficit (IBL Article 57.2), this element does not apply to UB City.
6. Macroeconomic assumptions, including at least estimates of GDP growth, inflation, interest rates, and the exchange rate.	N/A	While UB City is legally obligated to include macroeconomic assessment, projections and trends in its budget proposal, the 2022 Budget Proposal did not contain them. However, the State budget included macroeconomic information (with the exception of assumptions regarding interest rates and exchange rates). Consequently, as per the 2020 SNG PEFA framework methodology, this element shall not apply to UB City.
7. Debt stock, including details at least for the beginning of 2021, presented in accordance with GFS or other comparable standard.	No	No data is presented regarding debt.

8. Financial assets including details at least for the beginning of 2021, presented in accordance with GFS or another comparable standard.	No	The 2022 Budget Proposal does not contain projections of financial assets.
9. Summary information about financial risks, including contingent liabilities (such as guarantees) and contingent obligations embedded in structure financing instruments (such as PPP contracts).	No	While UB City's borrowing rights have only been established recently as per the revised LLSCCU, it has not yet started engaging in any form of borrowing; hence the 2022 Budget Proposal does not contain any information about fiscal risks.
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.	Yes	In the presentation of the 2022 Budget Proposal (pp. 48-57), explanation of changes and their implications for new policies is provided (e.g. changes in the allocation of corporate income taxes), along with estimates of revenue and expenditure and public investment programs.
11. Medium-term fiscal forecast.	No	The 2022 Budget Proposal does not contain a medium-term fiscal forecast.
12. Quantification of tax expenditures.	No	The Budget Proposal does not contain information on tax expenditures.

Recent or ongoing reform activities

There have been no major changes to the requirements of the budget documentation in light of the recent changes in the LATUG and the LLSCCU. However, as UB City starts to engage in borrowing activities, it is expected that the above list of elements will be complemented by summary information about fiscal risks (e.g. contingent liabilities to rise from PPPs) once the draft PPP Law has been approved.

PI-6. SUBNATIONAL OPERATIONS OUTSIDE FINANCIAL REPORTS

Summary of scores and performance table

Indicator/Dimension	Score	Brief justification for score
PI-6. Central government operations outside financial reports	A	This indicator uses the M2 (AV) method for aggregating the following dimension scores.
6.1 Expenditure outside financial reports	A	There is no expenditure outside of financial reports
6.2 Revenue outside financial reports	A	There is no revenue outside of financial reports
6.3 Financial reports of extrabudgetary units (EBUs)	NA	There are no Extra Budgetary Units (EBUs).

All activities of entities controlled by UB City are budgeted and included in UB City's budget and annual financial statements. This includes a significant number of LOEs, many of which would be classified as EBUs according to GFS - due to the non-market prices charged for the core services that they deliver - if they were not included in the budget or annual financial statements. As these activities are all budgeted, they are not EBUs. As there are no identified EBUs, the score for dimensions 6.1 and 6.2 are A and 6.3 is NA due to the absence of EBUs.

As this assessment is for UB City only, the districts within UB City are treated as a separate level of government not covered by this assessment and thus the districts are not identified as EBUs. It is however relevant to note that there is a high degree of transparency in UB City's budget and financial reporting with regards to the districts, which are consolidated in some presentations, including in the annual financial statements.

PI-7. TRANSFERS TO SNGS

Summary of scores and performance table

Indicator/Dimension	Score	Brief justification for score
PI-7. Transfers to SNGs	C	This indicator uses the M2 (AV) method for aggregating the following dimension scores.
7.1 System for allocating transfers	C	In 2021, some transfers were done transparently and rule-based but not for general education, which represents the majority of transfers.
7.1 Timeliness of information on transfers	C	Budget calendar applied in 2021 cannot be considered sufficiently clear and detailed. Final amounts were not known to the districts until the entire budget of UB City was approved.

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

This indicator assesses the transparency and timeliness of transfers from UB City to lower-tier SNGs, i.e. districts. It considers the basis for transfers and whether lower-tier SNGs receive information on their allocations in time to facilitate budget planning. It contains two dimensions and uses the M2 (AV) method for aggregating dimension scores.

The core legal provisions regarding territorial organisation in Mongolia are set out in the Constitution, the LATUG⁴, and in the case of UB City specifically, the LLSUCCM. For the assessment, UB City is considered as the first tier of SNG while its districts are at the second tier of SNGs. Districts have direct budgetary relations to UB City⁵ and have the authority to own assets, incur liabilities, and engage in transactions in their own right. UB City counts nine districts⁶, which are further subdivided into khoroos, administrative units with no direct budget relations with UB, as their expenditures are funded through district budgets⁷.

⁴ Adopted in 1992 and including subsequent changes, in 2016, and in 2021, respectively.

⁵ As per Article 16 of the LATUG.

⁶ Those are: Bayangol, Bayanzurkh, Chingeltei, Sukhbaatar, Songinokhairkhan, Khan-Uul, Nalaikh, Bagakhangai and Baganuur.

⁷ As per Article 21 of the IBL.

The above legislation describing territorial organization is complemented by laws and regulations describing financial arrangements and mechanisms. Most notably, those are the IBL⁸, regulating expenditure assignments and fiscal decentralization, and regulations issued by the MoF or the Cabinet, regulating the details. As per the IBL, up until its most recent amendments in December 2020 following approval of the new LATUG and the LLSUCC, functions to be performed by the local governments included local administration, social welfare, transport, water and sanitation, agriculture and livestock, economic development, environment, and capital infrastructure. On the other hand, functions delegated by the central government included preschool and general education, primary healthcare, child development, and protection services, and land affairs⁹ and cadaster, and UB City conducts those activities through its districts. Oversight of the delegated functions lies with the respective central government ministries (as general budget governors) and UB City Governor (as centralized budget governors).

7.1. System for allocating transfers

Performance level and evidence for scoring the dimension

As included in Table 7.1 below, in 2021, UB districts received transfers amounting to MNT 472.62 billion. This corresponds to 100% of the amount planned. The disaggregated amounts of the different types of transfers are shown in Table 7.1.

Allocation of transfers is regulated by the IBL, MoF regulation no. 244 on the formulation of local budget proposals (2012), Cabinet regulation no. 445 on methodology for calculating local base expenditure (2019). These regulations stipulate that special purpose transfers are to be based on predetermined demographic indicators, while the allocation of the LDF is based on a mix of demographic and geographical indicators and local development index, according to Article 59 of the IBL.

The majority of transfers (99.9% of the total transfers received by districts) were earmarked for specific purposes. Transfers for general education accounted for 53.9%, preschool education for 35.3%, and primary healthcare for 8.6% of total transfers made to districts. Revenue transfers to finance the LDF represented 2.1% of the total transfer. Figure 7.1 presents the amounts of these transfers to each of the UB districts. Finally, four districts of the nine received financial support to cover their primary balance deficit, while the remaining five districts made revenue transfers to UB City.

An important feature of the transfer system is that the grants from UB City to districts for health and education originate from the central government, which has the ultimate authority to determine the size of such grants. The role of UB City in relation to these grants – a role delegated by the CG – is to determine the allocation of such grants between the districts but not to determine the aggregate amount of the grant. During the time covered by this assessment, such delegated grants flow through UB City. In the case of preschool education, the grants were determined by a formula based primarily on several students,

⁸ Adopted in 2011.

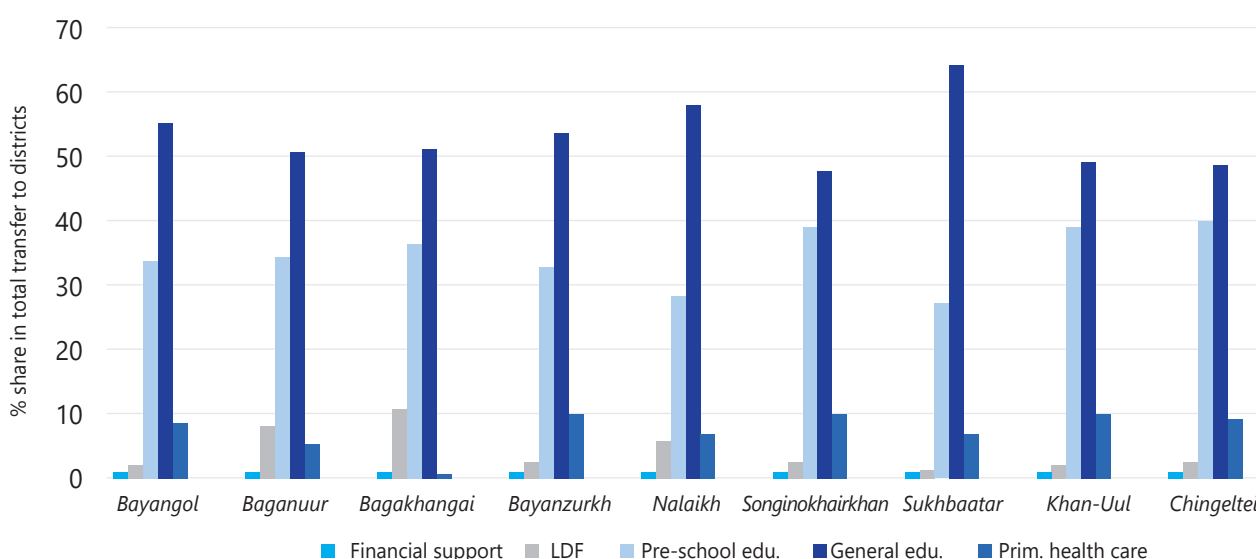
with a fixed amount per student based on norms determined by the Ministry of Education. This formula-based approach was followed during the period covered by the assessment. Similarly, the grants for health were determined based on a formula that applies norms and standards set by the central ministry of health against demographic data.

However, the assessment team understands that in 2021 the aggregate value of grants for education (which is used to fund primary and secondary schools) was not determined by the CG based on the rules based formula, and the factors impacting such deviation were not transparent. Despite UB City applying the formula for the distribution of such grants, the decision by the CG not to apply the formula in determining the aggregate amount impacted on the predictability of general education funding received by the districts from UB City in 2021.

Table 7.1: System for allocating transfers

Type of transfer	Budget plan		Actuals	
	Amounts (in thousand MNT)	Transparent and rule-based	Amounts (in thousand MNT)	Percentage
LDF	9,973,228	Yes	9,973,228	2%
Financial support to districts	28,655	No	28,655	0%
Special purpose transfer for preschool education	166,837,945	Yes	166,837,945	35%
Special purpose transfer for general education	254,971,427	No	254,971,427	54%
Special purpose transfer for primary healthcare	40,811,331	Yes	40,811,331	9%
TOTAL	472,622,587		472,622,587	

Figure 7.1: Overview of 2021 transfers by districts



Note: The Financial support bar is almost invisible as it represents 0% in all districts.

As the special-purpose transfer for general education did not follow the intended rules-based approach, the score for this dimension is C.

7.2. Timeliness of information on transfers

Performance level and evidence for scoring the dimension

The process by which lower-tier SNGs receive information about their transfers from UB City is set out in the national budget calendar, contained in the IBL, as well as Finance Ministerial Order No. 244 from 2012. Those prescribe that the MoF is required to send UB City a Budget Circular containing information about projected intergovernmental transfers by July 5¹⁰ and that within three working days, the Governor or UB City must issue the SNGs a written instruction containing the amounts planned to be transferred to each lower-tier SNG, the Capital City Government's Action Plan, other planning requirements, and further instructions and directions relating to the submission of budget proposals.

Information about final/approved intergovernmental transfers to be made is available only upon budget adoption. Within 14 days from the adoption of the State budget proposal, the MoF is to share with the Governor or UB City: (i) Amount of revenue transfer to be allocated from the General LDF to aimag and capital city LDF; (ii) Funds to be generated to the LDF from aimag and capital city budget; (iii) Amount of special-purpose transfers to be allocated from the state budget to the local budget; and (iv) Amount of financial support to be allocated from the state budget to the local budget.

In the last completed FY, 2021, UB City Governor issued a budget circular to the districts on July 9, providing information and guidance on developing budget proposals for the years 2022 and 2023-2024. This contained information on local fiscal relations, base expenditures, base revenues, and revenue transfers for the LDF, all of which were sufficiently clear and detailed. Nevertheless, information on special-purpose transfers was not included. The final amounts of transfers to be made to the districts were communicated on December 6, once the budget for UB City was approved.

From this follows that the budget calendar has generally been adhered to – the process has contained stages and actions from the regular budget calendar and has followed the timing prescribed in it. However, no quantitative information nor disbursement schedule was shared about transfers to be made to lower-level SNGs, which is why the budget calendar applied in 2021 cannot be considered sufficiently clear and detailed.

Once budget circulars were issued to districts on July 9, 2021, those had time until July 25 to develop their budget requests and submit them to the UB City Governor. The Governor held budget hearings with governors and officers of the districts until August 15, the day when the budget proposal for the whole of

¹⁰ As per MoF Order No. 244 from 2012, the Budget Circular is required to include the following information: (i) Policy and direction for local development; (ii) Projections of inter-governmental transfers; (iii) Policy changes made since the adoption of the previous budget; and (iv) Methodology for entering data in the budget information system. This is in addition to information required by Article 27 of the IBL, namely: (i) Estimation of the MTF Statement and explanation on the decisions made; (ii) Government-approved budget ceiling; (iii) Policy guidance on the State General Guideline for Socio-Economic Development and the Government Action Plan; (iv) General and special requirements for preparation of investment projects; (v) General conditions for making request on financing of budget proposals; (vi) Special forms and their instruction for preparation of budget proposals; and (vii) Deadline for submitting budget proposals.

UB City was submitted to the MoF. Accordingly, in 2021, lower-level SNGs had five weeks to complete their budget planning. Information about the final value of transfers they would receive from the districts was received on December 6, when the budget of UB City was approved. Accordingly, information on annual transfers to lower-level SNGs was issued before the start of their financial year but after budget plans were decided. Combined, this qualifies for a C score. Any higher score would require that the budget calendar provided for SNGs contained sufficiently detailed information, which was not the case in 2021.

Recent or ongoing reform activities

Intergovernmental transfers have changed in the past few years. At the time of assessment, there are fewer special-purpose transfers compared to the arrangements that existed prior to 2021. Initially, the IBL foresaw five types of such transfers, namely preschool education, general education, primary health care, land relations, and child development and protection. However, starting in 2021, the Child Development and Protection Agency of Ulaanbaatar and the Ulaanbaatar Land Agency receive their funds directly, i.e. are not funded through the local budget of UB City.

In addition, the Department of Family, Child and Youth Development and the Department of Land Affairs, Geodesy and Cartography were transferred to a vertical management system in 2022, and all expenses of these organizations will be financed directly from the budget of the relevant line ministry.

Finally, to improve the quality and accessibility of public services, the education and health sectors are transferred to a semi-autonomous financial system and a performance-based financing system. This applies to all costs except fixed operating costs, which will be financed from the state budget and the health insurance fund respectively.

PI-8. PERFORMANCE INFORMATION FOR SERVICE DELIVERY

Summary of scores and performance table

Indicator/Dimension	Score	Brief justification for score
PI-8. Performance information for service delivery	D+	This indicator contains four dimensions and uses the M2 (AV) method for aggregating dimension scores.
8.1 Performance plans for service delivery	C	Performance framework in the budget covers all service delivery but does not include output and outcomes measures.
8.2 Performance achieved for service delivery	D	Performance reporting exists but is defined in terms of outputs only and in a form that is not comparable to the budget and not published.
8.3 Resources received by service delivery units	C	Data is published for each service delivery unit, but not compiled in a report.
8.4 Performance evaluation for service delivery	D	There is no performance evaluation.

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

This indicator examines the service delivery information in the executive's budget proposal or its supporting documentation, and in year-end reports or performance audits or evaluations, as well as the extent to which information on resources received by service delivery units is collected and recorded.

During the period of the assessment, UB City was involved in the delivery of several key services, including public transport, maintenance of public spaces as well as elements of health and education delivery. For public transport, UB City funded 20 entities (as of the end of 2021) to provide subsidies for regulated bus services and two of these were enterprises owned by UB City. For the maintenance of public spaces and roads, external contractors were engaged, which included LOEs for the maintenance of public spaces and private companies for road maintenance.

While health and education service delivery are primarily functions of the districts (which are otherwise beyond the scope of this overall assessment), they are included within the coverage of this indicator as these services are funded by UB City under delegation (and funding) from the CG and UB City undertakes a quality assurance function as part of this delegation.

8.1. Performance plans for service delivery

Performance level and evidence for scoring the dimension

Annex 1 of the published resolution of the CRKh of UB City approving the budget includes both qualitative and quantitative performance metrics for each budget governor (being an internal budget unit of UB City). These performance metrics are akin to a list of activities, rather than a set of key performance indicators (KPIs) targeting specific outputs or outcomes.

In addition, the IBL (Article 40) provides that, for delegated functions of the central government, a performance agreement shall be established between the CG and UB City which reflects "the programs and activities for the particular FY, their budget, expected outcomes, and assessment criteria". For UB City, during the assessment period, these delegated functions included elements of health and education service delivery. While such performance agreements exist, they are not published.

Within the health sector, elements of a performance budgeting framework have been established, which has included the identification and establishment of output and outcome-based performance targets. However, these are currently used mainly for internal purposes as the integrated budget framework does not yet have mechanisms for incorporating performance targets. As such, these sector-based performance targets were not reflected in the UB City budget.

As this performance framework in the UB City budget covers all service delivery but does not include output and outcome measures, the score for this dimension is C.

Table 8.1: Scoring requirements dimension (for program, service, or function)

Name of service delivery agency	Percentage of service delivery ministries	Program objectives specified (Y/N)	KPIs (Y/N)	PI-8.1 Planned performance		PI-8.2 Actual performance		
				Planned outputs (Y/N)	Planned outcomes (Y/N)	Data on actual outputs produced (Y/N)	Data on actual outcomes achieved (Y/N)	Information on activities undertaken (if no outputs or outcomes) (Y/N)
Preschool and general education	63.0%	Y	N	N	N	N	N	Y
Primary health care	6.3%	Y	N	N	N	N	N	Y
Public transportation services	17.7%	Y	N	N	N	N	N	Y
UB City public utilities landscaping service	8.3%	Y	N	N	N	N	N	Y
Air pollution reduction services	4.7%	Y	N	N	N	N	N	Y
Total	100%	100%	0%	0%	0%	0%	0%	100%

8.2. Performance achieved for service delivery

Performance level and evidence for scoring the dimension

The annual performance agreement between the UB City and the central government is executed between Governor and the Prime Minister on an annual basis, as envisaged by the IBL. The Cabinet Secretariat undertakes monitoring of performance against such performance agreement according to a process that is set out in Regulation 206/2020 regarding the methodology for monitoring and evaluation of policy documents and the operation of public administration organizations. There are three key elements to this performance monitoring, including:

1. Performance in delivering approved laws, regulations, and government decisions, and the specific performance agreements in place between the UB City and individual line ministries, including measured (%) compliance with each of these agreements.
2. Performance in delivering on the UB City mandate (including implementation of result agreement and Annual Work Plan),
3. Openness and transparency, including compliance with “glass account” requirements.

Performance against these elements is assessed almost exclusively about activities and outputs, with outcome indicators being rare. There is not a clear linkage to the activity-based indicators set out in the UB City budget documents.

As part of this monitoring and evaluation process, the UB City Governor provides a self-evaluation of performance to the Cabinet Secretariat by April 1st of each year. The output of this process is a formal performance report, which, for the UB City is not published. As performance reporting is defined in terms of outputs only and in a form that is not comparable to the budget and not published, the score for this dimension is D.

8.3. Resources received by service delivery units

Performance level and evidence for scoring the dimension

The budget for each service delivery unit controlled by UB City is outlined in detail in the integrated budget documents for UB City. In addition, each service delivery unit that is government-owned (including an individual school for example), most of which are funded by a grant from UB City, is required to publish its annual financial reports in the Glass Account Portal (GAP). This includes the LOEs that deliver such services and the service delivery units that are operated by the districts (and funded by grants from UB City). However, such data does not include private service providers – which are outside the coverage of this dimension. There is therefore a high degree of transparency in the funding available for individual service delivery units that are controlled or substantially funded by UB City. However, a report is not produced by UB City that compiles the data regarding the financing available to individual service delivery units.

As such data is published for each service delivery unit, but not compiled in a report, the score for this dimension is C.

8.4. Performance evaluation for service delivery

Performance level and evidence for scoring the dimension

UB City currently does not have a system of program evaluation. There is a unit within the UB City Governor's office that undertakes monitoring of performance but the activities of this unit do not extend to evaluation. While the State Audit Office (SAO) has commenced adopting processes and capability for undertaking performance auditing, there has been no performance audit conducted within UB City.

As there is no system in place for performance evaluation, the score for this dimension is D.

PI-9A. PUBLIC ACCESS TO FISCAL INFORMATION

Summary of scores and performance table

Indicator/Dimension	Score	Brief justification for score
PI-9A. Public access to fiscal information	D	Indicator has one dimension.
9A.1 Public access to fiscal information	D	UB City makes available to the public three (out of five) basic and two (out of three) additional elements. Since four or more basic elements are the requirement for any score higher than D, this performance indicator scores D.

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

This indicator assesses the comprehensiveness of fiscal information available to the public based on specified elements of information to which public access is considered critical. The information is available to the public, so the framework methodology means available without restriction, within a reasonable time, without a requirement to register, and free of charge. There is only one dimension in this indicator.

The provisions for public access to fiscal information in Mongolia are set out in the Constitution of Mongolia, the IBL, the Law on Transparency of Public Information, the Law of Mongolia on Procurement of Goods, Works and Services using State and Local Assets, and the Glass Account Law (GAL). The latter aims to enable public monitoring and strengthen disclosure to the public so that the local administration budget could be allocated and spent efficiently. This law was adopted in 2014 and entered into force in 2015. It is concerned with: (i) efficient and legally compliant use of public resources; (ii) complete transparency in financial and budgetary management and (iii) extensive control and participation rights of the citizens in financial and budgetary matters. It obliges all legal entities with state or local government ownership to publish information on budgets and financial matters, so that: (i) all information must be correct, concrete, and comprehensive, (ii) it should be easy to understand and significant, (iii) it must be regularly published and (iv) it must be transparent (exceptions apply). It also goes into more detail on (i) the type of information to be published; (ii) the type and number of organizations subject to reporting obligations; (iii) officials who are responsible for ensuring the disclosure of information; (iv) timeframes for disclosure; (v) main performance indicators, and (vi) disciplinary actions and fines for breaches should this law be violated.

9A.1. Public access to fiscal information

Performance level and evidence for scoring the dimension

Performance concerning public access to fiscal information is described below, in Table 9.1.

Table 9.1 Summary of basic and additional fiscal elements to which public access is required

Element/ Requirements	Met	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 legislature.	Yes	As mandated by Article 8.5.1 of the IBL, UB City submitted its 2022 budget proposal on November 23, 2021 to the CRKh, within the legal timeframe. However, the budget proposal was published prior to the submission, on September 1, 2021, for the public to give comments on the proposal. (https://www.shilendans.gov.mn/org/53?form=5123502&year=2021&month=12&group=0&task=27)
2. Enacted budget. The annual budget law approved by the legislature is publicized within two weeks of passage of the law.	No	The 2022 budget was enacted on December 3, 2021. However, it was published only 5 weeks later, on the GAP (https://shilendans.gov.mn/org/53?form=5466648&year=2022&month=12&group=0&task=27)
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.	No	As stipulated by Article 7.4 of the IBL, UB City prepared its in-year budget execution reports on a monthly basis and made it available to the public within one month except the months of August and November, which were published in two months. (https://www.ulaanbaatar.mn/shilenDans/budget-executive)
4. Annual budget execution report. The report is made available to the public within six months of the FY's end.	Yes	UB City's annual budget execution report for 2021 was published on the GAP on January 8, 2022, i.e. within two months from FY's end. (https://shilendans.gov.mn/org/53?form=5461260&year=2021&month=12&group=0&task=27)
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 FY's end.	Yes	SAO, the national level supreme audit institution in Mongolia, conducts annual external audits of consolidated financial statements and budget execution of UB City. Both budgetary and EBUs have undergone an external audit in 2021 (the legal deadline for submitting 2021 financial reports to the audit was April 20, 2022). Usually, the audit office publishes all the external audit reports on their website (https://tailan.audit.mn/), where the previous 2 FY's audit reports can be found. You can also see it from the GAP of UB City for the 2020 audit reports publication date with this link: https://shilendans.gov.mn/org/53?form=4889331&year=2020&month=12&group=0&task=27
Additional elements		
6. Prebudget statement. The broad parameters for the executive budget proposal regarding expenditure, planned revenue, and debt is made available to the public at least four months before the start of the FY.	Yes	As stipulated in Article 8.1.3 of the IBL, the Parliament approves the MTFF at least four months before the start of the FY, which includes UB City's parameters. The 2022 MTFF was published on the Unified Legal Portal Site right after approval by the Parliament. (https://legalinfo.mn/mn/detail?lawld=16207226863811)

<p>7. Other external audit reports. All nonconfidential reports on SNG consolidated operations are made available to the public within six months of submission.</p>	<p>Yes</p>	<p>The Article 8.9.4 of the IBL mandates UB City to submit its consolidated financial statement to the SAO by April 1st for an external audit and submit its audited financial report to the MoF before April 20th every year. Accordingly, the SAO conducts external audit and submits the report on its official website within six months of submission. (https://tailan.audit.mn).</p>
<p>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.</p>	<p>No</p>	<p>The MoF prepares and publishes its Citizen’s Budget on its website every year since 2018 (http://iltod.mof.gov.mn/) However, the UB City developed a Citizen’s Budget only for the year of 2020 (http://www.irgen-tur.mn/sites/default/files/documents/niisleliin%20irgediin%20tusuv%202020.pdf) and no further reports were produced beyond this.</p>

The requirements are met for 3 basic elements (out of 5) and 2 additional elements (out of 3). Since four or more basic elements are required for any score higher than D, this performance indicator scores D.

PI-9B PUBLIC CONSULTATION

Summary of scores and performance table

Indicator/Dimension	Score	Brief justification for score
PI-9B. Public Consultation	C	This indicator uses the M2 (AV) method for aggregating the following dimension scores.
9B.1: Public consultation in budget preparation	B	UB City conducts public consultation in multiple mechanisms, facilitated by the accessible, reader-friendly, and understandable manner giving sufficient time for the public and incorporating the inputs in the 2022 budget preparation. Inputs are not published.
9B.2: Public consultation in the design of service delivery programs	C	For the last three completed FYs, UB City organized public consultation on the design of service delivery programs. Inputs and response are not published.
9B.3: Public consultation in investment planning	D	During preparation of major investment projects for 2022, public consultation is conducted for all major investment projects managed and decided by the SNG, however no consultation document includes a summary of the key results of the economic analysis was provided.

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

This indicator assesses the extent to which the SNG conducts public consultation in preparing the budget, designing service delivery programs, and planning investments.

The IBL requires UB City to publish its draft budgets to facilitate their review by citizens. In Article 63, the IBL stipulates that all comments and suggestions made by citizens must be reflected before the budget is approved. Further, governors within districts are required to conduct public hearings concerning investments, programs, projects, and measures to be implemented with the LDF, and order and methods of their implementation.

9B.1. Public consultation in budget preparation

Performance level and evidence for scoring the dimension

This dimension assesses the extent to which public consultation has been conducted in preparing the budget proposal.

Articles 6.5.2 and 67.3 of the IBL mandate UB City to ensure public participation in budget planning, revenue collection, allocation, and reporting process and to present the comments and requests of the citizens to the CRKh. Accordingly, UB City made the 2022 budget proposal available to the public through the GAP and on its official website (www.Ulaanbaatar.mn) a couple of months before the submission to the CRKh and also conducted an online poll for the public to comment on the proposal for five days, November 18-22, 2021. As a result, 262 people participated in the poll and 266 comments and requests were received, which were then consolidated and presented together with the budget proposal to the CRKh. However, UB City did not publish a summary of the inputs received and an explanation of how those inputs have been taken into account, which is the requirement for the score of A and the executive does not meet.

Since UB City does conduct public consultation proactively using multiple mechanisms including online polls and publishing, the budget proposal is in an accessible reader-friendly and understandable manner, allows sufficient time for the public to provide inputs in the proposal and incorporates the comments, the score for this dimension is B.

9B.2. Public consultation in the design of service delivery programs

Performance level and evidence for scoring the dimension

This dimension assesses the extent to which the design of service delivery programs, or the redesign of existing programs, has benefited from public consultation to meet citizens' needs and wants.

As indicated in 9B.1. dimension, in line with Articles 6.5.2 and 67.3 of the IBL, UB City conducts a public consultation every year before the approval of the budget proposal to identify the needs for service delivery programs. For instance, on November 19, 2019, UB City conducted a public consultation on the 2020 budget proposal at UB City Citizen's Hall and approximately 400 citizens participated in the event. During the consultation, the main needs from the citizens regarding service delivery were mostly reducing the soil pollution, improving the maintenance and lightening of the public roads and parks and green area, repairing the roads, and improving the quality and access of the public transportation services, increasing the access of the public schools and kindergarten services, increasing the number of parking spaces in the apartment complex areas, improving power supply in the ger area, insulating apartments, repairing the elevators and roofs of the apartments, etc.

In 2020, due to the COVID-19 pandemic, the public consultation took place virtually by placing the budget proposal both on the GAP and UB City's official website (www.Ulaanbaatar.mn) and organizing a poll for 3 days, November 18-20, for the 2021 budget proposal. A total of 157 citizens participated and submitted 343 comments and requests, which were mainly focused on reducing air and soil pollution in UB City, improving the maintenance and lightening of the public roads, parks, and green areas, building and repairing roads, improving and increasing the quality and access of the public transportation services, increasing the number of parking places in the apartment complex areas, intensifying ger area redevelopment program and improving the power supply in ger area. Whereas in 2021, the 2022 budget proposal was made publicly available in the GAP and on its official website in September. The poll was organized for 5 days, November 18-22, 2022. A total of 262 citizens participated and 266 comments were received, mainly on improving the quality and accessibility of the public transportation services, intensifying the ger area redevelopment program, expanding flood protection facilities, building roads, and improving the power supply of the ger area, etc.

Public consultation has been conducted at all times in the last three FYs to identify the needs for service delivery programs and there is a dedicated "Operation and Cooperation Center" at UB City which receives and delivers comments from citizens on all matters including service delivery feedback at the UB City. The Center then forwards these to the respective divisions to respond and incorporate in the design and oversight of programs. The nature of the feedback received is not published. Hence the score for this dimension is C.

9B.3. Public consultation in investment planning

Performance level and evidence for scoring the dimension

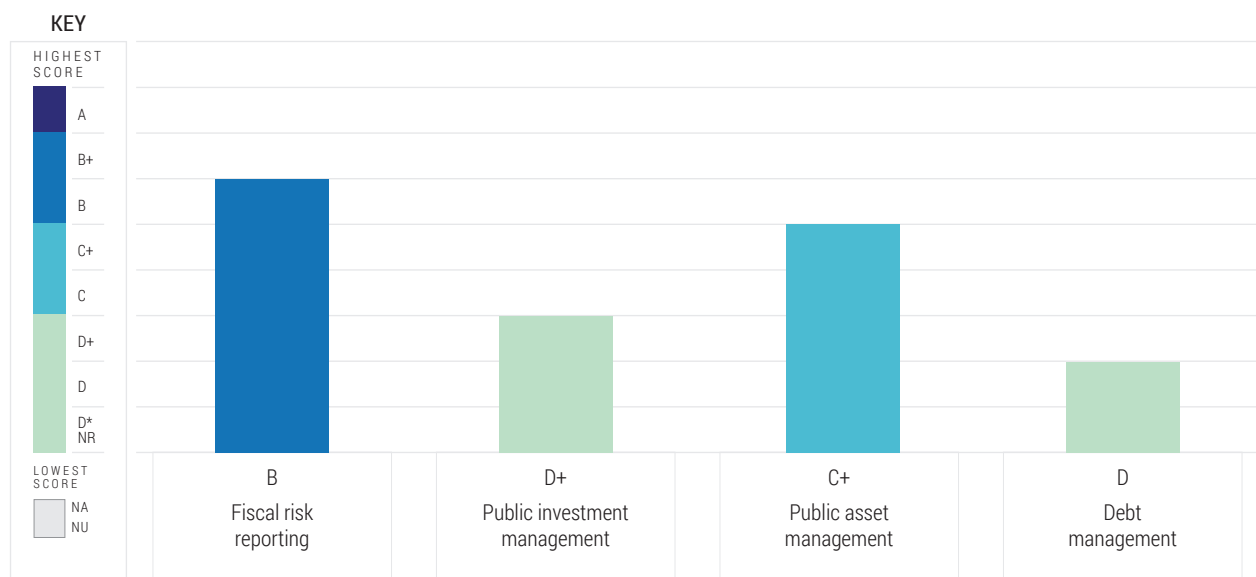
This dimension assesses the extent to which public consultation has been conducted for the major investment projects (a definition of major investment projects is provided under PI-11, Public investment management) managed and decided by the SNG.

UB City indeed conducts public consultation for the investment projects which are managed and decided by the SNG according to the requirements of the IBL. The public consultation was conducted virtually in 2021 via publishing the 2022 budget proposal on the GAP and UB City website in September and organizing a poll for 5 days, November 18-22, 2022. As a result, 262 citizens participated and 266 comments were received, which were mainly focused on improving the quality and accessibility of the public transportation services, intensifying the ger area redevelopment program, expanding flood protection facilities, building roads, and improving the power supply of ger area, etc. The comments were reviewed and incorporated within the available budget by the executive.

Moreover, the Regulation on LDF activities stipulates a dedicated chapter on public participation in LDF planning at the aimag/UB City level, which includes creating a non-permanent working group comprising of citizens and civil society organization (CSO) representatives functioned to participate and provide recommendations in the planning and prioritizing the public investment projects and programs which is to be financed by the LDF. The GG of the aimag/UB City is mandated to organize public consultation through their respective Citizen Hall on the preliminary list of the projects and programs within July of every year, which is then discussed and approved by the respective CRKh.

Although the UB City conducts public consultation on all investment projects, there is no consultation document that includes a summary of the key results of the economic analysis conducted on possible projects. Hence the score for this dimension is D.

PILLAR THREE: MANAGEMENT OF ASSETS AND LIABILITIES



PI-10. FISCAL RISK REPORTING

Summary of scores and performance table

Indicator/Dimension	Score	Brief justification for score
PI-10. Fiscal risk reporting	B	This indicator uses the M2 (AV) method for aggregating the following dimension scores.
10.1 Monitoring of public corporations	B	Public corporations publish their audited annual financial statements within 6 months of the end of the financial year and a consolidated performance report is produced but it does not address risks.
10.2 Monitoring of SNGs	A	Districts publish their audited annual financial statements within 9 months of the end of the financial year and a consolidated performance report is produced.
10.3 Contingent liabilities and other fiscal risks	D	Aggregate expenditure outturn (as a % of original approved budget) was 86.5% in 2019, 66.7% in 2020 and 92.8% in 2021. The aggregate expenditure outturn was between 85% and 115% in two of the last three fiscal years.

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

This indicator measures the extent to which fiscal risks to SNGs are reported. Fiscal risks can arise from adverse macroeconomic situations, financial positions of SNGs or public corporations, and contingent liabilities from the SNG's programs and activities, including EBUs. They can also arise from other implicit and external risks such as market failure and natural disasters.

Mongolia adopted accrual IPSAS and all budget entities, including UB City, are required to maintain a full set of financial statements. UB City publishes annually a full set of accounts that includes a comprehensive balance sheet. By Article 52 of the IBL, information on contingent liabilities is to be reflected in the budget and budget execution reports.

UB City has an ownership interest in a range of public corporations, including those established by the legal instrument of UB City which are identified as LOEs, as well as others that are registered joint-stock companies (JSC) that are regulated in the same way as a private enterprise. Many of these LOEs and JSCs perform service delivery and regulatory functions and, while they charge fees, these often do not reflect market-based prices. As such, some or all of their activities would be classified as general government activities according to GFS.

As outlined in the introduction to this report, there are 9 districts within the UB City and within these are 173 sub-districts (khoros). The districts are self-governing, with their own political and administrative structures, but are reliant on transfers from UB City and the national government to fund service delivery. UB City faces a potential risk that any financial difficulties experienced by one or more of these districts may require additional financial support from it (beyond the amounts budgeted).

10.1. Monitoring of public corporations

Performance level and evidence for scoring the dimension

As per Article 8.9.8 in the IBL, UB City requires that all enterprises under its ownership submit audited annual financial statements by March 15 of the following year. In practice, public corporations consistently submit their annual reports to the UB City Governor's office in mid-March and typically publish such reports at the same time on the GAP. The financial performance of all public corporations owned by UB City is consolidated, reported, and published annually as part of the annual financial statements of UB City.

Table 10.1: Financial reports of public corporations

Ten largest public corporations		Financial turnover (million MNT)	% of ten largest public corporations	Date of publication of the audited financial statements for 2021	Date of submission of financial statements for 2021 to the Government.	A consolidated report was prepared (Yes / No)
1.	Water Supply and Sewerage Authority LOE	69,765.7	27.97%	April 07, 2022	March 15, 2022	Yes
2.	Housing and Public Utilities Authority LOE	98,924.2	39.66%	February 21, 2022	March 15, 2022	
3.	Passenger Transport Union JSC	33,698.2	13.51%	April 06, 2022	March 15, 2022	
4.	Capital City Landscaping Department	15,341.5	6.15%	April 08, 2022	March 15, 2022	
5.	Ulaanbaatar Road Maintenance Agency LOE	13,542.1	5.43%	2021 report not published yet. 2020 report was published on March 05, 2021.	March 15, 2022	
6.	Department of Geodesy and Water Construction	4,370.1	1.75%	May 11, 2022	March 15, 2022	
7.	Capital City Housing Corporation JSC	4,148.8	1.66%	March 30, 2022	March 15, 2022	
8.	Investment Agency of the UB City	3,794.8	1.52%	2021 report not published yet.	March 15, 2022	
9.	Urban Planning Research Institute LOE	3,018.6	1.21%	April 05, 2022	March 15, 2022	
10.	Partial Engineering Supply Management Agency	2,833.1	1.14%	February 25, 2022	March 15, 2022	
		249,437.1	100%			

As the public corporations prepare and publish audited annual financial statements within 6 months of the reporting period, and a consolidated performance report is prepared by UB City, but such a report does not address fiscal risks, the score for this dimension is B.

10.2. Monitoring of SNGs

As per Article 8.9.3 in the IBL, UB City requires that all its districts submit audited annual financial statements by March 25 of the following year. In practice, districts consistently submit their annual reports to UB City Governor's office in mid-March and typically publish such reports at the same time on the GAP. The financial performance of all districts of UB City is consolidated, reported, and published annually as part of the annual financial statements of UB City.

Table 10.2: All nine districts' AFS publication date

Districts	Date of publication of the 2021 AFS on the Glass Account of 2021 (last completed FY)	Date of publication of the 2021 Audited FS on the Glass Account (last completed FY)
Bagakhangai	April 14, 2022	April 14, 2022
Baganuur	April 22, 2022	April 24, 2022
Bayangol	April 25,2022	April 25, 2022
Bayanzurkh	April 25,2022	April 26, 2022
Chingeltei	April 26,2022	April 26, 2022
Khan-Uul	May 24, 2022	May 24, 2022
Nalaikh	March 18,2022	April 07, 2022
Songinokhairkhan	May 04, 2022	May 05, 2022
Sukhbaatar	April 15, 2022	April 15, 2022

As the districts prepare and publish annual financial statements as well as audited annual financial statements within 9 months of the reporting period, and a consolidated performance report is prepared by UB City, the score for this dimension is A.

10.3. Contingent liabilities and other fiscal risks

UB City is exposed to several fiscal risks, which include exposure to natural disasters and pandemics, the impacts of macroeconomic shocks, and risks associated with its ownership of public corporations. As outlined in PI-1 and PI-3, in recent years the actual level of revenue and expenditure realized by UB City did not match the original budget, demonstrating the potential risk factors.

As an example of the potential risks, the Ulaanbaator City Development Corporation, established in April 2015, is to enter into public-private partnerships and undertake borrowing and lending activities, which international experience has identified as areas of fiscal risk. In addition, the Ulaanbaatar Apartment Fund and Ulaanbaatar SME Development Center are understood to enter into financial arrangements involving UB City accepting a degree of credit risk.

UB City has also been exposed to the risk that lower levels of government are unable to realize their planned budget and service delivery targets. While there may not be any explicit requirement for UB City to support districts that experience challenges delivering services within their approved budget, there could be public expectations and political drivers for UB City to provide such support.

UB City does not include an examination of these fiscal risks in its budget documents.

While the annual financial statements are comprehensive in terms of identifying UB City's support for lower-level SNGs and investment in LOE and JSCs, this does not extend to the identification of associated contingent liabilities. Due to this absence of reporting of contingent liabilities, the score for this dimension is D.

Recent or ongoing reform activities

As UB City starts to deliver on its mandate to borrow, explicit and implicit contingent liabilities are expected to get reported more systemically.

PI-11. PUBLIC INVESTMENT MANAGEMENT

Summary of scores and performance table

Indicator/Dimension	Score	Brief justification for score
PI-11. Public investment management	D+	This indicator uses the M2 (AV) method for aggregating the following dimension scores.
11.1 Economic analysis of investment projects	D	UB City applies the national PIM framework but evidence of economic analysis is not available.
11.2 Investment project selection	C	UB City applies the selection methodology from the national PIM framework however more than 50% of current major projects assessed prior to adoption of this methodology.
11.3 Investment project costing	C	Projects are costed but only total project cost and budget year costs published.
11.4 Investment project monitoring	C	There is no consolidated published report on project implementation.

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

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.

UB City analyses the economic benefits and social significance of the proposed investment projects and activities by Regulation No.95 of 2018 on "Methodology for evaluating, prioritizing, and selecting projects and activities to be implemented with state budget financing". Those projects to be financed from UB City budget are also analyzed following the same methodology and practice. For the assessment, the relevant documentary evidence for the following major investment projects has been considered.

Table 11: List of major investment projects

#	Project description	Project cost (Million MNT)
1	Construction of a new complex of the city sub-center building for the local government within the framework of reducing air pollution and congestion, decentralization of the city	91,000
2	Children's school bus	23,050
3	"Passenger transport three" bus fleet building of the State Property Administration II shift / Songinokhairkhan district, 22nd khoroo /	17,883
4	Construction of a Cultural Centre / 850 seats, Baganuur District, 1st khoroo /	15,087
5	Construction of a Local government building of Nalaikh district / ND, 7th khoroo /	14,268
6	Construction of Cultural Centre of 850 seats / Nalaikh District /	13,813
7	Construction of the second phase of Nalaikh construction materials production and technology park power supply / Nalaikh District /	11,524
8	Feasibility study, research, design and consulting services for projects and activities aimed at reducing traffic congestion in Ulaanbaatar	11,060
9	Construction of Bicycle Road / Package-1 / / Bayanzurkh district, Khan-Uul district /	9,796
10	Infrastructure work of Auto trade complex I, II shift / Songinokhairkhan district / / Ulaanbaatar International Trade and Logistics Center /	9,409

11.1. Economic analysis of investment projects

Table 11-1 and 11-2: Economic analysis and project selection of the ten largest major investment projects approved in the last completed FY (2021)

Ten largest major investment projects (>1% of BCG [Budgetary Central Government] expenditure)	Total investment cost of project (million MNT)	As a % of \$ 10 major projects approved	Data for PI-11.1 Economic analyses				Data for PI-11.2 Project selection	
			Completed (Y/N)	Consistent with national guidelines (Y/N)	Published (Y/N)	Reviewing entity	Prioritized by central entity (Y/N)	Consistent with standard selection criteria
Construction of a new complex of the city sub-center building for the local government within the framework of reducing air pollution and congestion, decentralization of the city	91,000	42%	N	N	N	N/A	N	N
Children's school bus	23,050	10,6%	N	N	N	N/A	Y	Y
"Passenger transport three" bus fleet building of the State Property Administration II shift / Songinokhairkhan district, 22nd khoroo /	17,883	8,2%	N	N	N	N/A	Y	Y
Construction of a Cultural Centre / 850 seats, Baganuur District, 1st khoroo /	15,087	6,9%	N	N	N	N/A	Y	Y

Construction of a Local government building of Nalaikh district / ND, 7th khoroo /	14,268	6,6%	Y	N	N	N/A	Y	Y
Construction of Cultural Centre of 850 seats / Nalaikh District /	13,813	6,4%	N	N	N	N/A	Y	Y
Construction of the second phase of Nalaikh construction materials production and technology park power supply / Nalaikh District /	11,524	5,3%	Y	N	N	N/A	Y	Y
Feasibility study, research, design and consulting services for projects and activities aimed at reducing traffic congestion in Ulaanbaatar	11,060	5,2%	N	N	N	N/A	Y	Y
Construction of Bicycle Road / Package-1 / / Bayanzurkh district, Khan-Uul district /	9,796	4,5%	N	N	N	N/A	Y	Y
Infrastructure work of Auto trade complex I, II shift / Songinokhairkhan district / / Ulaanbaatar International Trade and Logistics Center /	9,409	4,3%	N	N	N	N/A	Y	Y
Total/Coverage	216,890	100%	11.9%	0%	0%	0%	100%	100%

Data source: Capital City Investment Project information from the Public Investment Department (PID) of UB City.

Note: Major investment project is any project where the total investment cost is greater than 1% of total annual BCG expenditure.

UB City indicated that it applies the economic assessment methodologies for investment projects as outlined in the national PIM framework (Regulation No. 295 of 2018), despite the projects being below the threshold which requires such analysis. Such economic analysis is not published and the analysis for the sample of projects selected was not provided. Due to the absence of evidence of economic analysis, the score for this dimension is D.

11.2. Investment project selection

Performance level and evidence for scoring the dimension

Since 2019, UB City's new public investment projects have been appraised using the "Procedures for evaluating and prioritizing projects and activities to be implemented with state budget investment" (Regulation No. 295 of 2018). While these procedures are intended for and required for central budget funding, UB City has chosen to apply the procedure for all of its projects. The analysis required by the procedure includes scoring against specific criteria, that identifies economic efficiency, social significance, and preparedness and also confirmation of alignment with the Strategy of Sustainable Development of Mongolia-2030, short and medium-term development policy documents, and the Medium-Term Budget Framework Statement. This analysis is undertaken by the Development Policy and Planning Division of the UB City.

The assessment team was provided with a spreadsheet that reflected the scoring and selection of new projects against this methodology which confirm the application of this methodology in the last completed FY. However, as four of the 10 largest projects sampled were included in the budget before

the introduction of this assessment methodology, and together these represent more than 50% of the total, it cannot yet be concluded that most projects are assessed in this manner. Hence, the score for this dimension is C.

11.3. Investment project costing

Performance level and evidence for scoring the dimension

All major projects are listed in Annex 1 to the budget resolution (11/34 of the Capital City Citizens' Representatives Khural dated December 3, 2021) for the UB City Budget. This listing includes the total capital cost of the project and the cost to be incurred in the budget year, but not a breakdown of costs for future years. The listing does not include an estimate of the recurrent costs associated with the project. Based on this evidence, the score for this dimension is C.

Table 11-3 and 11-4: Investment project costing and monitoring of the five largest major investment projects in the last completed FY

Name of capital project (and donor)	Data for PI-11.3 Investment project costing			Data for PI-11.4 Investment project monitoring				
	Life cycle cost in budget documents (Y/N)	Annual Capital cost breakdown in budget documents (Three-year)	Annual Recurrent costs included in budget documents (Three-year)	Monitoring of total cost (Y/N)	Physical progress monitoring (Y/N)	Standard rules and procedures exist (Y/N)	High level of compliance with procedures (Y/N)	Information on total cost and physical progress published annually (Y/N)
Construction of a new complex of the city sub-center building for the local government within the framework of reducing air pollution and congestion, decentralization of the city	Y	N	N	Y	Y	Y	N	N
Children's school bus	Y	N	N	Y	Y	Y	N	N
"Passenger transport three" bus fleet building of the State Property Administration II shift / Songinokhairkhan district, 22nd khoroo /	Y	N	N	Y	Y	Y	N	N
Construction of a Cultural Centre / 850 seats, Baganuur District, 1st khoroo /	Y	N	N	Y	Y	Y	N	N
Construction of a Local government building of Nalaikh district / ND, 7th khoroo /	Y	N	N	Y	Y	Y	N	N
Construction of Cultural Centre of 850 seats / Nalaikh District /	Y	N	N	Y	Y	Y	N	N
Construction of the second phase of Nalaikh construction materials production and technology park power supply / Nalaikh District /	Y	N	N	Y	Y	Y	N	N
Feasibility study, research, design and consulting services for projects and activities aimed at reducing traffic congestion in Ulaanbaatar	Y	N	N	Y	Y	Y	N	N

Construction of Bicycle Road / Package-1 / / Bayanzurkh district, Khan-Uul district /	Y	N	N	Y	Y	Y	N	N
Infrastructure work of Auto trade complex I, II shift / Songinokhairkhan district / / Ulaanbaatar International Trade and Logistics Center /	Y	N	N	Y	Y	Y	N	N
Coverage	100%	0%	0%	100%	100%	100%	0%	0%

Data source: Capital City Investment Project information from the PID of MUB

11.4. Investment project monitoring

Performance level and evidence for scoring the dimension

The MoF Regulation No. 160 requires UB City to have a framework in place for project implementation planning, financing, monitoring, and reporting on budgeting financed projects. In practice, the monitoring of major projects of UB City is undertaken by the Governor's office, Capital City Road Development Agency, and the Capital City Investment Agency, who are the key implementing agencies. This annual monitoring includes both the financial (total project cost) and physical progress of the projects. Such information is not consolidated and is not published in a report on project implementation. Annual audits of project implementation by the SAO indicate that this monitoring is not effective. Based on the analysis and supporting evidence, the score for this dimension is C.

PI-12. PUBLIC ASSET MANAGEMENT

Summary of scores and performance table

Indicator/Dimension	Score	Brief justification for score
PI-12. Public asset management	C+	This indicator uses the M2 (AV) method for aggregating the following dimension scores.
12.1 Financial asset monitoring	C	Financial assets are recorded at cost and there is no performance reporting.
12.2 Nonfinancial asset monitoring	C	Asset registers are maintained but do not include sub-soil assets.
12.3 Transparency of asset disposal	B	Rules are established for asset transfer and disposal, but these cover only non-financial assets.

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

This indicator assesses the management and monitoring of government assets and the transparency of asset disposal.

12.1. Financial asset monitoring

UB City maintains records of its financial assets including cash, bank accounts, and investments and as well as records on its equity holding in LOEs. The Treasury Department of UB City maintains these reports and updates on a semi-annual and annual basis except that the cash balances are updated monthly. The financial report of the City shows the balances and breakdowns of these financial assets. Details of how these financial assets are recorded are outlined in table 12.1.

Table 12-1: Financial asset monitoring – a checklist of records of holdings

Asset Type	Holdings of financial assets maintained (Y/N)	Acquisition cost recorded (Y/N)	Fair value recognized (Y/N)	In line with international accounting standards (Y/N)	Information on performance published annually. (Y/N)	Source of information
Cash	Y	Y	N/A	Y	N/A	
Short term investment	Y	Y	N	Y	N	
Receivables and advance	Y	Y	N	Y	N	AFS 2021
Equity in LOEs	Y	Y	N	Y	N	

Data source: Audited Annual Financial Statement 2021

Performance level and evidence for scoring the dimension

Financial assets are all accounted for at their acquisition cost based on historical records. There is no analysis of the performance of financial assets and therefore no report on such performance is prepared or published. As there is a record of financial assets but no analysis of performance, the score for this dimension is C.

12.2. Nonfinancial asset monitoring

UB City maintains a detailed register of its fixed assets and reconciles this to its capital expenditure in the budget.

The register includes physical assets, including buildings, machinery, and vehicles. Information on the usage, age, useful life, asset custodian, etc. are maintained in the system and is used for calculating depreciation. However, the register does not include land, which is in a separate register maintained by the Capital City Property Relations Department. There is no register of intangible and sub-soil assets – which, in the case of UB City, is understood to include coal and potentially mineral deposits.

The Capital City Property Relations Department maintains a fixed asset register which includes the location of the physical assets, useful economic life, financing

source of some assets, current condition, and their value. All of the LOEs and budgetary units of UB City submit detailed asset register reports as per the template sent by the Capital City Property Relations Department annually, which then is consolidated after the year-end. This consolidated asset register and report is then sent to the Agency of State Property and Policy Relations to be consolidated at a country level and provided to the National Statistics Office.

Table 12.2. Categories of nonfinancial assets

Categories	Subcategories	Where captured
Fixed assets	Buildings and structures	Yes, Capital City Property Relations Department
	Machinery and equipment	Yes, Capital City Property Relations Department
	Other fixed assets	Yes, Capital City Property Relations Department
Inventories	—	Yes, by individual departments
Valuables	—	No
Nonproduced assets	Land	Yes, Capital City Property Relations Department
	Mineral and energy resources	No
	Other naturally occurring assets	No
	Intangible nonproduced assets	No

Note: The categories in the table are based on the GFS Manual 2014, but different categories applied by the government may be used.

As UB City maintains a detailed asset register but it does not include sub-soil assets, the resulting score is C.

12.3. Transparency of asset disposal

Performance level and evidence for scoring the dimension

In compliance with the Articles 29, 30, 31 of the Law on State and Local Property, transfer and disposal of assets follows the detailed arrangements set forth in the Annex to Resolution No. 66 on “Regulating movements of assets and other relevant relations of legal entities owned by the capital city” of 2014 of the Capital City CRKh. The regulation describes the detailed procedures for transfer and disposal of non-financial assets. This includes a requirement for review by the Capital City Property Relations Department and approval by the Presidium, Governor of UB City, or the Capital City Property Relations Department, depending on the type of asset. The regulation, however, does not extended to financial assets. Data regarding the revenue from asset disposals is included in financial reports.

Table 12-3: Transparency of asset disposal

Procedures for non-financial asset disposal established (Y/N)	Procedures for financial asset disposal established (Y/N)	Information included in budget documents, financial reports or other reports (Full/Partial specify)	Register of subsoil assets (if applicable) (Y/N/NA)	Information on asset disposal submitted to legislature (Y/N)
Y	N	Partial – limited to non-financial assets	N – only a register of mining and exploration licences exist	Y - (when required by the regulation)

Data source: Asset Disposal Procedures and Rules

Based on the analysis and supporting evidence, the score for the present dimension is B.

PI-13. DEBT MANAGEMENT

Summary of scores and performance table

Indicator/Dimension	Score	Brief justification for score
PI-13. Debt management	D	This indicator uses the M2 (AV) method for aggregating the following dimension scores
13.1 Recording and reporting of debt and guarantees	D*	While reporting of liabilities suggests effective accounting for debt, evidence was not provided of debt records or reconciliations.
13.2 Approval of debt and guarantees	D	There are no policies or procedures that guide the debt processes.
13.3 Debt management strategy	D	There is no debt management strategy.

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

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.

The debt management of UB City follows the Debt Management Law in general terms. The consolidated annual financial statement of UB City, includes a balance sheet with standard categories such as current and non-current liabilities, which includes debt. In addition, the financial statements include a schedule showing the value of debt by the administration classification such as budgetary entity, project and fund, treasury, State-Owned Enterprises (SOEs) and LOEs.

The Debt Management Division (DMD) of UB City has a record of on-lending debt balance with a breakdown of arrears and interest annually. UB City does not have a debt management system in place.

13.1. Recording and reporting of debt and guarantees

Performance level and evidence for scoring the dimension

UB City's DMD maintains records of debts on-loaned from CG and the assessment team was informed that internal debt reports are prepared. On-lending programs and their management is regulated by articles 29-32 of the Debt Management Law. UB City indicates that it prepares the annual report required by this legislation, which is used internally. While the assessment team was not provided with the report, it could verify the reporting of on-lending debts is shown in the annual financial statements of UB City. No evidence was provided regarding the nature of reconciliation performed between such internal data and primary sources such as bank records and the central government's debt management system. Due to the lack of evidence provided, the score for this indicator is D*.

13.2. Approval of debt and guarantees

Performance level and evidence for scoring the dimension

In clause 19.11 of the Debt Management Law, aimag and capital city governors are prohibited from incurring debts or issuing guarantees with repayment from the local budget, without the prior approval of the central government – specifically the MoF. According to Articles 28¹.2, 6.2.2, 7.1.2, and 8.1.4 of the law, the capital city governors shall in addition to obtaining permission from the CG to borrow, also obtain the prior approval of the CRKh of the Capital City. However, at this time there are no policies, procedures or other guidance in place within UB City (or issued by the central government) which set internal roles and responsibilities or guide the internal processes for borrowing and issuing guarantees by UB City. Based on the evidence provided, the score for this dimension is D.

13.3. Debt management strategy

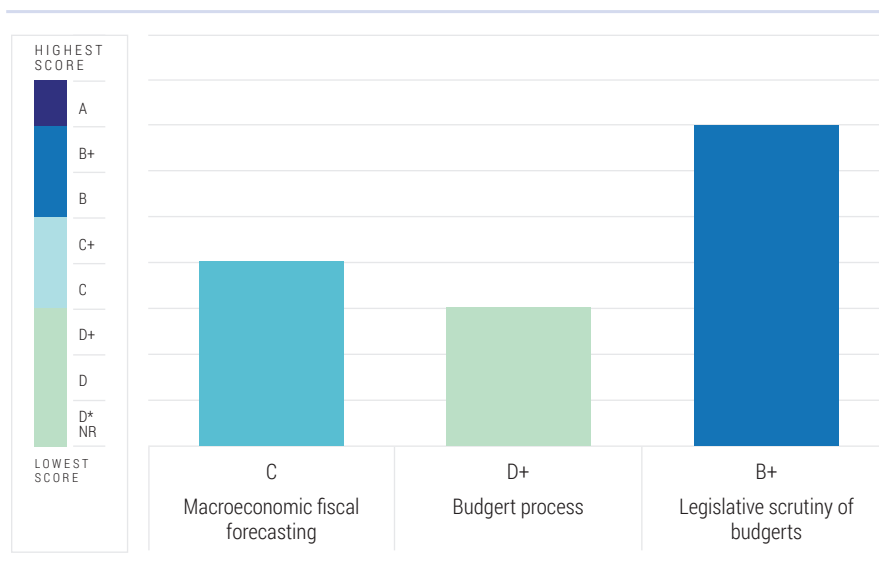
Performance level and evidence for scoring the dimension

UB City does not have a debt management strategy. Hence, the score for the present dimension is D.

Recent or ongoing reform activities

It is noted that the amendments to the Debt Management Law only became effective from July 7, 2021. It is anticipated that the changes to the law will prompt further development of the rules, procedures, systems and strategy for borrowing by UB City.

PILLAR FOUR: POLICY-BASED FISCAL STRATEGY AND BUDGETING



PI-14. MEDIUM-TERM BUDGET STRATEGY

Summary of scores and performance table

Indicator/Dimension	Score	Brief justification for score
PI-14. Medium Term Budget Strategy	C	This indicator uses the M2 (AV) method for aggregating the following dimension scores.
14.1 Underlying forecasts	B	No medium-term expenditure and revenue estimates were included in the budget proposal submitted to the SNG council as all estimates and underlying information and assumptions refer to the budget year only.
14.2 Fiscal impact of policy proposals	C	The budget proposal includes information about the fiscal impact of the most major policy changes for the budget year (but not the two forward years).
14.3 Medium-term expenditure and revenue estimates	D	Expenditure estimates are disaggregated using economic, administrative and program classification. However, do not cover the medium term (i.e. are available for the budget year only).
14.4 Consistency of budget with previous year's estimates	NA	Since dimension 14.3 is scored D, this dimension is scored NA.

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

This indicator measures the ability of UB City to prepare budget estimates on the basis of a fiscal strategy, the impact of economic context and policy changes. It assesses the ability of the SNG to develop a medium-term budget that is aligned with the strategic plans for service delivery. It also examines the extent to which annual budgets are derived from medium-term estimates.

Article 32 of the IBL stipulates that the CG budget submitted for adoption by the State Great Khural (SGK) is to be prepared for the medium term, i.e. for the budget year and two forward years. No equivalent provision has been identified that applies to the local budget of UB City.

14.1. Underlying forecasts

Performance level and evidence for scoring the dimension

The 2022 budget proposal submitted by the UB City Governor to the CRKh contained estimates of revenue and expenditure for the budget year only. Forward estimates of revenue and expenditure for the following two years, which UB City made available on the GAP, were not part of the annual budget proposal. In addition, the budget contained a chapter on the subnational fiscal strategy, which included details of projected transfers (informed by projections by the MoF) alongside underlying demographic and macroeconomic indicators for the whole of Mongolia; UB City's policy priorities for 2022 and the associated changes in expenditure and revenue estimates; projections of capital expenditures and the LDF; as well as other intergovernmental transfers. Furthermore, some sector-specific information was included (e.g. on education, health, environmental rehabilitation/protection, and public transportation services) which was consistent with sector strategies. Additional sector-specific information is contained in UB City Governor's Action Plan and Plan of Activities to be implemented, 2021-2024 UB City Strategic Plan, and 2022 UB City Development Plan adopted by the CRKh prior to the consideration of the budget proposal. Like expenditure and revenue estimates, information in this chapter refers to the budget year only.

Because no medium-term expenditure and revenue estimates were included and all estimates and underlying information and assumptions in the budget proposal refer to the budget year only, the score for this dimension is B.

14.2. Fiscal Impact of Policy Proposals

Performance level and evidence for scoring the dimension

The 2022 budget proposal submitted to the CRKh of UB City contains basic information about the fiscal impact of the most significant policy proposals included in the 2022 budget, as demonstrated in Table 14.1 below.

Table 14.1: Fiscal impact of policy proposals submitted during budget preparation

Revenue policy proposals	Fiscal impact (MNT) on UB City budget	Do the proposals present total revenues to be collected for all budget years
Increase the tax collection through improved technology which is not costed	Not available	No
Expenditure policy proposals	Fiscal impact (MNT) on UB City budget	Do the proposals present full costs (including current costs of capital projects) for all budget years
As per LATUG and LLSOUBCC Capital investment to help resolve UB City traffic congestion	MNT 420 billion (increase)	Current budget year only
Temporary COVID law. Increase in expenditures to be financed from the Governor's reserve fund for COVID relief	MNT 98.6 billion (increase)	Current budget year only
	MNT 518.6 billion (increase)	

Since the budget proposal includes information about the fiscal impact of the major policy changes for the budget year (but not the two forward years), the score for this dimension is C.

14.3. Medium-term expenditure and revenue estimates

Performance level and evidence for scoring the dimension

The estimates of expenditure contained in the annual budget for 2022 are allocated by economic, administrative, and program classification. However, they pertain only to the budget year and not to the following two fiscal years. Accordingly, the score for this dimension is D.

14.4. Consistency of budget with previous year's estimates

Performance level and evidence for scoring the dimension

Since the above dimension 14.3 is scored D, the score for this dimension is NA as per the SNG PEFA field guide.

PI-17. BUDGET PREPARATION PROCESS

Summary of scores and performance table

Indicator/Dimension	Score	Brief justification for score
PI-17. Budget preparation process	D+	This indicator uses the M2 (AV) method for aggregating the following dimension scores.
17.1 Budget calendar	C	UB City uses a clear annual budget calendar that is generally adhered to; however, because it allows budgetary units a relatively short time to meaningfully complete their detailed estimates, performance cannot be scored higher.
17.2 Guidance on budget preparation	D	The budget circular does not contain expenditure ceilings for individual budgetary units, ministries nor administrative or functional areas.
17.3 Budget submission to the legislature	C	Although UB City forwards its budget proposals to CRKh timely (i.e. within five weeks before the start of the FY), it receives final information about approved transfers from the State level only six weeks before the start of its FY.

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

This indicator measures the effectiveness of participation by relevant stakeholders in the budget preparation process, including political leadership, and whether that participation is orderly and timely.

The annual budget calendar and its content are prescribed by Article 8 of the IBL. It regulates the key parameters of the budget process, deadlines for their preparation, and responsible institutions. The calendar is relatively detailed and is to be applied by managers of individual institutions, managers of supervising ministries, and governments.

As a first step in the annual budget planning process, the SGKh discusses and approves drafts of the Strategic Document and the MTFF Statement by June 1st of each year. General budget governors, including the Governor of UB City, prepare and submit their proposal for a budget ceiling based on the MTFF Statement to the MoF by June 10th of each year. The MoF then delivers to general budget governors annual budget ceilings approved by the Cabinet, along with the budget circular, by July 5. Following the instructions in the budget circular, general budget governors prepare and submit their budget proposals to the MoF by August 15th of each year. Subsequently, the MoF's submission of the annual budget proposal to the Cabinet takes place by September 15th, followed by the Cabinet's submission of the proposal to the SGK by October 1st. Finally, the SGK is to approve the annual budget proposal by November 15th of each year.

Once the state budget is approved by November 15th, aimag and the capital city CRKhs discuss and approve the respective annual budget proposal by

December 5th of each year. Article 32 of the IBL of Mongolia stipulates that the budget submitted for adoption by the SGK is to be prepared for the medium term, i.e. for the budget year and two forward years. No equivalent provision has been identified that applies to the local budget of Ulaanbaatar.

While the IBL contains provisions for the issuance of a budget circular regulating the budget preparation process, it does not contain a provision for SNGs/ UB City to prepare and communicate to its budgetary units their expenditure ceilings, nor is there a requirement that such ceilings be approved by the Cabinet at the beginning of the budget preparation cycle.

The submission of the budget proposal to the CRKh of UB City is regulated through Article 8.5.1 of the IBL. This clause stipulates that the Governor of the Capital City is to submit the annual budget proposal to the State Audit Office / Capital City Auditor (by November 20) and subsequently the CRKh (by November 25).

17.1. Budget calendar

Performance level and evidence for scoring the dimension

A clear and detailed annual budget calendar was in place in 2021, defining the key parameters of the budget preparation process along with their timing, and it was generally adhered to. The IBL leaves it to the discretion of the Capital City to organise the preparation of the local budget proposal. The details of this arrangement (between UB City and its internal departments) are based on established practices and deadlines, and are formally confirmed in a budget circular issued by UB City. Table 17.1 provides a summary.

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

Activity	Planned date	Actual date
MoF issue a budget circular to the UB City (Art 8.3.4 of IBL)	July 5	The circular was received by UB City within the deadline (on July 5, 2021)
The Finance and Treasury Division of the UB City delivered the budget circular to the budget entities	July 10	The circular was received by budget entities within the deadline (on July 9, 2021)
Budget entities submit their budget proposal (Art. 8.4.1 of IBL)	July 25	The proposals were submitted within the deadline (July 25, 2021)
UB City submits its budget proposal to the MoF (Art. 8.4.3 of IBL)	August 15	The proposal was submitted within the deadline (August 15, 2021).

Following the submission of budget proposals of individual departments of UB City, to the Governor of UB City, all proposals are reviewed and consolidated. On rare occasions, feedback would be provided (e.g. regarding newly implemented policy issues relating to that year's particular circumstances) along with the directive to revise and resubmit.

A clear annual budget calendar exists, and evidence indicates that it was generally adhered to in preparing the 2022 budget. Most budget governors within UB City completed their submissions on time but they were given only around two weeks to prepare their proposals. Therefore, the score for this dimension is C.

17.2. Guidance on budget preparation

Performance level and evidence for scoring the dimension

The Governor of UB City issued a budget circular to all relevant internal budgetary units at the beginning of the 2022 budget preparation cycle, setting out the procedures for the preparation of the local budget, including any procedures and interactions involving the higher-level government. This circular contained: (i) State-level medium-term fiscal policy and principles; (ii) aggregated expenditure figure for the whole of Ulaanbaatar; (iii) principles and procedural guidelines for preparing revenue, expenditure and investments estimates; (iv) procedural guidelines how to enter personnel information in the budget software and (v) deadlines. It was void of any information about approved expenditure ceilings for budgetary units, be it either by administrative or functional area, nor was such decision made by the Cabinet after the circular was distributed. No such legal requirement existed in 2021. Instead, expenditure estimates were based on norms and normatives for each expenditure category, approved by relevant authorities. This is used as the basis for UB City's analysis of budget proposals, prior to the City consolidating them and submitting the consolidated proposal to State MoF by August 15th. Due to the absence of any ceilings to guide internal budget submissions, the score for this dimension is D.

17.3. Budget submission to the legislature

Performance level and evidence for scoring the dimension

The IBL stipulates that the budget proposal must be submitted to the CRKh by November 25th. In two of the last three completed FYs this deadline was met but in 2019 the submission was after the deadline, as demonstrated below in Table 17.3.

Table 17.2: Actual dates of budget submission for the last three completed FYs

FY	Actual date of submission
FY 1-2020	November 28, 2019
FY 2-2021	November 24, 2020
FY 3-2022	November 23, 2021

Given the FY starts on January 1 in Mongolia, in each of the three years observed the submission happened around 5-6 weeks ahead of the start of the FY. Accordingly, the score for this dimension is C.

It should be noted that the (short) duration of budget scrutiny is beyond the control of UB City as it is caused by the late approval of the State budget, which determines a large portion of funds available to UB City (specifically, transfers

to be made to Ulaanbaatar from the State level). As per Article 8.4.8 of the IBL, the deadline for the approval of the State budget by the SGK is November 15th. Following that, the aimags and the Capital City incorporate information about approved transfers in their budgets and adjust expenditures accordingly. Consequently, UB City has no way to submit its budget proposal to its Khural eight or more weeks ahead of the start of the FY.

PI-18. LEGISLATIVE SCRUTINY OF BUDGETS

Summary of scores and performance table

Indicator/Dimension	Score	Brief justification for score
PI-18. Legislative scrutiny of budgets	B+	This indicator uses the M1 (weakest link) method for aggregating the following dimension scores
18.1 Scope of budget scrutiny	A	The CRKh reviewed fiscal policies and forecasts, medium-term priorities of the Government, as well as details of expenditure and revenue for 2022.
18.2 Legislative procedures for budget scrutiny	A	The CRKh's procedures and practice for reviewing budget includes arrangements for public consultation and internal organization arrangements.
18.1 Timing of budget approval	A	The CRKh of UB City has approved the annual budget within the legal deadline and before the start of the year in each of the last three FYs.
18.4 Rules for budget adjustments by the executive	B	The 2021 budget was adjusted in-year by the executive in line with the existing clear rules, however no limits on the extent and nature were adhered to.

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

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. The indicator also assesses the existence of rules for in-year amendments to the budget without ex-ante approval by the legislature.

The detailed roles and functions of CRKh of UB City are determined by two pieces of legislation. The LATUG (Article 35) and the IBL (Article 8) determine its role with respect to budgets, as discussing and approving UB City budget. This process is divided into two stages¹¹. First, the budget proposal is discussed at the Board meeting of CRKh within three days of it being submitted by the city Governor to the Chairman of the CRKh, after which a plenary session is announced. Second, all issues raised during the first budget discussion are

¹¹ Resolution "Procedures for CRKh meetings" approved by the Chairman of the Ulaanbaatar CRKh in 2014.

discussed and debated. A summary of this discussion is submitted to the relevant committees, parties and coalition groups for their discussion, and within seven days, consolidated proposals are issued by the respective standing committee, party or coalition group.

The CRKh reviewed the 2022 budget proposal submitted by the Governor of Ulaanbaatar in November and December of 2021. As foreseen by regulation, it was reviewed in two sessions. During the first discussion (at the general meeting of the CRKh), the Governor of UB City presented the document, provided supporting information, and discussed and issued recommendations to Khural committees. The discussed version of the budget proposal was also posted on the CRKh website and the public provided feedback.

The following documents were reviewed: (i) Qualitative and quantitative indicators and targets of programs to be implemented in 2022; (ii) Capital investments (buildings, projects and activities) to be implemented in 2022; (iii) Capital City Road Fund facilities and projects to be implemented in 2022; (iv) Capital City LDF facilities and projects to be implemented in 2022; (v) Capital investments - major renovation projects to be implemented in 2022; (vi) Investment projects, methods and facilities for 2021-2022; (vii) Capital City LDF - Investment projects, methods and facilities; (viii) projected revenues of the Capital City for 2022; (ix) estimated expenditures of the Capital City for 2022, by economic classification; (x) estimated expenditures of the Capital City for 2022, by administrative classification; (xi) Capital City budget for 2022.

The listed documents were actively scrutinised, debated and commented on¹². The representatives made 79 proposals, the majority of which were not resolved. Most of those related to services delivery (in particular, health, education and transportation). Notable adjustments passed by the Khural included funds for reducing congestion in Ulaanbaatar, investments for construction of schools and kindergartens, and reallocation of LDF funds.

18.1. Scope of budget scrutiny

Performance level and evidence for scoring the dimension

CRKh of UB City scrutinized the 2022 budget in detail. It reviewed fiscal policies of the Government for 2022. It also reviewed the medium-term fiscal forecast prepared by the State MoF. It set medium-term priorities for Ulaanbaatar and approved the Ulaanbaatar City Action Plan for 2021-2025. It approved projected revenues for 2022 at an aggregated level of MNT 1,490.9 million and estimated expenditures at a level of MNT 1,330.9 million. Costs of completing the approved policies/projects according to original timelines and costs of delivering services to meet the existing standards/guidelines were also approved. Finally, it discussed the UB City budget, including detailed expenditures and revenues, and approved it on November 3rd, which is within the period specified in the IBL. Hence, the score for the present dimension is A.

¹² Recommendations and proposals were issued by the Chairman of CRKh, Mongolian People's party group, Governance and legal reform committee, Mongolian Democratic party group, Human development committee, Committee for Environment and Green Development, Economic and Budget Committee.

18.2. Legislative procedures for budget scrutiny

Performance level and evidence for scoring the dimension

The budget scrutiny in 2021 by CRKh, the subnational council, was regulated by a resolution called “Procedures for meetings of the CRKh” approved by the CRKh Order No. 15/08 on March 27, 2014. Article 20 of that document deals with CRKh’s role in the review of budget proposals. In particular, it elaborates the internal arrangements for public consultation, which need to be organized prior to the submission of the budget proposal, as well as a procedure for review of the budget proposal (that has two stages including a leading committee discussion and general committee discussion upon organizing sub-committee negotiations). This is an organic legal document, approved in advance of budget hearings, that was adhered to with respect to the 2022 budget proposal review (as it was in other years, too). Hence, the score for this dimension is A.

18.3. Timing of budget approval

Performance level and evidence for scoring the dimension

As Table 18.3 below shows, the CRKh of UB City has approved the annual budget within the legal deadline and before the start of the year in each of the last three FYs.

Table 18.1: Actual dates of budget approval for the last three completed FYs

FY	Actual date of approval
FY 2020	December 2, 2019
FY 2021	December 4, 2020
FY 2022	December 3, 2021

Hence, the score for this dimension is A.

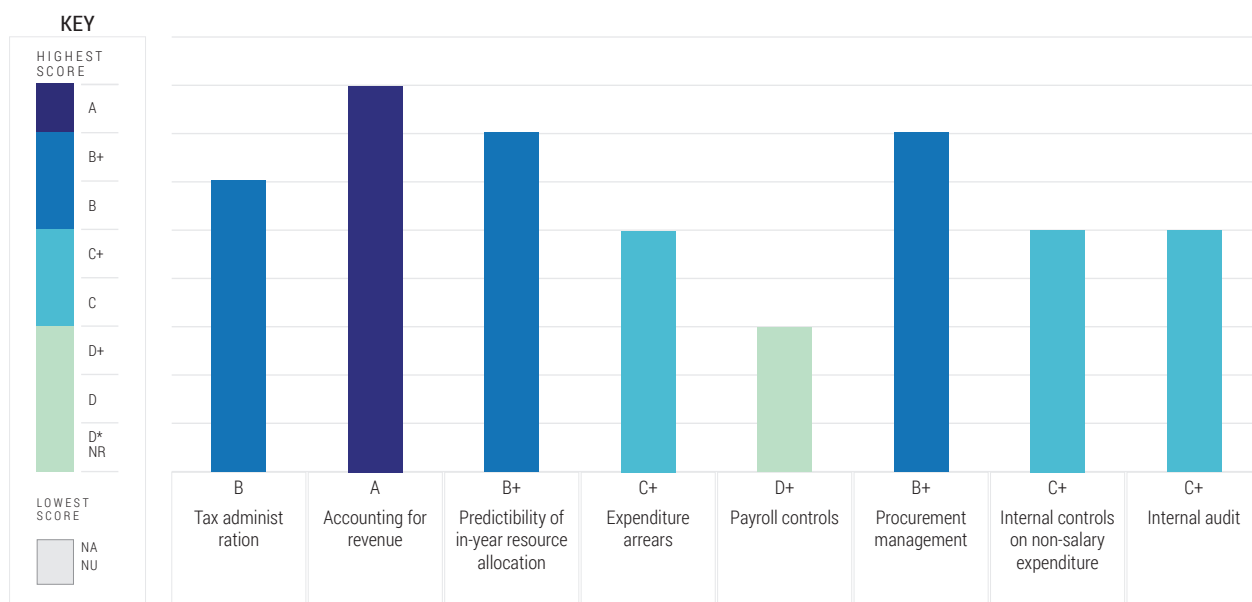
18.4. Rules for budget adjustments by the executive

Performance level and evidence for scoring the dimension

The procedures and rules concerning the limits and the extent of budgetary adjustments are described in Article 42 of the IBL. While Article 34 states that budget adjustments between general budget governors can be done only through the supplementary budget, Article 42 (which is then articulated in further details in the Resolution No. 134 approved by MoF in 2018) specifies rules for budget adjustments that can be done without triggering a formal budget amendment process (noting that a budget amendment would be required for reallocations between general budget governors and between the general categories of capital and recurrent expenditures). Specifically, Article 42.2.1 of the IBL allows general budget governors, within the scope of their authority and approved budget, to make adjustments in the form of reallocations between programs;

between lower-level budget governors; and between expenditure categories. Therefore, the regulation does not allow for movements between capital and recurrent budget and/or to provide funding to programs and projects not identified in the original budget. All increases in budget associated with these mechanisms require an equal offsetting reduction in expenditure and therefore such changes are always budget neutral. The regulation No. 134 then describes further conditions, requirements, and processes for budget adjustments and changes that would then affect the annual and monthly budget disbursement schedules. In 2021, the budget for UB City was amended, so the extent of the adjustments made could not be clearly assessed based on available evidence but, in an interview with the relevant UB City officials, it was confirmed that these rules are generally well adhered to, with some of the relevant controls built in the budget and treasury systems. The changes made according to these mechanisms are required to be budget neutral and therefore cannot increase the size of the UB City budget, but they are not limited in terms of value of such transfers (noting also the large compositional variances identified in PI-2.2). Based on the analysis and supporting evidence, the score for this dimension is B.

PILLAR FIVE: PREDICTABILITY AND CONTROL IN BUDGET EXECUTION



PI-19. REVENUE ADMINISTRATION

Summary of scores and performance table

Indicator/Dimension	Score	Brief justification for score
PI-19. Revenue administration	B	This indicator uses the M2 (AV) method for aggregating the following dimension scores
19.1 Rights and obligations for revenue measures	A	Capital City Tax Department (CCTD) has multiple channels to provide comprehensive and timely information to taxpayers, including rights and redress mechanisms.
19.2 Property tax register and value assessment	B	The property register contains data on address and location, use, property right and assessed value. Most properties are valued at registration price at the state registry but about 80% of the registered value of properties in UB corresponded to properties registered in the last 10 years.
19.3 Tax risk management, audit and investigation	B	The Capital City Tax Authority (CCTA) conducts tax audit and investigations based on a systematic and structured procedure and risk management plan. For most core taxes, an overall documented improvement plan exists containing mitigating activities though not in detail with respect to high risk. The majority of planned audits and investigations were completed.
19.4 Revenue arrears monitoring	C	The stock of tax arrears, as a share of the total tax collection for the year, amount to 33%, while arrears older than 12 months account for 59% of the core tax arrears for the year.

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

This indicator covers the administration of all types of tax and non-tax revenue for the SNG. It assesses the procedures used to collect and monitor the SNG revenues.

UB City government has several sources of revenue to finance its budget, including its tax and non-tax revenues, which are defined in the IBL. The main tax revenues of UB City include personal income tax, comprising wage tax, unidentified income tax, self-employment tax, as well as other taxes such as property tax, vehicle tax, land and other fees. Until 2021, more than 80% of tax revenue of UB City constituted personal income tax (rate set at 10% except in the case of gambling and lottery at a rate of 40%), immovable property tax and vehicle tax. For the purposes of the assessment, these are considered as core taxes for UB City.

The General Tax Law (GTL) defines the authorities of the local governments regarding setting of tax rates. Accordingly, the CRKh of UB City may set immovable tax and vehicle tax rates within the limits set by the National Parliament. According to the Law on Immovable Property Tax, depending on the value of real estate, capital city CRKhs shall impose the tax rate at between 0.6% and 2.0 % depending on the location, purpose, size, market supply and demand. The Law on Vehicles also authorizes the CRKhs to determine tax rate depending on the type and capacity of vehicles.

The CCTA is responsible for implementing tax laws, monitoring their implementation, collecting tax revenues for the UB City budget, and providing transparent, efficient, and efficient service to taxpayers.

The table below shows the tax revenues of UB City for the last two years completed.

Table 19.1. UB City tax revenue for 2020-2021. Thousand MNT

	2020		Execution %	2021		Execution %
	Planned	Actual		Planned	Actual	
TAX REVENUE	851,020,470.6	759,576,228.6	89.3	1,065,368,143.5	1,076,877,701.1	101.1
Income tax	582,161,739.1	550,728,589.4	94.6	762,951,998.5	789,175,663.5	103.4
Personal income tax	582,161,739.1	550,728,589.4	94.6	762,951,998.5	789,175,663.5	103.4
Property tax	82,396,229.8	56,922,742.5	69.1	76,370,298.6	71,748,682.6	93.9
Gun tax	396,229.8	344,118.7	86.8	380,298.6	441,717.9	116.2
Immovable property tax	82,000,000.0	56,578,623.8	69.0	75,990,000.0	71,306,964.7	93.8
Goods and services tax	30,000,000.0	29,010,111.9	96.7	32,600,000.0	33,567,896.9	103.0
Vehicle tax	30,000,000.0	29,010,111.9	96.7	32,600,000.0	33,567,896.9	103.0
Other goods and services tax	203,258.2	210,606.9	103.6	275,000.0	323,975.5	117.8
Royalty on extractives	203,258.2	210,606.9	103.6	275,000.0	323,975.5	117.8
Other taxes and fees	156,259,243.5	122,704,177.9	78.5	193,170,846.4	183,061,482.6	94.2
Stamp duty	30,505,041.1	31,136,173.7	102.1	64,162,676.2	70,042,021.7	109.2
Land fee	67,227,272.5	55,424,755.6	82.4	99,595,901.5	69,450,249.4	69.7
Land action revenue	31,500,000.0	14,164,870.1	45.0	1,500,500.0	18,235,467.8	1,215.7
Water usage free	4,554,136.7	3,596,550.0	79.0	4,561,032.4	2,830,077.5	62.0
Forest tree and timber usage free	50,000.0	35,571.1	71.1	60,000.0	45,235.9	75.4
Waste collection free	13,422,793.2	13,164,631.3	98.1	14,291,236.3	15,006,717.6	105.0
City tax	9,000,000.0	5,181,626.1	57.6	9,000,000.0	6,451,712.7	71.7

19.1. Rights and obligations for revenue measures

Performance level and evidence for scoring the dimension

The website of the CCTA <https://nta.mn> presents comprehensive information for each of the core taxes including the obligations and rights of taxpayers, relevant forms, the timing of payments and the legal basis of the taxation. A distinction is made between companies and citizens within the information available. It includes a module for registered taxpayers called www.e-tax.mta.mn, which can be accessed to acquire further detailed tax-related information. On this website, in addition to obtaining information on tax laws and regulations, users can access detailed instructions on tax registration, the tax filing process, templates, forms, and other relevant procedures. The information is comprehensive, easily accessible, and up to date. Further, the CCTD has the system available in a mobile application, maintains a hotline service at 1800-1288 and niislel@mta.gov.mn, and publishes other relevant information and news on the CCTA's website, newspapers, and official government publications. Through the e-tax system, in addition to obtaining information, taxpayers can pay taxes and do tax filings.

A multi-tier redress mechanism exists and is functional. Information on redress processes can be found on the CCTA's website under the "transparency" tab. Citizens can raise taxation-related questions or tax related complaints to its customer counters via 1800-1288 or email to: niislel@mta.gov.mn. There is also window for citizens to get information about tax disputes.

Based on the analysis and supporting evidence, the score for this dimension is A.

Table 19.2. Rights and obligations for tax measures

Entity	Information available to taxpayers' rights and obligations						
	Tax obligations (Y/N)	Tax rights (Y/N)	Redress (Y/N)	Source of information (Specify)	Is comprehensive (Y/N)	Is up-to-date (Y/N)	Is easy to access (Y/N)
CCTA	Y	Y	Y	www.nta.mn	Y	Y	Y

19.2. Property tax register and value assessment

Performance level and evidence for scoring the dimension

According to the Law on Immovable Property, the value of immovable property, except land, is determined by the valuation of that property as registered with the immovable property state registry. If there is no such registration, the value is determined by the insured sum of the property. If there is no registration or insured valuation, the value is established as the book value in the accounting records of the owner. In practice, the value of immovable property is mainly determined by the registered value with the state registry on immovable property.

The registry at the tax authority contains information including address and location of the property and the assessed value and is interfaced with the system of the state registration and the cadaster. According to data provided by the CCTA, over the last 10 years the number of payers of immovable property tax in UB City has increased four fold, while the amount of tax from immovable property has increased by 900%. Reflecting this trend, 80% of the registered value of properties in UB City were registered in the last 10 years, therefore have recent and reliable market values. Although no mass revaluation of assets have taken place since the 1990s, property values have been indexed in line with the general inflation and re-valuation has taken place for renovated buildings.

Based on the analysis and supporting evidence, the score for this dimension is B.

Table 19.3. Property management based on the data provided by the CCTA

Entity	Information on property tax register				Link between property register & register of taxpayer (Y/N)	Link between register & geographic information (Y/N)	Property assessment		Timing of reassessment	Method of reassessment	
CCTA	Information on parcels and building (Y/N)	Property right (Y/N)	Property use (Y/N)	Property value (Y/N)	Y	Y	Is correlated w/ market value (Y/N)	Property value (Y/N)	N/A	Self-assessment (Y/N)	Mass assessment (Y/N)
	Y	Y	Y	Y			N	Y		Y	N

19.3. Tax risk management, audit and investigation

Performance level and evidence for scoring the dimension

Given the unified vertical tax system for the country, CCTA is responsible for implementing the rules and regulations issued by the GTD. As per Article 35.4.3 of the GTL, risk assessments and analysis are conducted and, based on the results, selected taxpayers are subject to tax inspection. Order No. 305 of the MoF in 2019 describes how to identify and register, assess, analyze, and control risks. The CCTA's risk management activities and committee procedures apply this order and, as a result, are systematic and structured.

Within the framework of risk management and the tax inspection plan approved by the GTD, the CCTA conducts risk-based inspections among tax payers. This activity covers all taxes including the core taxes of the capital city, such as personal income tax, immovable property tax, and vehicle taxes. Execution of

compliance audits and investigations ranged between 84% to 94% during the period of 2020-21. For most core taxes, an overall documented improvement plan exists containing mitigating activities though not in detail with respect to the risk profiles. Based on the analysis and supporting evidence, the score for this dimension is B.

Table 19.4: Revenue risk management, audit and investigation

	Procedure and approach used to assess and prioritize compliance risks for core taxes			Source of information (specify)	Compliance improvement plan covering core taxes (Y/N)	Audit and fraud investigations undertaken (Y/N)
	Procedure and approach used to assess and prioritize compliance risks (Y/N)	If yes, does it cover all core taxes (Y/N)	If yes, does it cover taxpayers' main obligations (Y/N)			
CCTD	Y	Y	Y	GTL Article no. 35, Order No. 305 of the Minister of Finance, and Regulation no. A/39 of the GTD	Y	Y

19.4. Revenue arrears monitoring

Performance level and evidence for scoring the dimension

The CCTA maintains comprehensive records on tax arrears for both the current year and in cumulative terms disaggregated by tax type. While arrears on Personal Income Tax constitute about 60% of the total stock of tax arrears, most of them were for the last year completed, whereas arrears for immovable property tax and vehicle tax were largely older than 12 months. COVID-19 restrictions affected the efficiency and effectiveness of the recovery of tax arrears for UB City.

Table 19.5: Tax arrears (million MNT)

Core taxes	2021 taxes collected	Stock of arrears as of end of 2021	%	Tax arrears for 2021	Tax arrears older than 12 months	%
Personal Income tax	789,176.0	178,834.4	22.7	149,325.0	29,509.4	19.8
Immovable property tax	71,307.0	66,419.3	93.1	24,824.1	41,595.2	167.6
Vehicle tax	33,568.0	49,696.5	148.0	11,300.3	38,396.2	339.8
SUM	894,051.0	294,950.2	33.0	185,449.4	109,500.8	59.0

Table 19.5 shows that the stock of tax arrears as a share of the total tax collection for the year amounts to 33%, while the arrears older than 12 months account for 59% of the core tax arrears for the year. Hence, the score for this dimension is C.

Recent or ongoing reform activities

Starting from FY22, revenue sharing arrangements between the central and local governments changed. Under the new arrangements, 40% of corporate income tax is to be retained in UB City budget as opposed to previously being contributed fully to the state budget. Personal income tax, property tax and land fees are to be shifted to the districts’ budgets. Also, further policy measures are being undertaken to expand the revenue base for UB City including doubling the vehicle tax based on the model and size/power of the engine. Further, starting in FY22 new arrangements for property tax were introduced including increasing the rate to 0.6-2.0 % (compared to 0.6-1.0 % previously) based on the location, type, size, market demand and supply; doubling the rate if not in compliance with the greening requirements for the property as per the relevant legislation, and imposing property tax on the third residential property owned by citizens and legal entities, etc.

PI-20. ACCOUNTING FOR REVENUE

Summary of scores and performance table

Indicator/Dimension	Score	Brief justification for score
PI-20 Accounting for revenue	A	This indicator uses the M1 (weakest link) method for aggregating the following dimensions scores.
20.1 Information on revenue collections	A	A revenue report is prepared monthly using data from entities collecting all revenues.
20.2 Transfer of revenue collections	A	Revenue is transferred to the TSA daily.
20.3 Revenue accounts reconciliation	A	Revenue accounts are reconciled at least monthly.

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

This indicator assesses procedures for recording and reporting revenue collections, consolidating revenues collected, and reconciling tax revenue accounts. It covers both tax and nontax revenues collected by the SNG government.

Revenue within the GoM is collected via the banking system. Payers of taxes, fees, fines and other revenue types make payments at commercial banks or via online banking facilities. Part of that payment process involves input of data regarding the type of revenue being paid – typically that data would include payment type and be contained within an invoice issued by the respective agency managing the particular revenue type. Some accounts are retained in commercial banks as an integral part of the respective bank managing the collection of such revenue (but funds are not retained in such accounts). Both

the payment and the associated data are transferred electronically via one of several payment clearing house/portals operated by the Bank of Mongolia to the respective revenue sub-account of the TSAs (operated by the CG). The associated data flows via the same respective clearing system to the Smart Payment System of the Treasury and uploaded into the GFMIS (FreeBalance) where the revenue is recorded within the general ledger. Periodic reconciliation is undertaken between the invoices as recorded in the general ledger (reported via the eHuulga system) and the invoices issued according to the Integrated Tax Administration System used by UB City.

20.1. Information on revenue collections

Performance level and evidence for scoring the dimension

UB City finance team receives data from the agencies that collect revenue and utilize such data to produce a revenue report monthly that contains a detailed breakdown of all revenue collected, including a breakdown by revenue type. The score for this dimension is A.

20.2. Transfer of revenue collections

Performance level and evidence for scoring the dimension

Revenue is collected via commercial banks and transferred to the respective revenue account within the TSA structure at least daily. In the limited circumstance that revenue is collected as cash, such cash is banked daily. The score for this dimension is A.

20.3. Revenue accounts reconciliation

Performance level and evidence for scoring the dimension

Revenue of UB City is collected via the commercial banking system, including online banking platforms. At the time that the revenue is collected, data regarding the revenue (type, payer, etc.) is captured and transferred along with the funds, which enables the revenue to be reconciled against records in the Integrated Tax Administration System used by UB City. Such reconciliation is undertaken monthly including collections, transfers, tax assessment records, arrears. As reconciliation is comprehensive and undertaken monthly, the score for this dimension is A.

PI-21. PREDICTABILITY OF IN-YEAR RESOURCE ALLOCATION

Summary of scores and performance table

Indicator/Dimension	Score	Brief justification for score
PI-21 Predictability of in-year resource allocation	B+	This indicator uses the M2 (AV) method for aggregating the following dimension scores.
21.1. Consolidation of cash balances	A	All balances are consolidated within the operation of the TSA.
21.2. Cash forecasting and monitoring	A	Cash flow forecasts project out to the end of the year and are updated at least monthly.
21.3. Information on commitment ceilings	C	Allotments provide certainty to commit funds for the month ahead.
21.4. Significance of in-year budget adjustments	A	Adjustments are made twice a year through a formal process which is transparent and predictable. There are no adjustments to budget unilaterally instigated by the Governor.

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

This indicator assesses the extent to which the MoF is able to forecast cash commitments and requirements and to provide reliable information on the availability of funds to budgetary units for service delivery.

The funds of UB City reside mainly within the TSA account structures at the central bank operated by the national Treasury. Within the structure of the TSA accounts, there are approximately 200 accounts that belong to UB City. The number of accounts reflects the fact that each budget entity has its own bank accounts (typically 4) for managing the execution of their budget. While UB City has control of these funds, the balances roll-up and are available to the central Treasury for cash management purposes (in real time). Once a month the revenue sub-accounts are swept to the UB City main account. As UB City is a net contributor of funds to the CG, at least once a year a transfer of the agreed portion of such surplus funds is transferred to the account of the central treasury.

The central treasury maintains accounts for each of the accounts in the TSA utilizing the general ledger within the GFMIS. Such data from the GFMIS is available to UB City via the eHulga reporting system.

Once the budget is approved, funds are allotted monthly for core expenditures (including payroll, utilities and other non-discretionary items) based on the budget, requested allotment schedules, and historical patterns of such expenditure. In accordance with Article 8.7 of the IBL, the Capital City Governor is required to prepare and submit such proposed allotment schedule to the MoF by December 25th of each year (for the following year).

In addition to the allotments for these core expenditures, requests can be made for additional ad hoc allocations to meet the timing of planned payment of other expenditure types. The decision to release such funds depends in part on the current and projected available balance of the TSA.

The allotments are recorded in the budget system, with such data then transferred to the GFMIS and available to view in the eHulga system. Associated with the release of budget allotment is the transfer of funds to the spending accounts of each budget entity - a transaction that is recorded within the GFMIS and individual budget entity accounting systems.

UB City also holds accounts in commercial banks. These are generally for the purposes of collecting revenue as fees for collection and transfer of such funds are lower if done via an account of the respective bank.

21.1. Consolidation of cash balances

Performance level and evidence for scoring the dimension

UB City participates in the operation of the TSA managed by the national treasury. Within this TSA structure, fund balances are consolidated and made available to the national treasury for cash management purposes (while UB City maintains ownership of the balances). This arrangement includes monthly sweeping of reconciled balances of revenue sub-accounts to the main account within the TSA. The fact that the balance of these accounts is only swept daily does not preclude the consolidation of such balances within the TSA (that is, they are aggregated and available to be spent despite not having been swept).

While some accounts are held outside of the TSA in commercial bank accounts, these are mainly associated with agency arrangements that support flow of funds to and from the TSA (funds are transferred daily from these accounts to the revenue account in the TSA) and thus hold balances less than 10% of total balances.

Non-budgetary units, such as LOEs, maintain their own bank accounts outside the TSA structure.

As balances of budgetary entities are all maintained in TSA and the TSA enables consolidation of balances, which in turn informs the value and timing of release of allotments, the score for this dimension is A.

21.2. Cash forecasting and monitoring

Performance level and evidence for scoring the dimension

Cash flow forecasting is performed by UB City Treasury based on historical patterns of expenditure projected against the approved budget and, together with allotment schedules proposed by budget governors, is used to plan monthly allotments. The cash flow plans are made for the period to the end of the current budget year and are updated at least monthly. The score for this dimension is therefore A.

21.3. Information on commitment ceilings

Performance level and evidence for scoring the dimension

The annual budget is released in the form of monthly allotments. These allotments are generally released by the 5th day of each month. The allotments are essentially automatic for a pre-defined set of priority recurrent expenditures (including payroll, medicines, meals, utilities, fuel, etc.). For other expenditure types, the value and timing of an allotment is based on a request/justification made by the respective budget entity and is not assured but rather dependent upon projected availability of cash. In both cases, the value of the allotment can be impacted by the extent of the usage of the allocation made in previous months, as reported in monthly budget execution reports, which according to article 8.8 of the IBL, is due by the 2nd of the subsequent month.

Further, for certain sectors, where performance funding is in place, funding of transfers to pay for services delivered (including contractual payments to LOEs) is provided retrospectively based on confirmation of performance standards having been achieved. In these circumstances the respective service delivery agency, such as LOE's which maintains its own bank accounts, must have working capital to fund their activities pending the receipt of the transfers.

Allotments represent a ceiling on payments and there is no recording or control over commitments at this time. There is a high degree of certainty regarding the ability of spending units to commit for those priority recurrent expenditures that are automatically appropriated. For other expenditure types, there is a degree of uncertainty as to whether funds committed beyond one month (the period of the allotment) will be supported by an associated future allotment once the time comes to process the related payments. As there is a high degree of certainty of commitment ceilings for one month, but not beyond, the score for this dimension is C.

21.4. Significance of in-year budget adjustments

Performance level and evidence for scoring the dimension

In accordance with article 42 of the IBL, General Budget Governors (such as the Governor of UB City) may make adjustment between programs and between the budgets of direct budget governors (such the head of office of UB City). In those cases where the Governor of UB City is a Central budget Governor (due to delegated authority associated with a transfer from central government), there is authority to adjust the budget of subordinate direct budget governors. Such adjustments made to the budget are then to be reflected in the respective monthly allotments.

The IBL precludes the possibility of transferring funds between capital and recurrent expenditure and it is prohibited to use these transfer provisions to finance new programs and activities that are not already included in the budget.

A regulation (Order No. 134 of Minister of Finance of 2018) has been issued which further clarifies the application of authority to make transfers of budget. This order provides that a budget governor shall only make adjustments to the approved budget in the following circumstances:

- there is a need to adjust the budget in order to ensure fiscal stability and implement sound fiscal management;
- the structure and organization of the budget governor and his/her subordinate budgetary entities have been changed in accordance with laws and regulations;
- there is an urgent need to make budget adjustments within the framework of implementing laws, resolutions, government resolutions and decisions approved by the SGK;
- there is a need to make adjustments to the budget in order to overcome the difficulties encountered in the normal operation of the respective budget governor and budgetary entity.

In practice, these rules are respected.

Despite having the authority to impose (top-down) changes to the budget in certain circumstances, in practice there were no instances where changes to budget allocations were made unilaterally by the UB City Governor or the central finance team. During the last completed FY there were two formal processes conducted where spending units within UB City were able to request adjustments to their budget. All such changes were initiated by the respective spending unit (bottom-up requests), which are then prioritised and assessed in terms of compliance with limitations imposed by Order 134 on the nature of allowable changes. The score for this dimension is therefore A.

PI-22. EXPENDITURE ARREARS

Summary of scores and performance table

Indicator/Dimension	Score	Brief justification for score
PI-22 Expenditure arrears	C+	This indicator contains two dimensions and uses the M1 (WL) method for aggregating the following dimension scores.
22.1. Stock of expenditure arrears	A	Arrears were less than 1% in each of the last three years.
22.2 Expenditure arrears monitoring	C	Comprehensive data on arrears is reported but only on an annual basis.

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

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.

UB City practices accrual accounting, which includes recording of payables. Individual budget governors maintain their own accounting systems, with processes that support the reporting of accounts payable. Each of those budget governors submits their accounts for consolidation via the E-Tailan accounts consolidation system. This includes reporting of accounts payable, including an age profile for arrears. In the Mongolian context, there are no specific payment terms for government contracts, so each invoice will set a specific payment date. Within the E-Tailan system, an age profile exists for arrears including at stages of 30, 60 and 90 days.

22.1. Stock of expenditure arrears

Performance level and evidence for scoring the dimension

Data from the consolidated accounting data of UB City indicates that arrears are very low compared to total budget. As outlined in Table 22.1, arrears were less than 1% of expenditure in each year 2019 to 2021 and close to zero in 2020. Based on the analysis and supporting evidence, the score for this dimension is A.

Table 22.1: Stock of expenditure arrears: breakdown by different categories

Stock of arrears Year	As % of expenditure	Arrears monitoring Stock age and composition	Frequency of reports (M/Q/A)	Data source undefined
2021	0.07	Y	A	E-Tailan
2020	0.00	Y	A	E-Tailan
2019	0.07	Y	A	E-Tailan

22.2. Expenditure arrears monitoring

Performance level and evidence for scoring the dimension

Accounting data from budget governors of UB City are fully consolidated for reporting purposes on a semi-annual basis and the resulting financial reports include data on the stock, age profile and composition of expenditure arrears. Given the comprehensiveness of such data but limit frequency of reporting, the score for this dimension is C.

PI-23. PAYROLL CONTROLS

Summary of scores and performance table

Indicator/Dimension	Score	Brief justification for score
PI-23 Payroll controls	D+	This indicator uses the M1 (weakest link) method for aggregating the following dimensions scores
23.1 Integration of payroll and personnel records	A	The Integrated Human Resource System (IHRS) is used by budget entities to register personnel information in the system, which each pay cycle pushes data to the Integrated Payroll System (IPS), thus ensuring that common data is used in both systems.
23.2 Management of payroll changes	A	Required changes to the personnel records and payroll are updated within ten working days in accordance with the Regulation, Cabinet Order No. 74, 2019. Retroactive adjustments are rare and corrected to the following monthly pay calculation.
23.3 Internal control of payroll	A	Authority to change records and payroll is restricted, only the authorized person has access to both systems, and is adequate to ensure full integrity of data.
23.4 Payroll audit	D	No comprehensive payroll audit has been conducted in the last three years.

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

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.

In 2018, the CSC launched the Integrated Human Resource System (IHRS), and all budget entities¹³, including UB City, registers personnel information in the system, except Defense and Internal Affairs entities. The MoF established an Integrated Payroll System (IPS) in 2019 for civil servants, involving state and local entities, enabled the MoF to fully monitor salary expenditures, which account for more than 20% of current state budget expenditures. The system is connected to the electronic systems of the CSC, the Bank of Mongolia, and the GDT to exchange data/information from one source. By the time of the PEFA assessment, 4,245 local organizations have fully implemented the system and are accustomed to regular payroll calculations.

The manual for the IPS, approved by the Ministerial Order no. 109 on July 6, 2021, is available via MoF website and users are supported by a call center, e-learning, chatbots, IPS Facebook page, and trainer Facebook chat groups.

¹³ Except Defense and Internal Affairs entities.

23.1. Integration of payroll and personnel records

Performance level and evidence for scoring the dimension

The IPS imports data from IHRS to calculate monthly payroll. The HR manager of UB City updates the personnel database in real time in the IHRS through their unique access, and the corresponding changes apply in the IPS automatically once the HR manager presses the sync button. This synchronisation of data between the two systems represents de-facto reconciliation. The IPS is then employed when calculating the monthly pay for civil servants, which takes place twice a month (8th and 23rd of every month).

Table 23.1: Payroll control

Function	Y/N	By whom	Frequency (if applicable)
Hiring and promotion checked against approved staff list	Y	HR Managers through IHRS	Twice a month
Reconciliation of payroll and personnel database	Y	Regular reconciliation through IPS and IHRS	Monthly
Documentation maintained for payroll changes	Y	Budget entities	Monthly
Payroll checked and reviewed for variances from last payroll	Y	Accountants of budget entities	Every time (twice a month) to calculate monthly pay for civil servants
Updates to personnel records and payroll	Y	Heads of budget entities/HR managers/accountants	Monthly
Updates include validation with approved staff list	Y	HR manager through IHRS	Monthly
Audit trail of internal controls	Y	IT systems and HR managers of budget entities	NA
Payroll audits in last three years, with defined coverage	Y	National auditors and audit firms	Annual

Data source: Public service human resource management system: <http://hr.csc.gov.mn/hub/login.html>, Public service payroll system: www.payroll.gov.mn. Regulation approved by the Cabinet Order No. 74, 2019 on "Recording and access to the information of the civil servants": <https://legalinfo.mn/mn/detail?lawId=209605&showType=1>

Since 2020, data is significantly improved as payroll is supported by full documentation for all changes periodically, and staff hiring and promotion is controlled by a list of approved staff positions. Hence the score for this dimension is A.

23.2. Management of payroll changes

Performance level and evidence for scoring the dimension

Retroactive adjustments do exist at the SNG level as the monthly payroll is calculated and paid through the system prior to the end of the month (8th and 23rd of every month). However, the adjustment is quite rare (the last payroll of UB City as a sample) and only 0.12% as of March 2022.

Table 23.2: Retroactive adjustments (March calculation in millions as a sample)

Name	Incident	Base payroll	Adjustment	Explanation
[name hidden]	Sick leave on Feb 26	369,643	184,821	deduction from the next pay, which is on March 8
[name hidden]	Transferred to a different division on March 9th	643,238	6,847	paid back from the employee

Calculation of the retroactive adjustment

Base pay in Feb	164,098,463
Adjustment in March	191,668
Percentage	0.12%

Based on the analysis and supporting evidence, the score for the present dimension is A.

23.3. Internal control of payroll

Performance level and evidence for scoring the dimension

The authority and basis for changes to personnel records and the payroll are clear. Any changes including new appointments, promotion, reassignment etc. to the personnel record is carried out by the authorized person, HR manager in accordance with the Article 4.1.4.2 of the "Regulation on Recording and Access to the Information on Civil Servants" within 3 working days after the appointment/promotion/reassignment of the civil servant. An audit trail exists in both IHRS and IPS, where the relevant information is recorded regarding the changes to data (including who accessed the data, who initiated the transaction, the time of day and date of entry, the type of entry, what fields of information it contained, etc). In addition, all Treasury units have access to review payroll processing for internal control purposes. Hence, the score for the present dimension is A.

23.4. Payroll audit

Performance level and evidence for scoring the dimension

No comprehensive payroll audit has been conducted in the last three years. Aspects of the payroll control environment are tested as part of the annual audit of the budget execution report and the annual financial statements by

the SA. For example, the 2020 audit report on UB City budget execution and financial statements identified issues with the calculation and payment of monthly performance bonuses to the employees, which was higher than the threshold stated in the Regulation on “Cash bonus to the civil servants”, Cabinet Resolution No. 5, 2019. Hence the SAO recommended to pay attention to this matter and to calculate in line with the relevant Regulations. However, such annual audit processes, which predominantly have a compliance focus, do not represent full payroll audits. Hence, the score for this dimension is D.

PI-24. PROCUREMENT

Summary of scores and performance table

Indicator/Dimension	Score	Brief justification for score
PI-24 Procurement	B+	This indicator uses the M2 (AV) method for aggregating the following dimension scores.
24.1 Procurement monitoring	A	The e-procurement system (www.tender.gov.mn) used by UB City includes data on what has been procured, the value and vendor for all procurement types and is accurate.
24.2 Procurement methods	A	The Public Procurement Law of Mongolia (PPLM) ensures that procurement uses competitive methods except the low-value procurement under an established threshold by the Cabinet Resolution. As of 2021, 90.8% of the total value of the subnational contracts were awarded through competitive methods.
24.3 Public access to procurement information	A	All key procurement information elements are complete and reliable for the SNG representing all procurement operations and is made available to the public in a timely manner.
24.4 Procurement complaints management	D	The procurement complaint system meets five out of six elements, however, does not meet criteria 1 due to the involvement of the procuring entity in the complaints procedures.

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

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

Since the approval of the first Public Procurement Law in 2000, various public procurement reform actions have been taken by the government, including changes to the legislative framework, systems and institutional restructuring. Currently, 13 procedures and guidelines are in effect and used for public procurement of Mongolia. The procedures and guidelines were developed

and approved in 2007-2014. Since 2007, the PPLM has been amended 18 times, with the most recent amendments in 2019 introducing the possibility of advance procurement (ahead of approved budget), green procurement, and additional provisions for complaints handling and domestic preference procedures. The regulatory framework for public procurement makes open competitive procurement the default method of procurement, and provides public disclosure through the public procurement web portal at <https://tender.gov.mn/mn/index/>. The procurement portal, launched in December 2016, serves as the single access point for the e-procurement system of Mongolia and covers the whole procurement process, from the publication of the procurement notice (if applicable) to the award of the contract to the successful bidder. As per the OECD assessment, by 2018 approximately 90% of all procurement activities that are subject to the Public Procurement Law are handled through the e-procurement system.

24.1. Procurement monitoring

Performance level and evidence for scoring the dimension

As stipulated by the PPLM, all government entities are mandated to use the e-procurement system (www.tender.gov.mn) which covers procurement information for all procurement methods for goods, services and works. Each year the MoF (CG) prepares a "Procurement Evaluation Report of General Budget Governors" which provides a third party view of procurement activities, including those recorded within and outside of the e-procurement system. Per the 2021 iteration of this report, 99.3% of the total government procurement is organized through the e-procurement system. It provides information on procurement plans, the relevant bidding procedure, notifications, bidding documents, participation, opening of bids, procurement results, etc. Some of the information on the website is also available in English language, facilitating the participation of international bidders. The e-procurement system databases and records used by UB City are maintained for contracts, including data on what has been procured, value of procurement, and who has been awarded the contracts. Hence, the score for this dimension is A.

24.2 Procurement methods

Performance level and evidence for scoring the dimension

The regulatory framework for budget procurement is generally comprehensive and makes open and competitive methods the default method of procurement, as well as providing adequate grounds for public disclosure. It allows a number of methods of public procurement to be carried out, namely open bidding, shopping, limited bidding, direct contracting, direct procurement, and bidding with public participation. Conditions and threshold for the use of methods other than open competition are clearly stipulated in the Law (Article 8.1) and in the regulation (Cabinet Resolution No. 124, 2021 "threshold for the competitive method is MNT 20 million or more") as shown in the below table 24.1.

Table 24.1 Procurement threshold (million MNT)

№	Methods	Goods	Works	Services	
				Consulting	other
1.	Upper ceiling for comparison method	70.0	100.0	-	70.0
2.	Upper ceiling for direct procurement	20.0	20.0	20.0	20.0
3.	Upper ceiling for consulting service under least-cost selection method	-	-	70.0	-
4.	Lower ceiling of goods, works, and services of which invitation to bid is subject to website posting	20.0	20.0	20.0	20.0

Even under limited bidding the procuring entity is required to advertise to provide equal opportunity to all interested parties in accordance with the Article 32.2 of the PPLM. In the case of direct contracting, the procuring entity is required to submit a copy of the contract together with the justification to the MoF for the scrutiny.

The MoF conducts monitoring and evaluation on the procurement implementation every year and informs the result to the UB City by official letter. In 2021 there were 53 budget entities of UB City registered in the system. UB City recorded a total of MNT 1,001.2 trillion value of contracts (2,029 tenders) of which MNT 909.5 trillion value of programs and activities (90.8%) used competitive method¹⁴ as shown in table 24.2.

Table 24.2 Methods of procurement for FY2021

Procurement method	Number of tenders	By value in trillion MNT	% by value
Open bidding	986	909.5	90.8%
Shopping	606	40.1	4%
Limited bidding	8	8	0.8%
Direct contracting	68	39.9	4%
Direct procurement	360	3.5	0.3%
Bidding with public participation	1	0.2	0.02%
Total	2,029	1,001.2	100%

As the total value of contracts awarded through competitive methods by UB City in the last completed FY is more than 80%, the score for the dimension is A.

¹⁴ As evidenced in the official letter 01/1837 dated March 31, 2022.

24.3. Public access to procurement information

Performance level and evidence for scoring the dimension

Key procurement information to be made available to the public comprises:

Element/ Requirements	Met (Y/N)	Evidence used/Comments
(1) legal and regulatory framework for procurement	Y	Public Procurement Law of Mongolia: https://www.legalinfo.mn/law/details/493?lawid=493 Other Legal acts of Public Procurement: https://www.tender.gov.mn/mn/rules/list
(2) government procurement plans	Y	Budget Governors' Annual Procurement Plan: https://user.tender.gov.mn/mn/plan/index?year=2021&selGovernorId=154&get=1
(3) bidding opportunities	Y	Bid Notices: https://www.tender.gov.mn/mn/invitation
(4) contract awards (purpose, contractor and value)	Y	Bid Notices: https://user.tender.gov.mn/mn/contract/list
(5) data on resolution of procurement complaints	Y	Data on Complaints: https://MoF.gov.mn/article/tender/tender-complain
(6) annual procurement statistics	Y	Statistics: https://www.tender.gov.mn/mn/plan/index

Through the e-procurement system, which covers 99.3% of procurement operations, the GoM makes information available to the public in a timely manner on all six required elements as indicated in the above table. In addition, all procurement activities funded by the state budget are recorded in the GAP as the law mandates public entities and SOEs to publish procurement plans, and to disclose financial transactions worth MNT 5 million or more, among other requirements. Hence, the score for this dimension is A.

24.4. Procurement complaints management

Performance level and evidence for scoring the dimension

Complaint procedure is regulated by Article 54, 55 and 56 of the PPLM and the complaints are reviewed by a body that has the characteristics outlined in the following table:

Element/ Requirements	Met (Y/N)	Evidence used/Comments
(1) is not involved in any capacity in procurement transactions or in the process leading to contract award decisions	N	Article 54 of the PPLM enables the tenderer to submit a written complaint if the tenderer becomes aware of any breach in the tender process to the procuring entity. The procuring entity is obliged to take actions in accordance with the Cabinet Resolution No. 131, 2019 on "Procedures for reviewing and resolving complaints submitted by bidders".
(2) does not charge fees that prohibit access by concerned parties	Y	No fees are charged for any complaints. There is no legal procedure on this matter.
(3) follows processes for submission and resolution of complaints that are clearly defined and publicly available	Y	The procedure on submission and resolution of complaints is clearly stated and regulated by Article 55 of the PPLM and Cabinet Resolution No.131, 2019. Resolution of complaints are made publicly available through the MoF website (https://MoF.gov.mn/article/tender/tender-complain) and gets updated monthly.
(4) exercises the authority to suspend the procurement process	Y	In accordance with Article 54.5 and 54.6 of the PPLM, the procuring entity is authorized to suspend the procurement process unless it intervenes in the public interest.
(5) issues decisions within the timeframe specified in the rules/regulations	Y	Article 54.4 of the PPLM mandates the procuring entity to review and decide on the complaint within 10 working days after the submission of the complaint. If not, in accordance with Article 55.1 of the PPLM, the complainant may appeal to the state administrative body within 5 working days.
(6) issues decisions that are binding on every party (without precluding subsequent access to an external higher authority)	Y	Article 54.4 of the PPLM mandates the procuring entity to review and decide on the complaint within 10 working days after the submission of the complaint. However, in accordance with Article 55.1 of the PPLM, the complainant may appeal to the state administrative body within 5 working days if he/she does not agree with the procuring entity's decision.

The existing procurement complaint system in Mongolia for the SNG level meets most (five of six) of the criteria of this dimension. However, element number one, the existence of an independent, administrative complaint resolution mechanism, is not met for the subnational procurement arrangement. Procurement complaints, as stated in Articles 54, 55, and 56 of the PPLM, are handled by different government agencies, including the procuring entity, depending on which part of the procurement process the request for review has been made.

No fees are charged for the review per the existing legal framework, although Article 55.9 of the PPLM indicates that bid security (up to the amount of MNT 20 million) will be made to state revenue when a complaint lodged is found non-substantive. In 2021, 16 companies were included in the list of bidders that are restricted from participating in future public tenders.

With regards to the timeframe for issuing decisions about complaints received (criterion 5), all the complaints received by UB City in the first quarter of 2022 were resolved within 10 working days, in compliance with the requirement stipulated by the Law.

Based on the analysis and supporting evidence, the score for this dimension is D.

Recent or ongoing reform activities

The MoF is working on amendment of the PPLM to be discussed by the Parliament during the upcoming fall session. The amendments are mainly focused on the scope, procurement method, advance procurement procedures, contract awards, rights/responsibilities of the parties, procurement procedures, transparency, and complaint procedures, etc. to make the further improvement in line with the Government medium- and long-term policy documents including vision 2050.

PI-25. INTERNAL CONTROLS ON NON-SALARY EXPENDITURE

Summary of scores and performance table

Indicator/Dimension	Score	Brief justification for score
PI-25 Internal controls on non-salary expenditure	C+	This indicator uses the M2 (AV) method for aggregating the following dimensions scores.
25.1 Segregation of duties	B	Segregation of duties is prescribed throughout the expenditure process. Responsibilities are clearly laid down for most key steps while further details may be needed in a few areas.
25.2 Effectiveness of expenditure commitment controls	D	No comprehensive expenditure commitment controls are in place and expenditure control is largely reliant on the cash payments within approved budget allocations.
25.3 Compliance with payment rules and procedures	B	Compliance with rules for processing and recording transactions is high, with the majority of exceptions are properly authorized and justified.

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

This indicator measures the effectiveness of general internal controls for non-salary expenditures. Specific expenditure controls on public service salaries are considered in PI-23.

The IBL includes various provisions on internal control regulations and procedures (Articles 35 – 47). These internal control regulations and procedures are comprehensive, and they are enforced. They cover the organization of the budget and the oversight of budget implementation, the coverage of the TSA,

the issuance of authorization to finance and spend to budget entities' accounts (based on monthly budget allotment schedule), the process of daily transactions of budget revenues and expenditures, the order for budget expenditure payments, the processing and control of budget transactions and recording activities. These internal control rules and procedures are well understood and implemented at the SNG level.

25.1. Segregation of duties

Performance level and evidence for scoring the dimension

The IBL, Law on Accounting, Regulation on Treasury Operations, Regulation on the GFMS, and approved job descriptions for Treasury staff prescribe most roles and responsibilities throughout the expenditure process, ensuring segregation of duties. Expenditure vouchers are subject to ex-ante approval of the Treasury subject to a well-established review and approval process as laid out in the Regulation on Treasury Operations. The Regulation for the GFMS sets out user access at various stages, and some control mechanisms are built-in and configured in the system. Segregation of duties is mostly maintained across departments, although the specific roles and responsibilities of the Treasury staff at the departments are defined as part of job descriptions that may vary from one organization to another. Hence, the score for this dimension is B.

25.2 Effectiveness of expenditure commitment controls

Performance level and evidence for scoring the dimension

There is no formal system of commitment controls and commitments are not recorded in the GFMS, so expenditure control is reliant on containing cash payments within the approved budget allocation and appropriations. Budget entities cannot make payments above the expenditure limits programmed for the month. For the capital budget, contracts cannot be signed for works, equipment, and services above the amount that is authorized in the budget. However, there are no controls to prevent the entering of contracts that, while within current year allotments, impose obligations on future years' budgets. Hence, the score for this dimension is D.

25.3. Compliance with payment rules and procedures

Performance level and evidence for scoring the dimension

The audit report on the 2021 consolidated financial statement of the UB City GBGs indicate that the internal control on activities and implementation is effective based on the planning stage control and the sampling exercise during the implementation stage. Moreover, the report indicates that the accounting policy documents that are being used in UB City are in line with the relevant legislation and accounting standards. The degree of compliance with rules for processing and recording transactions is conducted in accordance with the Regulation on Treasury Operations, with the majority of exceptions properly authorized and justified. Persons authorized by the GBGs and the general

accountant of the budget entity exercise day-to-day internal control. In order to strengthen the current internal control practices, with the support of the WB-financed Strengthening Fiscal and Financial Stability Project, the Regulation on Internal Control of Treasury Operations has been revised in draft to align it with the COSO Internal Control-Integrated Framework. Based on the analysis and supporting evidence, the score for this dimension is B.

Recent or ongoing reform activities

With the support of the World Bank-financed Strengthening Fiscal and Financial Stability Project, the Treasury Department of the MoF has initiated the implementation of commitment control and carried out the necessary groundwork in terms of regulatory and operational matters. Accordingly, the commitment module of FreeBalance was purchased and pending to be activated and made operational in the GFMS's latest web-based version, with deployment into GFMS production expected later in 2022.

PI-26. INTERNAL AUDIT

Summary of scores and performance table

Indicator/Dimension	Score	Brief justification for score
PI-26 Internal audit	C+	This indicator uses the M1 (weakest link) method for aggregating the following dimensions scores.
26.1 Coverage of internal audit	A	Internal audit is operational for all SNG entities as the Internal Audit Unit at the GBGs is responsible for the relevant budgetary units.
26.2 Nature of audits and standards applied	C	Internal audit activities are primarily focused on financial compliance.
26.3 Implementation of internal audits and reporting	A	Annual audit programs exist. All programmed audits are completed, as evidenced by the distribution of their reports to the appropriate parties.
26.4 Response to internal audits	A	Management provides a full response to audit recommendations for all entities audited within twelve months of the report being produced.

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

This indicator assesses the standards and procedures applied in internal audits.

In accordance with the Article 69.1 of the IBL of Mongolia, all budget governors shall establish their own internal audit units. Accordingly, as of 2022 a total of 56 internal audit units were established and were operational at the national level representing all 16 ministries, the Cabinet Secretariat, 28 implementing agencies

of the government, 11 organizations that report directly to the Parliament and the UB City, all 9 districts and the budget entities at the lowest level of the country. As such, the Internal Audit Department (IAD) of UB City was established in 2014 by Mayor's Order No.A/156, and is responsible for controlling enforcement of legislation, conducting financial inspection of budgetary assets and liabilities, revenues and expenditures, programs and activities and investment, and make assessments, evaluations and recommendations as well as proposing risk management measures of all budgetary entities (approximately 600) under the responsibility of UB City. The unit conducts its operations in accordance with the Internal Audit Charter approved by the Government Resolution No. 483 in 2015 and with policy and methodological guidance and support extended from the Internal Audit and Monitoring and Evaluation Division (IAMED) of the Financial Control and Risk Management Department (FCRMD) of the MoF.

26.1. Coverage of internal audit

Performance level and evidence for scoring the dimension

The IAD of UB City conducts its operations in line with the Internal Audit Charter approved by the Government Resolution #483 in 2015. In line with this regulation, the IAD has medium-term and annual plans which were approved by the DG of UB City and conducts the internal audit accordingly.

The IAD of UB City conducted risk assessments in 94 budget entities under the jurisdiction of the UB City portfolio on 7 general indicators, and compared and prioritized them in 2020. Based on this exercise, the Internal Audit Med-term (2021-2024) Strategic Plan was developed and approved by the Mayor's Order of UB City in 2020 to identify the riskiest entities/projects to be audited in the following years. In line with this Strategic Plan, the IAD planned to conduct 38 internal audits in 2021, and 41, 42, 37 in the following three years respectively.

As for 2021, the IAD surpassed the expectation by performing 60 internal audits (38 were planned) with the value of MNT 555,753.5 million.

The top five budgetary units for the largest subgovernment revenue/expenditures in 2021 are specified in table 26.1.

Evidence for score

Table 26.1: Coverage, nature and standards of internal audit

Internal audit units	Internal audit coverage 2021 and implemented 2021	Internal audit report prepared (Y/N)	Nature of Audits	Quality assurance/ standards/ high-risk focus (Y/N)	Management Response (complete response, implementation, and review by auditors)
<p>Expenditure Top five budget governors accounting for the largest subgovernment expenditures:</p> <ol style="list-style-type: none"> 1. UB City public transportation - 40% 2. Mayor’s Office of the UB City - 16% 3. City governor’s office - 13% 4. Common service unit - 3% 5. National park - 1% <p>Revenue Top five budget governors accounting for the largest subgovernment revenues:</p> <ol style="list-style-type: none"> 1. Tax office - 92% 2. Transportation Police Authority of the General Police Office – 2.5% 3. Road Development Agency – 2.2% 4. UB City Property Use and Management Department – 0.3% 5. UB City Specialized Inspection Agency – 0.4% 	<p>Annual audit plans for 2020 and 2021 were both approved by the Mayor’s Order. Internal audits cover the organizations’ full and partial activities and their financial activities. Ad hoc internal audits can be conducted based on the special circumstances as directed by the mayor’s decision.</p>	<p>Yes. When internal audits were performed, audit reports have been prepared.</p>	<p>The majority engagements on the annual audit plan have been of the nature of compliance and financial control.</p>	<p>Quality assurance is performed by the IAD in accordance with an annual plan. As for risk assessment, the IAD assesses the GBG’s risks and plans internal audit engagements based on the risk level. For this purpose, the IAD seeks feedback from all the budgetary units on their annual internal audit plan.</p>	<p>Completed internal audit reports are introduced to the management / Internal Audit Committees. Upon review and discussion, the Committees make a decision on further processes.</p>

Data source: 2020 audit plan, audit reports 2021.

The audit function is considered as operational based on the fact of having a clear legal framework including the relevant laws, regulations and procedures, and audit work programs, audit documentation, reporting and follow-up activities leading to the achievement of the internal audit objectives. As the internal audit is operational for all SNG entities, the score for this dimension is A.

26.2. Nature of audits and standards applied

Performance level and evidence for scoring the dimension

The majority of the annual audit plans reviewed focused on financial compliance and financial control. There was limited evidence of compliance with the Institute of Internal Auditors (IIA) framework, though the MoF translated into Mongolian

the IIA Framework, revised the Public Sector Internal Audit Manual in 2019 in accordance with the latest changes in the IIA Framework and adopted a Risk Management Policy, Charter, and Regulation, also in 2019. Audit activities also include a number of works responding to ad hoc requests for financial control and the findings and recommendations are in financial terms. Hence, the score for the present dimension is C.

26.3. Implementation of internal audits and reporting

Performance level and evidence for scoring the dimension

The IAD-prepared audit plan approved by the Mayor's Order, in line with the Strategic Plan, was to conduct 38 internal audits in 2021, and 41, 42, 37 in the following three years respectively. As in 2021, a total of 60 internal audits were conducted by the IAD, 38 were with preliminarily agreed plans, 3 were specific purpose reviews, 2 were ad hoc and the remaining 5 were cross-year internal audits. The implementation of the plan resulted 139.5%.

Table 26.2: Implementation of internal audits

No	Name of the internal audit	Plan	Execution	Findings in million MNT	Which are:		
					Acts issued	Official request	To notify
1	Internal audit	38	38	78,648.9	1,308.3	979.8	76,360.8
2	Specific purpose review	3	3	-	-	-	-
3	Ad hoc	2	14	475,039.8	48.5	21,276.7	453,714.6
4	Cross-year internal audit		5	2,064.8	216.4	512.4	1,336.0
		43	60	555,753.5	1,573.2	22,768.9	531,411.4

Source: IAD 2021 annual report

The IAD prepares the annual implementation report, which it then submits to the Internal Audit Committee for their discussion and further actions to be made to implement the recommendations following Articles 4.1.3 and 4.1.4 of the Procedures of the Internal Audit Commission (Ministerial Order No. 29, 2019). Based on the analysis and supporting evidence, the score for the present dimension is A.

26.4. Response to internal audits

Performance level and evidence for scoring the dimension

As part of the SNG management response to the internal audit findings and recommendations, a sample review was conducted by obtaining the official management responses from the 10 largest budgetary entities revenue/ expenditures in 2021 as shown below.

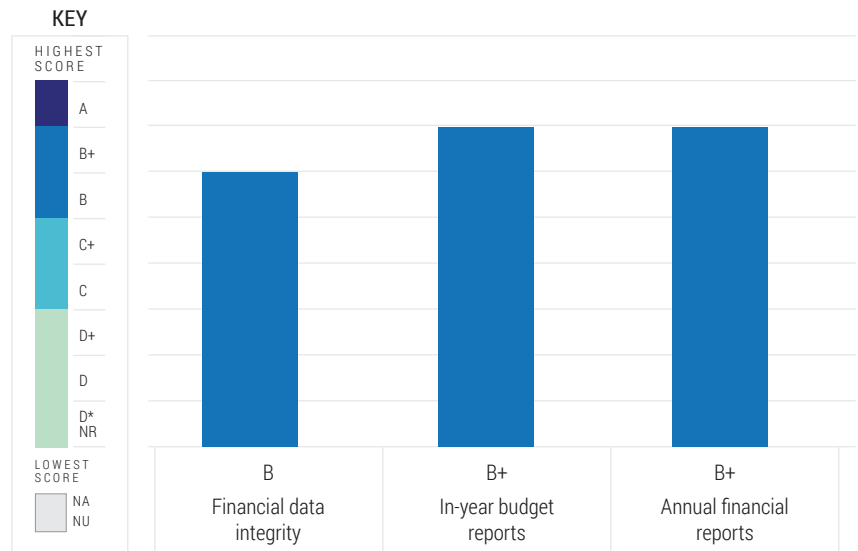
Table 26.3: Management response to the internal audits

Name of the Budget Entities	Date of the Audit recommendation	Date of the Management response	Management provides full response (Yes/No)
UB City public transportation	July 20, 2020	August 17, 2020	Yes
Mayor’s Office of UB City	March 02, 2022	April 04, 2022	Yes
City governor’s office	March 28, 2022	April 15, 2022	Yes
Common service unit	March 02, 2022	June 07, 2022	Yes
Tax office	March 28, 2022	April 15, 2022	Yes
Transportation Police Authority of the General Police Office	July 20, 2020	August 17, 2020	Yes
Road Development Agency	February 08, 2021	March 29, 2021	Yes
UB City Property Use and Management Department	March 02, 2022	April 20, 2022	Yes
UB City Specialized Inspection Agency	March 02, 2022	April 23, 2022	Yes
National Park	March 28, 2022	April 18, 2022	Yes

The IAD submits the audit report to the respective budget entities upon completing the audit, which then provides an official letter requesting to take the needed actions on the audit recommendations. The budget entities develop an action plan to take appropriate actions and then the management responds to the IAD with an official letter commenting on the auditors’ recommendations and informing on progress of the actions taken.

Based on the sample, the management provides a full response to audit recommendations for all entities audited within twelve months of the report being produced. Therefore, the score for this dimension is A.

PILLAR SIX: ACCOUNTING AND REPORTING



PI-27. FINANCIAL DATA INTEGRITY

Summary of scores and performance table

Indicator/Dimension	Score	Brief justification for score
PI-27 Financial data integrity	B	This indicator uses the M2 (AV) method for aggregating the following dimension scores.
27.1 Bank account reconciliation	B	Bank reconciliation for all active SNG bank accounts takes place monthly, usually within 5 days of each month.
27.2 Suspense accounts	N/A	UB City does not maintain or use suspense accounts.
27.3 Advance accounts	B	Reconciliation of advance accounts takes place at least quarterly and most advance accounts are cleared in a timely manner.
27.4 Financial data integrity processes	B	Access and changes to records is restricted and recorded, and results in an audit trail.

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

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.

UB City Finance and Treasury Division uses the GFMIS and other related systems, such as E-Huulga and E-Tailan, for carrying out its accounting and reporting. Recent improvements in these systems with continued efforts from the CG have contributed to strengthening the integrity of financial data and reporting coverage and efficiency. In 2018, the MoF upgraded the GFMIS to the latest web-based FreeBalance Version 7 (FB v7) and the related business processes and other interconnected systems have been revised consistently. The E-Huulga system has enabled budget entities of the UB City to more easily access their budget execution data from the GFMIS allowing them to reconcile their records more effectively.

27.1. Bank account reconciliation

Performance level and evidence for scoring the dimension

UB City, and budget governors under its direct oversight, hold bank accounts within the TSA at the Central Bank and accounts at commercial banks. The latter is mainly to collect taxes and fees. The process of request to open, approval as well as operations and maintenance of such bank accounts are governed by a joint decree of the Minister of Finance and the Governor of the Bank of Mongolia no. 24/24/A-9 of January 24, 2013. By the decree, within the 5th of each month, commercial banks provide information on the monthly account balances of local government entities to the MoF and the Bank of Mongolia. Thus, while reconciliation of bank accounts held in the TSA at the Central Bank are done daily at the aggregate and analytical levels (monthly for commercial bank accounts) between the Finance and Treasury Division of MUB and the Central Treasury, budget entities reconcile with the UB Treasury monthly as part of their monthly budget execution reporting.

Table 27.1: Bank account reconciliation

Bank account	Frequency of reconciliation	Timeline for reconciliation
All active bank accounts	Monthly	Within 5th of each month

Data source: Joint Decree by the Minister of Finance and Governor of Bank of Mongolia <https://legalinfo.mn/mn/detail/11918>

Based on the analysis and supporting evidence, the score for the present dimension is B.

27.2 Suspense accounts

Performance level and evidence for scoring the dimension

According to the Government regulation on the Treasury Operations dated January 26, 2015, <https://legalinfo.mn/mn/detail?lawId=206664&showType=1> any suspense account is to be maintained only at the Central Treasury at the MoF and it is responsible for clearing and reconciling such accounts. The regulation mandates the Central Treasury to reconcile suspense accounts at

least monthly while in practice unexplained or unusual transactions are recorded are persistently reconciled daily through a Smart payment system connected to the Central Bank's ACH system and the Treasury's GFMIS.

Any sundry or doubtful transaction is cleared at the latest by the end of the interim and annual reporting periods by the budget entities as they have access to the online E-Huulga system. Here they can track budget performance and transactions in the GFMIS against their own records. Yet, given UB City does not maintain suspense accounts, the dimension is N/A.

27.3. Advance accounts

Performance level and evidence for scoring the dimension

Advance payments for UB City, comprising mainly those made for inventories, goods, services and fixed assets and some for salaries and travel, account for around 1.3% of the total asset on the Balance Sheet of the UB City as of the end 2021. Reconciliation of advances is done to ensure compliance with policy and contract requirements and, at the latest, by the quarterly financial reporting process (in accordance with the MoF issued Accounting Instructions for Budgetary Organizations: <https://legalinfo.mn/mn/detail?lawId=205394&showType=1>). The external audit did not note any material weaknesses for budget entities of UB City with regards to clearing advance accounts, except for issues with reconciliation and reporting accuracy of aged advances paid by a couple of LOEs.

Based on the analysis and supporting evidence, the score for this dimension is B.

27.4. Financial data integrity processes

Performance level and evidence for scoring the dimension

The GFMIS is the core system of the Treasury used for payment and settlement at all levels of government, including UB City and its budget entities, to record and process transactions. It is also used to manage controls in budget execution, with consideration to appropriate segregation of duties with access granted to authorized treasury specialists and civil servants at written request to the Central Treasury at the MoF by the heads of the budget entities at the UB City level. Staff responsible for internal control within the Finance and Treasury Division ensure integrity of data in accordance with the Treasury's regulation on internal control, but from an operational perspective.

The GFMIS is accessible only through a secure MoF network and detailed audit trails are maintained in the system. The MoF's Financial Information Technology (IT) Division is centrally responsible for upkeeping the integrated system database, ensuring reliable and uninterrupted operation of the Treasury network and providing call support to promptly resolve system related issues.

For day-to-day recording of transactions and financial accounting, a budget entity uses one of the several local software packages licensed by the MoF

and budget entities are themselves responsible for the system upkeep. For the other reporting systems, such as E-Tailan and E-Huulga, the Central Treasury also oversees access, though individual access rights for the local level users are handled by the local treasury, e.g. the UB City Finance and Treasury Division.

As there is effective access control and audit trails, but not a unit responsible for data integrity, the score for the present dimension is B.

Recent or ongoing reform activities

The national treasury is in the process of designing a portal that will replace some of the manual processes involved in payment processing, initially focused on replacing manual payment vouchers with electronic versions submitted via the portal.

PI-28. IN-YEAR BUDGET REPORTS

Summary of scores and performance table

Indicator/Dimension	Score	Brief justification for score
PI-28 In-year budget report	B+	This indicator contains three dimensions and uses the M1 (WL) method for aggregating the following dimension scores
28.1 Coverage and comparability of reports	B	Coverage and classification of the in-year reports are comparable to the original budget with partial aggregation.
28.2 Timing of in-year budget reports	A	In-year reports are produced within six days after the end of the month.
28.3 Accuracy of in-year budget reports	B	There are no material concerns regarding data accuracy. An analysis of budget execution is conducted monthly with expenditures captured at payment stage.

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

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.

According to Articles 8.8.3 and 8.9.5 of the IBL, all general budget governors, including the UB City governor, shall prepare and submit to the MoF monthly budget execution reports by the 6th of each month and semi-annual budget execution reports and consolidated financial statements by August 15th of each year. The Finance and Treasury Division of the MUB is responsible for preparing these reports. Unlike the annual budget execution reports, the coverage of the in-year budget execution reports are limited to budgetary units whose budgets are approved by the UB City CRKh and transfers made to the districts, but the districts' budget expenditures are not covered.

28.1. Coverage and comparability of reports

Performance level and evidence for scoring the dimension

UB City prepares in-year budget reports with administrative and economic classifications monthly, enabling a direct comparison with the approved budget as entered in the GFMS. However, when compared with the original budget as approved in the CRKh’s resolution, differences were noted in the level of aggregation (as previously noted in PI-2.1 and 2.2). Expenditures made from transfers to de-concentrated units within subnational governments (e.g. districts) are included in the reports.

Table 28-1 In-year budget reports

Coverage and classification			Timeliness		Accuracy		
Allows direct comparison to original budget (Y/N)	Level of detail A=All budget items P= Partial aggregation M= Main administrative headings E=Main economic headings	Includes transfers to de-concentrated units (Y/N)	Frequency W/M/Q N= >Q'ly	Within: N weeks	Material concerns (Y/N)	H/Y Analysis prepared (Y/N)	Payment info E=Exp C=Commit
Y	P	Y	M	1	N	Y	E

Data source: Detailed report are accessible on the Glass Account website: <https://shilendans.gov.mn/org/53?form=5461308&year=2021&month=12&group=0&task=27>.

Based on the analysis and supporting evidence, the score for the present dimension is B.

28.2. Timing of in-year budget reports

Performance level and evidence for scoring the dimension

In accordance with the legal framework noted above, in-year reports are produced within six days after the end of the month. Hence, the score for this dimension is A.

28.3. Accuracy of in-year budget reports

Performance level and evidence for scoring the dimension

Budget entities confirm their budget reports with the GFMS data through the online E-Huulga system, so there are no material concerns regarding data accuracy. In-year budget reports include data issues and variance analysis allowing useful and consistent analysis of budget execution monthly. However, the reports provide information on expenditures only at the payment stage. Hence, the score for this dimension is B.

PI-29. ANNUAL FINANCIAL REPORTS

Summary of scores and performance table

Indicator/Dimension	Score	Brief justification for score
PI-29 Annual financial reports	B+	This indicator contains three dimensions and uses the M1 (WL) method for aggregating dimension scores.
29.1 Completeness of annual financial reports	B	Financial reports for the UB City are prepared annually covering the relevant budget entities and LOEs and comparable with the annual budget. It contains information on revenue, expenditure, financial assets and liabilities and a cash flow statement.
29.2 Submission of reports for external audit	A	2021 Annual Consolidated Financial Statements were submitted to audit within 3 months of the end of the FY.
29.3 Accounting standards	B	Accounting standards applied to UB City are disclosed and consistent with the country's legal framework and are consistent over time.

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

This indicator assesses the extent to which annual financial statements are complete, timely, and consistent with generally accepted accounting principles and standards. This is crucial for accountability and transparency in the PFM system.

Article 54.2 of the IBL mandates consolidated financial reporting that includes budgetary entities, projects and programs implemented by concessional loans and grants obtained through the government, as well as fully and partly state-owned and locally-owned enterprises. The MoF also issued Regulation no. 341 in 2015 that provides further instructions on preparation of the annual financial statements and the consolidation that is to be done in accordance with the IPSAS. According to the law, UB City is mandated to submit its annual consolidated financial statements to audit by April 1st of each year.

Accordingly, the 2019 Consolidated Financial Statements of UB City covered financial statements of the budgetary entities directly under the oversight of the UB City and its nine districts — 47 SOEs and projects and funds — as well as 23 entities owned by the local government. In 2020, the Consolidated Financial Statements covered the nine districts' budgetary units' financial statements, 553 SOEs, 9 special local funds, 62 entities owned by the local government. Further, in 2021, the UB City's Consolidated Financial Statement covered the nine districts' budget governors' financial statements, 123 SOEs, 13 special local funds, 81 entities owned by the local government, 436 special purpose transfer entities, 129 family health centers.

UB City uses the TSA within the GoM and the GFMIS for payment and settlement. The latter creates the prospect of almost real time accounting and reporting for the budget execution, but given limitations in the current GFMIS functionalities, in practice, budget entities maintain their own stand-alone accrual accounting system (which they periodically manually reconcile with e-Huulga) and such data is uploaded to another system “E-Tailan”, which is used by the UB City Treasury for consolidated reporting. The absence of a common platform and unified chart of accounts, and data interfaces that are largely manual, suggests that there is limited functionality of the GFMIS system for reporting. Yet, the UB City can produce annual financial statements within four months. While the extent and coverage of the annual financial statements have been improving on the back of improvements in the GFMIS and other related systems such as E-Huulga and E-Tailan, there are weaknesses in complying with international accounting standards.

29.1. Completeness of annual financial reports

Performance level and evidence for scoring the dimension

Same as the national level, UB City uses the web-based comprehensive reporting system called E-Tailan, which was developed and implemented in 2015, for preparing its Annual Budget Execution Reports and Consolidated Financial Statements. The Annual Consolidated Financial Statements affect all budget governors directly under the oversight of UB City and its nine districts, as well as the associated majority state and locally-owned enterprises and projects and programs. The financial statements include information on revenues, expenditures, financial assets and liabilities including long-term liabilities (largely including those for LOEs, externally funded projects borrowed by the central government, and performance guarantees on public investment contracts), as well as a cash flow statement. Given UB City did not have borrowing rights until 2022, it did not issue debt guarantees to be reported on the financial statements. The Annual Budget Execution Report is consistent with the approved budget.

Table 29.1: Financial reports of SNG

Financial report	Date annual report submitted for external audit	Content of annual financial report (Y/N):			Reconciled cash flow statement (Y/N)
		Expenditures and revenues by economic classification	Financial and non-financial assets and liabilities	Guarantees and long-term obligations	
2021	March 31, 2022	Y	Y	Y	Y

Based on the analysis and supporting evidence, the score for the present dimension is B.

29.2. Submission of reports for external audit

Performance level and evidence for scoring the dimension

According to the IBL, general budget governors, including UB City, shall submit their Annual Consolidated Financial Statements to audit by April 1st of each year. The 2021 consolidated budget execution and annual financial statements of UB City were submitted to the CCAO on March 31, 2022, accompanying an official letter no. 1/1486. Hence, the score for this dimension is A.

29.3. Accounting standards

Performance level and evidence for scoring the dimension

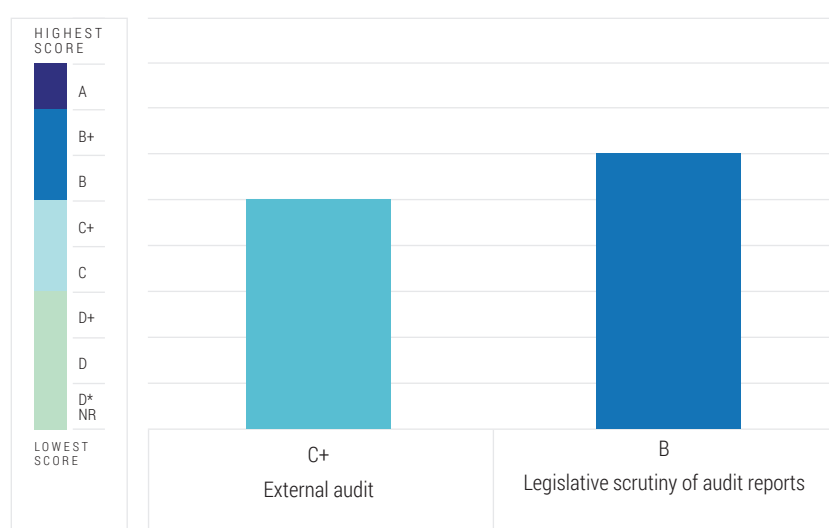
The IBL and the Accounting Law states that national reporting standards are to be in compliance with the IPSAS on an accrual basis. Accordingly, UB City indicates that it prepares its financial statements on an accrual basis. In preparing its accounts and financial statements, UB City follows the following guidelines and methodology documents previously approved by the Ministerial Order no. 388 of November 27, 2006: i) Instructions on accounts to be followed for budget entities, ii) Templates for financial statements and notes to the financial statements, iii) Methodology for preparing financial statements, iv) Instruction for estimating product costs, and v) Regulation for preparing report on product supply. In addition, it follows the above-referenced MoF regulation no. 341 of 2015 on consolidation of the financial statements. Compliance with this framework is disclosed in the financial statements. It is recognized that this domestic framework for financial reporting is not yet in full compliance with IPSAS –an issue raised in the audit of the national financial statements. Nonetheless, these requirements have remained consistent over time.

Based on the analysis and supporting evidence, given the SNG reporting framework is consistent with the national one (and the latter is not in compliance with the international standards) the score for this dimension is B.

Recent or ongoing reform activities

The MoF recognizes the need to improve and update the Chart of Accounts (CoA) for budget entities for it to fit the reporting requirements under the IPSAS and GFS and addressing this need has been a critical priority for fully transitioning to accrual based financial and statistical reporting in accordance with both the IPSAS and GFSM 2014. In this regard, the MoF is engaging consultants under a World Bank-funded project. In connection with the envisioned improvements with the CoA, the associated guidelines and regulations to be followed in budget entities' accounting on the accrual basis in accordance with the most recent IPSAS are also being revised with the support of the same project.

PILLAR SEVEN: EXTERNAL SCRUTINY AND AUDIT



PI-30. EXTERNAL AUDIT

Summary of scores and performance table

Indicator/Dimension	Score	Brief justification for score
PI-30 External audit	C+	This indicator includes the following four dimensions, which are aggregated using the M1 (weakest link) scoring method
30.1 Audit coverage and standards	A	All entities of SNG are audited annually covering revenue, expenditure, and asset/liabilities. A full range of financial audits and some performance and compliance audits are performed and generally adhere to the international audit standards, focusing on significant and systemic issues.
30.2 Submission of audit reports to the legislature	C	Audit reports were submitted to the CRKh within nine months of receipt of the financial statements by the SAO for the last three completed FYs.
30.3 External audit follow-up	C	There is clear evidence of formal responses by the executive to most audit recommendations issued by the SAO but qualified audits point to issues of comprehensiveness and timeliness of such responses.
30.4 Supreme Audit Institution independence	A	In accordance with the Law on State Audit (2020) and the latest amendments to the Constitution (2019), the SAO in charge of SNG operates independently from the executive with respect to appointment and removal of the Chief Auditor of the SAO, who is appointed by the Auditor General.

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

This indicator examines the characteristics of the external audit, which is used when the external audit of SNG is performed by the national supreme audit institution or its regional offices.

The Mongolian Law on State Audit of 2020, with the latest amendments made in 2021, establishes the MNAO and the SAO as the country's Supreme Audit Institution (SAI), which is mandated to perform different types of audits on activities of SNG and its relevant state entities. In parallel, the IBL requires state entities at various levels of budget holders to have their financial statements audited annually within the timeframe specified in the law. The SAO has auditors in its Financial Audit Department, as well as contracted audit firms, who conduct audits of the SNG's financial statements and the consolidated year-end financial statements of the SNG.

The independence of the MNAO and the SAO is guaranteed by the Law on State Audit and also by the Constitution of Mongolia per the specific provisions included as part of the 2019 amendments. The only institutions that can exercise supervision over the MNAO and the SAO are the Parliament and the Chairman of the National Security Council. The state audit organization has the right to select auditees, plan, perform, report, and follow up on audits, as well as define the timeline, scope, and content of the audits.

The MNAO and the SAO had been adhering to the International Organization of Supreme Audit Institutions' (INTOSAI) ISSAI per the Law on State Audit (LSA) until the National Standards on Financial Audit MNS 6817-4: 2020, which are in convergence with the ISSAIs, were approved on January 13, 2020.

The first three dimensions of the external audit function were assessed based on the last three completed FYs, which were 2021, 2020 and 2019, whereas the last dimensions were assessed at the time of the assessment.

30.1. Audit coverage and standards

Performance level and evidence for scoring the dimension

As required by law, UB City's financial audits are carried by the SAO. In addition to auditing budget execution reports covering revenues and expenditures, financial statements covering assets and liabilities are also audited. In 2020, out of 79 financial statements consolidated in the 2019 Consolidated Financial Statements of the SNG, 78 (98.7%) were audited by the SAO, and in 2021, out of 633 in the 2020 Consolidated Financial Statements of the SNG, 626 (98.9%) were audited by the SAO. Whereas in 2022, out of 791 financial statements consolidated in the 2021 Consolidated Financial Statements of the SNG, 789 (99.7%) were audited by the SAO. Audit financial reports of all organizations and the Consolidated Financial Reports of the UB City are made available to the public on the SAO website.

The SAO audit opinion on the last three FYs' Consolidated Financial Statements of the SNG made a reference to the IFAC – issued International Standards on Auditing (ISA) and the MNAO Financial Audit Manual that is following the ISAs as the standards it followed when conducting the audit.

The audit opinion of the external auditors on the 2019 and 2021 Consolidated Financial Statement of the SNG was unqualified, however the 2020 CFS audit opinion was qualified due to the number of discrepancies which were considered as material. These include: transfer of the goods and services' procurement was different from the bill and did not fulfill the previous year's audit recommendations; the payment was not made to the savings and credit cooperative from the UB City Labor department; receivable was not properly recorded and reduced; rules, procedures and requirements for the UB City apartment program was not clear, implementation was not sufficient and progress status was not indicated and procurement of goods was not conducted in line with the relevant regulation, etc.

Since the audit report on the UB City Consolidated Financial Statements covered 98.7%, 98.9% and 99.7% of the SNG entities in 2019, 2020 and 2021 respectively, and the audits highlighted relevant material issues and systemic and control risks, the score for the present dimension is A.

30.2. Submission of audit reports to the legislature

Performance level and evidence for scoring the dimension

The IBL (Article 8) sets forth the following schedule, as it pertains to the SNG entities, for the annual audited financial reports submission at the various levels of budget governors:

- Direct budget governors shall submit annual budget execution reports and financial statements by January 25th of the following year to state audit bodies and audited financial statements to the respective upper-level budget governors by February 25th.
- Central budget governors shall prepare and submit annual budget execution reports and financial statements to the state audit body no later than March 5th and submit audited reports to the general budget governor no later than March 25th of every year.
- General budget governors shall submit annual budget execution reports and consolidated financial statements by April 5th of the following year and submit audited annual statements by April 25th of the following year to the MoF for consolidation.

Table 30.2: Timing of audit reports submission to the legislature

FYs	Dates of receipt of the financial reports by the audit office	Dates of submission of the financial audit reports to the legislature
Year 2019	April 20, 2020	November 06, 2020
Year 2020	April 20, 2021	September 22, 2021
Year 2021	April 20, 2022	June 10, 2022

As indicated in the schedule, the annual budget execution reports and the consolidated financial statements of the SNG entities are audited within the timeframe set forth in the law and submitted to the CRKh within eight months in 2020, six months in 2021 and within three months in 2022 from receipt of the reports by the SAO. As the financial statements were submitted within 9 months but more than 6 months for the last three years, the score for the dimension is C.

30.3. External audit follow-up

Performance level and evidence for scoring the dimension

There is clear evidence of effective and timely follow-up by the executive and the audited entities on the audit recommendations issued by the SAO. The SAO conducts follow-ups on its audit findings and has sanctioning power of issuing fines and acts that oblige the relevant auditees to rectify the situation as stipulated by Article # 20 and 21 of the Law on State Audit.

There is a dedicated session in the audit reports that the external auditors had followed up on the previous year's audit recommendations. For instance, the 2019 audit report on the Consolidated Financial Statements of the SNG describes that out of 621 recommendations provided to the DBGs, in the previous year (2018), 575 (92.6%) were fully implemented, 18 (2.9%) were overdue and 30 (4.8%) were in progress for implementation. In 2020, out of 728 recommendations, 90.5 % (659) were fully implemented. Whereas in 2021, 1,306 recommendations were provided and 92.3% (1,200) were fully implemented with a budget of MNT 54,385.9 million.

While this data implies a high level of follow-up to audit recommendations, it is noted that SAO analyzes compliances with the recommendations as part of the audit process and that the audit of the 2020 financial statements resulted in a qualified audit in part due to prior recommendations relating to procurement and the apartment program either being incomplete or not documented – which the auditor considered to be material. As there is evidence of a higher percentage of response to audit recommendations indicated by the statistical data, but issues of comprehensiveness and timeliness contributed to a qualified audit, the score for the present dimension is C.

30.4. Supreme Audit Institution independence

In accordance with Article 6.1 of the Law on State Audit and the latest amendments to the Constitution (2019) the SAO is an organization that independently implements public finance and budget control. The SAO operates independently from the executive with respect to appointment and removal of the Chief Auditor of the SAO, who is appointed by the Audit General. Planning of audit engagements is undertaken as proposed by the MNAO and all its audit reports are directly submitted to the CRKh. The SAO has unrestricted and timely access to records, documentation, and information for most audited entities. The SAO's budget is also reviewed and approved directly by the Parliament.

Performance level and evidence for scoring the dimension

Table 30.3: SAI Independence requirements

Element/ Requirements	Met (Y/N)	Evidence used/Comments
1.The SAI operates independently of the executive with respect to:		
- procedures for the appointment and removal of the head of the SAI	Y	The Chief Auditor (CA) of the SAO is appointed by the Auditor General (Article 29.1.7 of the Law on State Audit) upon the selection procedure is being conducted by the CSC in line with the legal framework. The Chief Auditor can also be removed only by the AG's order. Requirements for the CA are described by the Law on State Audit (Article 26).
- the planning of audit engagements	Y	The SAO prepares audit plan and get it approved by the Auditor General of Mongolia in line with the Article 11.4 of the Law on State Audit. However, unscheduled audits can be conducted if requested by the Parliament (Article 12.1) based on specific conditions set forth by the Constitution of Mongolia (Article 28.5).
- arrangements for publicizing reports	Y	Article 37 of the Law on State Audit sets forth the principles for ensuring openness and transparency of the state audit functions, activities, and audit reports. Accordingly, annual reports of the SAO are prepared in electronic formats and published on its official website.
- the approval and execution of the SAI's budget.	Y	The SAO shall be provided economic guarantees (Article 40 of the Law on State Audit) to ensure independent operations of the SAI. Accordingly, the MNAO budget is reviewed by the Budget Standing Committee and approved by the Parliament.
2. This independence is assured by law.	Y	The legal independence of the SAO is one of the key principles set forth in the Law on State Audit (Article 3) and is guaranteed in the Constitution of Mongolia (Article 25.7, 2019), which states that "Powers, organization and procedures of organizations to independently implement public finance and budget control shall be determined by the law."

3. The SAI has unrestricted and timely access to records, documentation and information for:

- all audited entities	Y	The Law on State Audit provides the SAO with unrestricted and timely access to records necessary for performing its duties. The amendment of the law approved in 2020 (Article 13) introduced the possibility to collect electronic information required for conducting audit functions, including using an integrated electronic information system for transmission, storage, and analysis of information.
- most audited entities		
- the majority of requested records		

As there is evidence of the independence of the SAO, the score for this dimension is A.

PI-31. LEGISLATIVE SCRUTINY OF AUDIT REPORTS

Summary of scores and performance table

Indicator/Dimension	Score	Brief justification for score
PI-31 Legislative scrutiny of audit reports	B	This indicator uses the M2 (AV) method for aggregating the following dimensions scores.
31.1 Timing of audit report scrutiny	A	Scrutiny of audit reports on financial reports has been completed by the CRKh within three months from receipt of the reports.
31.2 Hearings on audit findings	A	In-depth hearings on key findings of audit reports take place regularly with responsible officers (DBGs together with their accountants) from all audited entities participating in the meeting.
31.3 Recommendations on audit by legislature	D	As mandated by the IBL (Article 64.1.4), CRKh has the authority to conduct hearings on the audit report of the budget execution report and consolidated financial statements of UB City. However, there is no legal requirement for the CRKh to issue any recommendations based on its scrutiny. The CRKh has not issued any such recommendations in the last three years.
31.4 Transparency of legislative scrutiny of audit reports	C	The CRKh is not authorized to organize public hearings on the audit reports, however, committee reports are published on the official websites of the SAO, CRKh and the Mayor's Office. The public is provided with an opportunity to post comments through the official websites on audit matters.

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

This indicator focuses on legislative scrutiny of the audited financial reports of the SNG, including institutional units, to the extent that they are required by law to submit audit reports to the subnational council.

Although financial statements of the budgetary units are audited individually, the SAO conducts and produces audit reports on the annual budget execution reports and the consolidated financial statements of SNG entities, which then is submitted to the Mayor of the UB City by April 20th every year. Article 64.1.4 of the IBL mandates the CRKh to conduct hearings on the Governor’s presentation on the budget execution report and financial statements.

31.1. Timing of audit report scrutiny

Performance level and evidence for scoring the dimension

Table 31.1: Timing of audit report scrutiny

FYs	Dates of receipt of the financial audit reports	Dates of scrutiny by the legislature
2019 audit report	November 06, 2020	November 13, 2020
2020 audit report	September 22, 2021	October 07, 2021
2021 audit report	June 10, 2022	June 22, 2022

Article 8.9.4 of the IBL mandates UB City to submit budget execution reports and the consolidated financial statements by April 1st to the state audit body and audited statements by April 20th to the MoF. Moreover, article 46.2 of the LATUG states that regular sessions of CRKh shall be convened quarterly, whereas the Rules of Procedure of the CRKh (Article 4.1) stipulates to have the regular sessions every month. In line with the legal framework, audited reports on the budget execution report and the consolidated financial reports were received from the SAO within the timeframe set forth in the law and was scrutinized within three months in the last three FYs as indicated in Table 31.1 above. Therefore, the score for this dimension is A.

31.2 Hearings on audit findings

Performance level and evidence for scoring the dimension

As stipulated by Article 64.1.4 of the IBL, the CRKh is authorized to conduct hearings on the Governor’s presentation on the audit reports on the budget execution report and the consolidated financial statements. As such, the CRKh conducted hearings on the Consolidated Financial Statements audit report and approved the budget execution reports for the last three FYs. The relevant documents were sent 3 days prior to the sessions together with official letters informing the DBGs to participate in the session with their respective budget and finance specialists. The sessions started with a registration confirming all the representatives of the subnational units were present and continued with a presentation by the Chief Auditor of the SAO on the main findings of the audit report. Therefore, the score for this dimension is A.

31.3. Recommendations on audit by legislature

Performance level and evidence for scoring the dimension

The SAO sends to the Mayor of UB City the annual audit report containing the audited budget execution report, the audited consolidated financial statements of UB City which includes the audit findings and recommendations. The audited report is then reviewed and discussed by the CRKh during the regular session. As required by Article 64.1.4 of the IBL, the CRKh conducts hearings on the budget execution report and financial statements but there is no legal requirement for it to issue any recommendations based on its scrutiny.

Despite not having a legal requirement, the CRKh sends an official letter to the budgetary units to implement the audit recommendations. Also, based on the discussions during the session, notes on the meeting ordering action on the audit findings are usually developed and sent out to all DBGs after the session is being held. Based on the findings of the audit report and the meeting note of the CRKh regular session, the Monitoring and Evaluation Department of the Mayor's Office performs the follow-up and develops an implementation report on quarterly basis which is presented to the CRKh.

Moreover, the SAO does follow-up on its audit findings and has sanctioning power of issuing fines and acts that obligate the relevant audited entities to comply in order to rectify the situation as stipulated in Article 12 and 13 of the LSA. Evidence obtained shows most of SAO's audit recommendations were fully implemented by the executive (90.5%, 92.6% and 92.3% of the audit recommendations were fully implemented in the FY2019, FY2020 and FY2021 respectively) and SAO documents management response to the findings in writing, analyzes the recommendations provided and keeps a record on the implementation progress of the recommendations.

Since the CRKh does not issue recommendations on actions to be implemented by the executive, which is in-line with the regulation of not having requirement to issue any recommendations on the audit report, the score for this dimension is D.

31.4. Transparency of legislative scrutiny of audit reports

Performance level and evidence for scoring the dimension

In line with Article 64.1.4 of the IBL, the CRKh conducts hearings on the Governor's presentation on the budget execution report and the audit report on the consolidated financial statements, however not for the public. There is no legal requirement for the CRKh to conduct public hearings on the audit reports, hence no such event was organized.

However, the audit reports and the relevant documents (session announcements, agenda, draft note, etc.) are being posted on the official websites of the CRKh during the sessions, where the public can easily access and comment on the reports. Therefore, the score for this dimension is C.

CONCLUSIONS OF THE ANALYSIS OF PFM SYSTEMS

Integrated assessment across the PIs

Intergovernmental fiscal relations

A key feature of the systems of intergovernmental financial relations in Mongolia is the tight control over the fiscal position of the SNGs, including UB City. To promote aggregate fiscal discipline at a national level, SNGs are required to run a balanced budget. The CG assesses the fiscal capacity of each aimag and UB City to generate a surplus by calculating a theoretical baseline level of revenue and expenditure according to a series of pre-defined norms. In the case of UB City, it is assessed as producing a baseline surplus and is thus required to send a portion of this assessed surplus to the CG. Some aimags, which operate at the same second tier of government, receive a subsidy to cover their assessed baseline deficit.

A similar approach operates internally within UB City, whereby those districts that are assessed as having a baseline surplus transfer this to UB City and those with an assessed deficit receive a form of budget support transfer. The following table shows the composition of the budget for UB City for 2022 and shows the value of transfers to and from the districts, as well as the transfer from UB City to the CG. Note however that some revenue raising authority shifted from UB City to the districts for 2022, which increased the flow of funds from districts to UB City compared to previous years.

2022 UB City budget proposal to the CRKh (million MNT)	
Tax and non-tax revenue	482,043.8
Transfer from districts	727,039.1
Balance from previous year	353,700.2
Total Revenue	1,562,783.1
Recurrent expenditure	479,222.1
Capital expenditure	915,550.3
Transfer to the central government	160,021.4
Financial support to districts	7,989.3
Total expenditure	1,562,783.1

This approach represents a “balanced budget” fiscal rule for SNGs. Good practice in the designing of fiscal rules would ensure the inclusion of clear exemptions and sanctions and also extend to balance sheet oriented controls – such as a limit on borrowing and guarantees. These features are not yet observed in this fiscal rule for Mongolia’s SNGs.

As part of the intergovernmental relations regime, expenditure in key areas of service delivery remain funded by the central government via special purpose

transfers. This was also the case for UB City during the period assessed, despite its underlying base surplus position. The amount of funding for special purpose transfers is typically tightly defined according to regulation by the central line ministries based on formulas that determine the expected amount of inputs to be consumed based on historical norms. The regulation defines a specific level of consumption of inputs per activity, identifies prices for these inputs and then calculates total funding by multiplying the cost of each activity by the volume of activity — as defined by demographic data (such as number of children in a school).

This tightly defined transfer regime broke down somewhat during the assessment period when the central government deviated from its own norms in determining fiscal transfers – due to the COVID-19 related fiscal constraints. Ultimately, from 2022, funding for health and education was transferred directly to health and education units at district level, who became part of the administrative structure of the central line ministries and thus outside the administrative and fiscal structures of UB City.

In practice, during the period of the assessment, recurrent transfers from the central government were received by UB City on a timely basis according to an agreed monthly schedule (for the budget year) and at the level they were budgeted. The same was not true for capital spending, which, due to its discretionary nature, fell within the scope of the national treasury's cash flow control mechanisms. This resulted in a significant portion of capital funding of UB City not being made available or spent as originally planned and contributed to UB City realizing an unplanned surplus in 2021.

Budget reliability

Over the last three years, UB City's budget has not been a reliable indicator of actual fiscal outcomes. Both expenditure and revenue have deviated significantly from the original budget in aggregate and also in terms of their composition. As an example, in 2020 actual revenue was only 66% of original budget and actual expenditure was 66.7% of original budget. It is evident that the COVID-19 pandemic contributed to the fiscal outcomes in 2020, however variations of 5-10% between actual and original budget revenue and expenditure in other years, some compositional variances, and the fact that the variances are not explained in financial reports, is of concern.

Transparency of public finances

While noting the recent issues with budget reliability, there is a high degree of transparency of many, but not all, aspects of financial management by UB City. There is excellent coverage of the budget and financial reports, in that all administrative units of UB City, plus the LOEs, the districts and various funds are included.

While there is no single FMIS, and various standalone accounting systems are used by budget governors of UB City, all budget execution data from across

multiple levels of government is collated in the GFMS system, and then reconciled and consolidated via the E-Tailan system. This has enabled the broad institutional coverage of budget execution reporting by UB City and its districts. Similarly, the LOEs are recorded in the budget and consolidated accounts, which perhaps reflects the quasi-fiscal role that many of these LOEs perform. The inclusion of the LOEs, together with the districts, brings a high degree of coverage and thus transparency of all of UB City's fiscal operations.

As outlined above, there is a precisely defined approach by the central government to determining the level of special purpose funding transferred to UB City and its districts. This should be transparent but in some recent years the central government deviated from its own standards in determining the largest of these special purpose transfers –the general education SPT. Also, this approach to funding reflects a highly centralized and control-oriented approach which, until some recent reforms, provided very little flexibility for UB City to set its own policies or performance standards for key services such as health and education. Such lack of flexibility is exacerbated by funding determinations by the CG only being confirmed to UB City and its districts extremely late in the budget process. As these special purpose transfers are determined mainly on the norms-based funding of specific inputs per activity, performance targets in budget documents are essentially a list of planned activities rather than planned outcomes to be achieved by undertaking such activity.

UB City takes a similar approach to how it funds and manages its own LOEs in its delivery of services. UB City tightly controls prices for such services (such as bus fares) and then subsidizes delivery in terms of specific funds per unit of activity. UB City then undertakes its performance management by taking an external measurement of the outputs produced (rather than the outcomes achieved) and applies financial penalties when outputs are not delivered on schedule.

While UB City's baseline budget is closely defined, it does have the ability to raise and spend revenue above the baseline and there is some discretion as to how the baseline expenditures are allocated. There are some formal mechanisms for public consultation built into the budget process to assist UB City in prioritizing this discretionary spending. However, final decisions from the central government come very late in the process and the types and timing of fiscal information available to the public is limited.

Management of assets and liabilities

Reflecting the extensive coverage of the budget documents and fiscal reports, there is strong oversight of locally owned enterprises and the districts by UB City. Both LOEs and districts prepare detailed financial reports and submit these to UB City on a timely basis to support their oversight and quality assurance activities. This upward flow of reporting continues, with UB City providing both financial and non-financial performance data to, respectively, the MoF and Cabinet Secretariat. This internal oversight framework within UB City is important as both the districts and the LOEs are the primary delivery agencies for key

services, including education, health, water, waste, and transport. Nonetheless, the oversight does not extend to identifying the fiscal risks associated with these entities, or other fiscal risks more generally.

As outlined above, aside from some significant recent deviations in how education SPTs were formulated, there is a highly formulaic approach to recurrent funding decisions. Decisions regarding capital spending at SNG level appear to be more subjective. A new national approach to public investment management (PIM) has been implemented, supported by legislation, procedures and systems. While this PIM approach is not yet mandated for SNGs, UB City has adopted the methodology and there is evidence of this approach being used for prioritization of projects. However, the evidence of detailed economic assessment is not available for the largest projects and it is not clear that UB City's prioritization of projects had any impact on the final funding of capital projects (perhaps due to the ongoing nature of the largest projects).

Once acquired, most asset types are recorded in detailed asset registers, which is an integral part of the (partial) accrual accounting undertaken by UB City. The types of financial assets recorded and presented on the balance sheet includes cash and the value of equity in controlled enterprises. There is no analysis undertaken on the performance of these assets. There are also detailed records maintained of most non-financial assets, which includes their use and other information required for calculating depreciation. These asset databases include land holdings but do not include subsoil assets, which are understood to be of relevance to UB City given the proximity of commercial mining operations. There are clear rules for the disposal of non-financial assets but not of financial assets.

While it is recently clarified that UB City has the authority to borrow — with prior approval from the national government — the rules and procedures for supporting this are not yet established. Nonetheless, UB City has benefited from on-lending arrangements, where the CG has undertaken the borrowing on UB City's behalf but then passed on the funding and the debt servicing obligations. UB City does not yet have any specific systems in place for recording, managing and reconciling this debt beyond its existing accounting systems. It is also not clear yet how borrowing will be treated in relation to the balanced budget requirement of SNGs outlined in the IBL.

Policy-based fiscal strategy and budgeting

UB City follows a consistent budget process that is well understood by participants but is not highly supportive of medium-term policy making. A budget circular is made available to internal budget governors and the districts, which provides an opportunity for each to propose a budget for the coming year. However, as the timeframe for providing such submissions is short (around 3 weeks) and there are no spending ceilings, the submissions reflect a wish list of current and new spending rather a prioritized set of new initiatives based on performance information and policy priorities. The UB City budget cannot be

submitted to the CRKh until the national budget is ratified and therefore the budget is not submitted until later November each year. The CRKh however has a defined scope and clear procedures for reviewing the budget and this enables the budget to be approved before the end of the year (typically in early December). Nonetheless, the timeframes for budget approval provide little time for districts and internal budget governors to adapt to changes in funding prior to the start of the year.

Perhaps reflecting the balanced budget requirement of SNGs, UB City does not prepare a multi-year budget. Its estimates of revenue and expenditure are focused on the single budget year only. To the extent that there are retained earnings from under execution of the budget in the prior year, these are planned to be spent in the following year. Estimates of the fiscal impact of new expenditure policies and projects are costed for the budget year, and the budget notes the total project cost but, consistent with the single-year approach, there is no breakdown of the annual costs of projects in future years. Estimates of the recurrent costs of capital are not evident in the budget documents. The budget notes revenue policy changes and these are reflected in the overall revenue forecast, but the precise impact of each revenue policy change (on a standalone basis) is not evident in the budget documents.

Predictability and control in budget execution

There is a high degree of predictability and control in budget execution, which has contributed to unqualified audits of UB City's annual financial statement in 2 of 3 years covered by the assessment.

The rules for virement are clear and enable some internal shifting of funds between economic categories of expenditure and between the programs within the remit of a budget governor. All such changes must be budget neutral and not provide funding to a project not already included in the budget.

Regarding revenue administration, UB City has an accessible online platform that enables taxpayers to gain access to all relevant information, including redress mechanisms, as well as the ability to pay taxes online. Taxes are paid both online via this portal and also via the banking systems and there are electronic linkages between the banks and the treasury (via the clearing house) that ensures timely receipt, recording and reconciliation of revenues in the GFMIS – the including revenue of UB City. The Capital City Tax department takes a risk-based approach to monitoring and enforcement, which includes audit and investigations. Nonetheless, there are tax revenue arrears and these amount to more than 33% of collections, the majority of which are older than 12 months.

There is generally a high degree of predictability in the allocation of recurrent budget resources. All available cash resides in the national treasury single account framework and is released according to an agreed yearly schedule of monthly budget allotments, which enables the budget governors of UB City to commit their spending for the month ahead. Such commitments are, however,

not recorded. Capital budgets are allocated on a more ad hoc basis according to the planned timing of obligations being incurred. It is understood that national treasury has implemented some tight controls over release of funds for discretionary spending, such as capital, and that this contributed to a large underspending of capital by UB City in 2021. The large surplus recorded in 2021 (and carried forward to 2022) is possible evidence of this being the case.

Despite these controls over release of cash, the available data published annually in the financial statement suggests that expenditure arrears are small – being less than 1% of the budget. However, discussions with POEs indicates that the tight control over their revenues, against spending norms that have not kept track with costs, has forced some of these entities to have large arrears.

The new payroll system has resulted in strong internal controls and audit trails around the management of human resources and the efficient release of payments for employees. However, there are not currently in place a framework of payroll audits in UB City to validate the underlying data.

In relation to program delivery, the procurement systems (www.tender.gov.mn) provides data on what has been procured and the new procurement law, which mandates open competitive tendering, has resulted in UB City favouring such methods. There is a broad range of information available to the participants and the public regarding tendering processes and outcomes, including complaints mechanisms. However, these complaints mechanisms are led by the procuring entity and thus lack independence. As there is no recording of expenditure commitments prior to (or just after) goods or services are procured – there is a risk that budgeted funds are not always available to meet obligations as they fall due.

Once goods and services are procured, there is reasonably strong control over the release of payments. This includes segregation of duties within ex-ante controls, which includes review of all payment vouchers by the UB City treasury team prior to their release for payment. It is noted that payment vouchers are currently paper based, but plans are underway to develop an online portal that will digitize the vouchers and identify management to support the segregation of duties.

The robustness of the internal controls in place is validated by UB City internal audit. Internal audit is in place for each of the budget governors reporting to the Mayor as well as the districts. While LOEs do not typically have modern internal audit functions in place, however, they are covered under the UB City IAD's responsibility, hence audited regularly. Internal audits are generally fully completed against defined programs that are approved by audit committees and there is good response to the audit recommendations. Nonetheless, it remains the case that internal audits performed by UB City remain focused on financial compliance rather than continuous improvement of the effectiveness of risk management, control, and governance processes.

Accounting and reporting

Accounting processes by UB City are complicated but reasonably reliable. The complications stem from there being a GFMIS system in place that is used for accounting for budget execution on a cash basis but then also stand-alone systems for financial accounting on an accrual basis by budget governors (including those within UB City). This requires supplementary systems for sharing data between these systems, some of which require manual uploading. Nonetheless, the TSA arrangement and associated business processes generally ensure the integrity of financial data. These processes include national treasury reconciling the GFMIS to TSA bank accounts on a daily basis, regular monthly reconciling of UB City accounting systems to the GFMIS, limited use of advances and ability to account for transactions on a timely basis without suspense accounts.

The generally robust nature of the accounting system is evidenced by timely production of what are understood to be reliable monthly and annual financial reports which, if only in relation monthly reports, have a high level of comparability to the budget. While the accounting procedures and practices applied are not yet compliant with the accrual IPSASs as intended, they are nonetheless consistently applied over time. One of the issues of concern with the accounting systems is that the chart of accounts has not yet been developed in such a way as to effectively support both cash-based budget accounting and accrual financial reporting according to IPSAS as well as statistical reporting, but UB City is reliant on the national MoF to address this challenge.

External scrutiny and audit

A full range of financial audits and some performance and compliance audits are performed and generally adhere to the international audit standards, focusing on significant and systemic issues. External audit is undertaken by the State Audit Office (a branch of the NAO) according to internal norms and with a high degree of independence from UB City. There is clear evidence of management follow up to audits but also some key examples of issues arising year after year and contributing to qualified audits.

Audits are generally submitted to the CRKh for their review within several months of the end of the fiscal year, which was the case in 2022 (noting however there were covid related delays in 2020 and 2021 that stretched this out beyond 6 months after the end of the year). The audits are then assessed by the CRKh, typically within one month of the audit being received. The hearing by the CRKh involve the respective executive managers and involve in-depth discussion of the audit findings and recommendations. Nonetheless, there is no public participation in such processes and the CRKh itself does not issue any findings, recommendations, or directives regarding the audits.

Strengths and weaknesses of the PFM systems

A clear strength of the PFM system of UB City is the coverage of the budget and financial reporting, as both include the districts and the POEs as well as external sources of funding. This ensures a high level of transparency of all of the fiscal implications of policy and operational decisions made by UB City and of the financial performance of all of the entities within UB City. This helps to reduce the potential for risks to evolve unforeseen within these entities.

Another key strength is the robust nature of the collection and accounting for taxes, where the banking system and TSA structures are used to ensure timely recording of revenues. It is true that much of this architecture belongs to the central treasury but, nonetheless, it adds to the transparency and efficiency of UB City's operations.

This same central treasury architecture extends to processes for the release of recurrent funding and the operation of controls over the use of recurrent expenditure, which are generally robust, despite some reliance on manual processes (which impacts on efficiency rather than effectiveness of such controls). The introduction of the new electronic payroll system, which links to the HR system, is an example of how further use of technology solutions could further improve internal controls over spending.

A further strength of the PFM system is the timely preparation of within year reports and generally fast turnaround on audits of the annual financial statements (once these become available) prior to also timely completion of the assessment of audit reports by the CRKh.

Unqualified audits of UB City's annual financial statements in two of the last three years is evidence of the overall integrity of financial data and systems.

On the downside, the assessment identified some large shifts in the aggregate value and composition of revenue and expenditure during budget execution that were not fully explained in the key budget and reporting documents.

It is certainly a concern of program manager that the norms and standards which are used to define the budgets for service delivery units, as well as regulated prices for services, are many years out of date and create a situation whereby large changes to the budget are required during execution to address these shortcomings in the budget. The absence of a medium term approach to budgeting makes it very difficult for UB City to manage major changes in program funding, design and/or delivery, as the most significant of these would take multiple years to manage.

Like the budget, performance continues to be planned and measured based on what activities are required to produce outputs rather than focusing on the outcomes hoped to be realized. The use of performance information to punish/ financially penalize service providers, rather than as a tool to improve policy making, represents a lost opportunity for UB City. Nonetheless, the reforms

introduced to the health sector which provide greater flexibility as to how the budget envelope for health is internally allocated, are a beacon that indicate a pathway toward a more policy focused approach to budget preparation.

Impact of PFM performance on budgetary and fiscal outcomes

Aggregate Fiscal Discipline

Over the last three years, UB City's budget has not always been a reliable indicator of actual fiscal outcomes, in part due to the COVID-19 pandemic. Both expenditure and revenue deviated significantly from the original budget in both in aggregate and in terms of their composition in 2020. In 2021 UB City realised a large surplus, equivalent to around one third of its original budget.

Perhaps reflecting the balanced budget requirement of SNGs, UB City does not prepare a multi-year budget. Its estimates of revenue and expenditure have a single year focus. To the extent that there are retained earnings from under execution of the budget in the prior year, these are planned to be spent in the following year (treated as revenue). Estimates of the fiscal impact of new expenditure policies and projects are costed for the budget year and the budget notes the total project cost but, consistent with the single-year approach, there is no breakdown of the annual costs of the project in future years. Recurrent costs of capital are not evident in the budget documents. The budget notes revenue policy changes and these are reflected in the overall revenue forecast but the precise impact of the policy (on a standalone basis) is not evident in the budget documents.

Strategic Allocation of Resources

There is a very precisely defined approach by the central government to determining the level of special purpose funding transferred to UB City and its districts. This should be transparent but in some recent years the central government deviated from its own standards in determining the largest of these special purpose transfer – being the general education SPT. Similarly, the level of surplus funds that UB City must transfer to the central government is determined based on precisely defined norms and standards for the consumption of inputs based on historical reference points (for example the precise number of sheets of paper to be used by particular units, to be assumed for determining funding for that unit, is set by central government regulation).

This approach to funding reflects a highly centralized, backward looking and control-oriented approach which, until some recent reforms in the health sector, provided very little flexibility for UB-city to determine how it would utilize resources to achieve program goals. Such lack of flexibility is exacerbated by funding determinations by the CG only being confirmed to UB City and its districts extremely late in the budget process. As these special purpose transfers are determined mainly on the norms-based funding of specific inputs to be consumed, performance targets in budget documents are essentially a list of planned activities rather than planned outcomes to be achieved by undertaking such activity.

UB City takes a very similar approach in relation to how it funds and manages its own LOEs in their delivery of services. UB City tightly controls prices for such services (such as bus fares) and then subsidizes delivery in terms of specific funds per unit of activity. UB City then undertakes its performance management by undertaking external measurement of the outputs produced, rather than the outcomes achieved, and then applying a financial penalty if outputs are not produced on time.

While UB City's baseline budget is closely defined, it does have the ability to raise and spend revenue above the baseline and there is discretion as to how capital expenditures is allocation. A new national approach to PIM has been implemented, supported by legislation, procedures and systems which is better organizing PIM decision making. While this new PIM approach is not mandated for SNGs, UB City is adopted the methodology and there is evidence of this approach being used for prioritizing projects. However, the evidence of detailed economic assessment being completed is not available for the largest projects and it is not clear that UB City's prioritization of projects is yet having the desired impact on the funding of capital projects.

UB City follows a consistent budget process that is well understood but is not highly supportive of medium-term policy making. A clear budget circular is made available to internal budget governors and the districts which provides an opportunity for each to propose a budget for the coming year. There are some formal mechanisms for public consultation built into the budget process to assist UB City in prioritizing discretionary spending. However, as the timeframe for providing such submissions is short (around 3 weeks) and there are no ceilings, the submissions reflect a wish list of current and new spending rather a prioritized set of new initiatives based on performance information and policy priorities.

UB City budget cannot be submitted to the CRKh until the national budget is ratified and therefore the budget it is not submitted to the CRKh until later November. The CRKh however has a defined scope and clear procedures for reviewing the budget and this enables the budget to be approved before the end of the year (typically in early December). Nonetheless, the timeframes for budget approval provides little time for districts and internal budget governors to adapt to changes in funding prior to the start of the year.

Efficient Use of Resources for Service Delivery

As outlined above, there is a very precisely defined approach by the central government to determining the level of special purpose funding transferred to UB City and its districts for service delivery functions. This should be transparent but in some recent years the central government deviated from its own standards in determining the largest of these special purpose transfers.

Once funding is allocated for service delivery functions, there is generally a high degree of predictability of the allocation of recurrent budget resources.

All available cash resides in the national treasury single account framework and a schedule is agreed for the release of budget funds on a monthly basis, which enables the budget governors of UB City to make firm spending plans for the month ahead. Capital budgets are allocated during the year on a more ad hoc basis according to the planned timing of obligations being incurred. It is understood that national treasury has implemented some tight controls over release of funds for discretionary spending, such as capital, and that this contributed to a large underspending of capital by UB City in 2021.

In relation to program delivery, the procurement systems (www.tender.gov.mn) provide data on what has been procured, and the new procurement law, which mandates open competitive tendering, has resulted in UB City favoring such methods. There is a broad range of information available to the participants and public regarding tendering processes and outcomes, including complaints mechanisms. However, these complaints mechanisms are led by the procuring entity and thus lack independence. In addition, there is no recording of expenditure commitments prior to (or just after) goods or services are procured – which would ensure that budgeted funds are set aside and available to meet such obligations.

It is certainly a concern of program managers that the norms and standards, which are used to define the budgets for service delivery units as well as regulated prices for services, are many years out of date and creates a situation where large changes to the budget are required during execution to address these shortcomings. The absence of a medium term approach to budgeting makes it difficult for UB City to manage major changes in program funding, design and/or delivery, as the most significant of these would take multiple years to manage.

Like the resource allocation decisions, performance continues to be planned and measured based on what activities are required to produce outputs rather than focusing on the outcomes hoped to be realized. The use of performance information to punish/financially penalize service providers, rather than as a tool to improve policy making, represents a lost opportunity for UB City. Nonetheless, the reforms introduced to the health sector which provide greater flexibility as to how the budget envelope for health is internally allocated, are a beacon that indicate a pathway toward a more policy focused approach to budget preparation.

A further examination of the impact of PFM systems service delivery in UB City and its districts is set out in Annex 4. This analysis focuses on health and education services performed by the districts and also transport services and maintenance services, both of which rely on contracted delivery by LOEs and private entities.

PUBLIC FINANCIAL MANAGEMENT REFORM

National Reforms

The GoM has undertaken reforms to gradually bring about fiscal discipline and strengthen the PFM system. The first phase of reforms between 2003 and 2008 established the basic elements of the system, including strengthening internal controls, cash management, and accounting and reporting. The second phase of reforms between 2008 and 2011 included some improvements in fiscal policy, budget planning, and decentralization of roles and resources to subnational governments. More recently, the GoM has been pursuing a number of initiatives to improve macro-fiscal management as well as supporting enhanced impact of government service delivery. These initiatives include:

- Improved macroeconomic and fiscal planning;
- Curtailing of quasi-fiscal operations;
- Instituting the Fiscal Council;
- Enhancing citizens engagement and transparency;
- Piloting results-based budgeting in certain social sectors; and
- Committing to building the architecture for gender-based approach to budgeting.

To bring together the elements of PFM reforms into a cohesive strategy with a vision that reflects Mongolia's vision over the medium-term, consistent with the "Action Program of The Government of Mongolia for 2016-2020" and the "Sustainable Development Vision 2030", and to provide a framework to prioritise, coordinate and sequence initiatives and actions across the range of PFM functions, a Working Group was established by the Finance Ministerial order #389, on December 28, 2017, to develop a medium-term (3-5 years) plan and strategy for budget and financial management reforms. Subsequently, a high level PFM Reform Strategy was prepared and approved by Ministerial Order #234 of 2019.

A PFM action plan was produced to support the PFM Strategy and it has undergone several iterations in execution and was elaborated most recently by the Ministerial Order No. 192 on August 30, 2019. A more detailed activity level Action Plan was also then developed and approved by the State Secretary of the MoF (Order No. A281) on September 30, 2019.

The key objectives of the PFM Action Plan are:

Strategic Objectives (PFM Area)	Objectives
Public Investment Management	Improve preliminary budget planning and financial activities and controls.
	Improve investment performance.
	Develop integrated software to register and monitor investment projects.
	Improve investment allocation.
	Develop investment planning.
Public Internal Financial Control	Improve the legal and regulatory framework for internal audits and financial controls and audits, improve the capacity of specialist's knowledge and technical facilities and introduce a risk management system.
Procurement Policy and Practice	Develop public procurement strategy and ensure the policy implementation through analysis of law endorsement.
Macrofiscal Management	Improve macroeconomic assumptions and analysis capacity.
Accounting policy	Establish a system that prepares transparent financial statements that are consistent with international standard.
	Improve the registration and reporting of state-owned and parastatal enterprises.
Financial Asset and Liability Management	Improve cash management.
	Operationalize the Future Heritage Fund, a Mongolian SWF populated from natural resource revenues by setting up the investment management entity or Future Heritage Fund Corporation to manage its assets.
	Estimate the cost and benefit of the projects that implemented by foreign loans and follow the principle of financing only efficient projects and improve the control over their spending.
	Build a commercial infrastructure of the Government Security trading that utilizes modern technological advances.
	Evaluate the impact of a contingent liability on the budget and develop a system to prevent potential risks.
	Improve government debt management system and align with modern trends.
Tax Policy	Formulating and getting enactment of General Tax Law revision.
	Formulating and getting enactment of Corporate Income Tax Law revision.
	Formulating and getting enactment of Personal Income Tax Law revision.
	Reflect changes into related law to fight with avoiding tax by minimizing tax base, and transferring income.
	Ensuring preparation to implement standards of information exchange for tax purposes.
	Introducing segment-based tax administration and tax compliance.
	Improve activities of tax offices and Launch simplified online tax system.
Inter-governmental Budget Management	Analyze state and local activities to enhance fiscal decentralization and eliminate duplication of public services.
	Analyze and improve existing structures that provide special transfers and financial support.
	Update a normative structure of special purpose's transfer variable cost.
	Establish a new organization for budget risk analysis.

Budget Revenue and Expenditure Processes and Systems.	Improve budget revenue forecasting.
	Improve budget classification.
	Implementing the unified management of the payroll budget and implementing the appropriate profit management.
	Improve public financial management's information system.
	Test innovative approaches to improving the efficiency of budget expenditures and international trends.
Transparency	Improve state budget and financial report. Introduce International Public Sector Accounting Standards and Government Financial Statistics 2014.
	Improve budget performance transparency.
	Improve glass account.
	Increase citizen's participation in budget planning process and create a civil-based budget planning.
	Regularly monitor, the implementation of public finance management reform action plan, and take necessary measures.
	Determine obstacles while, public finance reforming process.
	Create a unified system to develop transparency and accountability.

The MoF incorporated the detailed PFM action plan in its Leader Monitoring System (an internal management information system), which it uses to track progress and measure the impact of the Action Plan implementation.

Good progress has been reported so far by the government on the implementation of the action plans, with the Leader Monitoring systems showing most reform actions as completed, thus together with the more recent policy documents of the government (e.g., Mongolia Vision 2050, New Recovery Policy, and the MTFP). Since most of the reform actions are completed and the date of the Action Plan is close to an end, the MoF is planning to re-establish a technical level working group to further elaborate the next version of the Action Plan. The intention is for the Strategy and Action Plan to be approved by a Ministerial Order within August 2022.

A national level PEFA assessment was undertaken in 2021 to serve as a basis for defining the PFM strategy priorities and work is currently underway to define the next iteration of the national PFM Action Plan. It is anticipated that the next iteration of the action plan will further embed key reforms that will impact on SNGs, including strengthening the medium term and performance orientation in the budget, embedding a gender perspective in PFM processes, further enhancing treasury processes and systems, and progressing towards the goals of full application of accrual IPSAS (including chart of accounts reforms).

PFM Reforms Impacting Intergovernmental Fiscal Relations

The core legal provisions regarding territorial organisation in Mongolia are set out in the Constitution, the LATUG¹⁶, and in the case of UB City specifically, the LLSUCCM. While the LATUG was adopted in 1992, there were subsequent amendments in 2016, 2020 and in 2021, to reflect ongoing reforms in the organisation and financing of SNGs.

The 2020 LATUG amendment attempted to provide adequate decentralization and performance incentives for local governments (at the aimag/UB City as well as soum/district levels) and reassign responsibilities between local governments and central government.

Starting from FY22, revenue sharing arrangements between the central and local governments changed. Amendments to the IBL in late 2021 provided for a significant increase in local revenues. Under the new arrangements, 40% of corporate income tax is to be retained in the UB City budget as opposed to previously being contributed fully to the state budget, while personal income tax, property tax and land fees are to be shifted to the districts' budgets. Also, further policy measures are being undertaken to expand the revenue base for UB City including doubling the vehicle tax based on the model and size/power of the engine. Further, starting in FY22 new arrangements for property tax were introduced including increasing the rate to 0.6-2.0% (compared to 0.6-1.0% previously) based on the location, type, size, market demand and supply; doubling the rate if not in compliance with the greening requirements for the property as per the relevant legislation, and imposing property tax on the third residential property owned by citizens and legal entities, etc.

Intergovernmental transfers have changed in the past few years. The types of vertical transfers described under this performance indicator are a reduced number of special purpose transfers that existed until 2021. Initially, the IBL foresaw five types of such transfers, namely preschool education, general education, primary health care, land relations, and child development and protection. However, starting in 2021, the Child Development and Protection Agency of Ulaanbaatar and the Ulaanbaatar Land Agency receive their funds directly, i.e. are not funded through the local budget of UB City.

In addition, the Department of Family, Child and Youth Development and the Department of Land Affairs, Geodesy and Cartography were transferred to a vertical management system in 2022, and all expenses of these organizations will be financed directly from the budget of the relevant line ministry.

Finally, to improve the quality and accessibility of public services, the education and health sectors are transferred to a semi-autonomous financial system and a performance-based financing system. This applies to all costs except fixed operating costs, which will be financed from the state budget and the health insurance fund respectively.

¹⁶ Adopted in 1992 and including subsequent changes, in 2016, and in 2021, respectively.

The above-mentioned changes, however, did not affect the arrangements about deficit financing to the local budget and had no impact on the balanced budget requirement.

Recent changes to the system of intergovernmental fiscal relations, including the passing of the LLSCCU and the associated revision to the Debt Management Law (Article 19), provide UB City with clearer authority to borrow in its own right. Accordingly, the UB City governor may request borrowing to be reviewed by the MoF and approved by the Cabinet, so UB City is transitioning away from the existing on-lending arrangements to more independent forms of borrowing under CG monitoring. This came into force in 2022 and thus after the period for assessment of this PEFA.

Institutional consideration

Government leadership and ownership

PFM reform is owned and led by the Central Government of Mongolia. The top management of UB City participates in ensuring that PFM reform objectives and activities that affect UB City financial management processes are executed in accordance with the agreed implementation schedule and timelines. That includes public procurement regulation implementation, production of the Government's consolidated financial statements, tax law implementation and tax administration operations, decentralization policy implementation, further enhancing treasury process and systems, performance-oriented budgeting, and a gender perspective in PFM processes etc. Moreover, as indicated previously, the next PFM Action Plan will embed key reforms that will impact on SNGs, therefore leadership at the local government level will be increased in the preparation and execution of the Strategy.

Donor coordination

There is coordination among key development partners, particularly the WB, EU, UNDP, ADB and Swiss Agency for Development and Cooperation (SADC). The current PFM Strategy implementation is being supported mainly by the EU-funded, WB-implementing "Strengthening Governance in Mongolia" Project and the WB-funded "Strengthening Fiscal and Financial Stability" Project. Moreover, the next PFM action plan is expected to serve as the government program for the WB funded "Fiscal Governance and Intergovernmental Fiscal Relations" project, which will mainly focus on reforms in budget preparation and execution, SOE oversight, debt management and fiscal risk management, tax reform, and intergovernmental fiscal relations. The MoF is planning engagement with donors regarding the next iteration of the PFM Strategy, which is understood to include significant elements related to the PFM systems of SNGs, and will facilitate coordination among donors.

Coordination across government

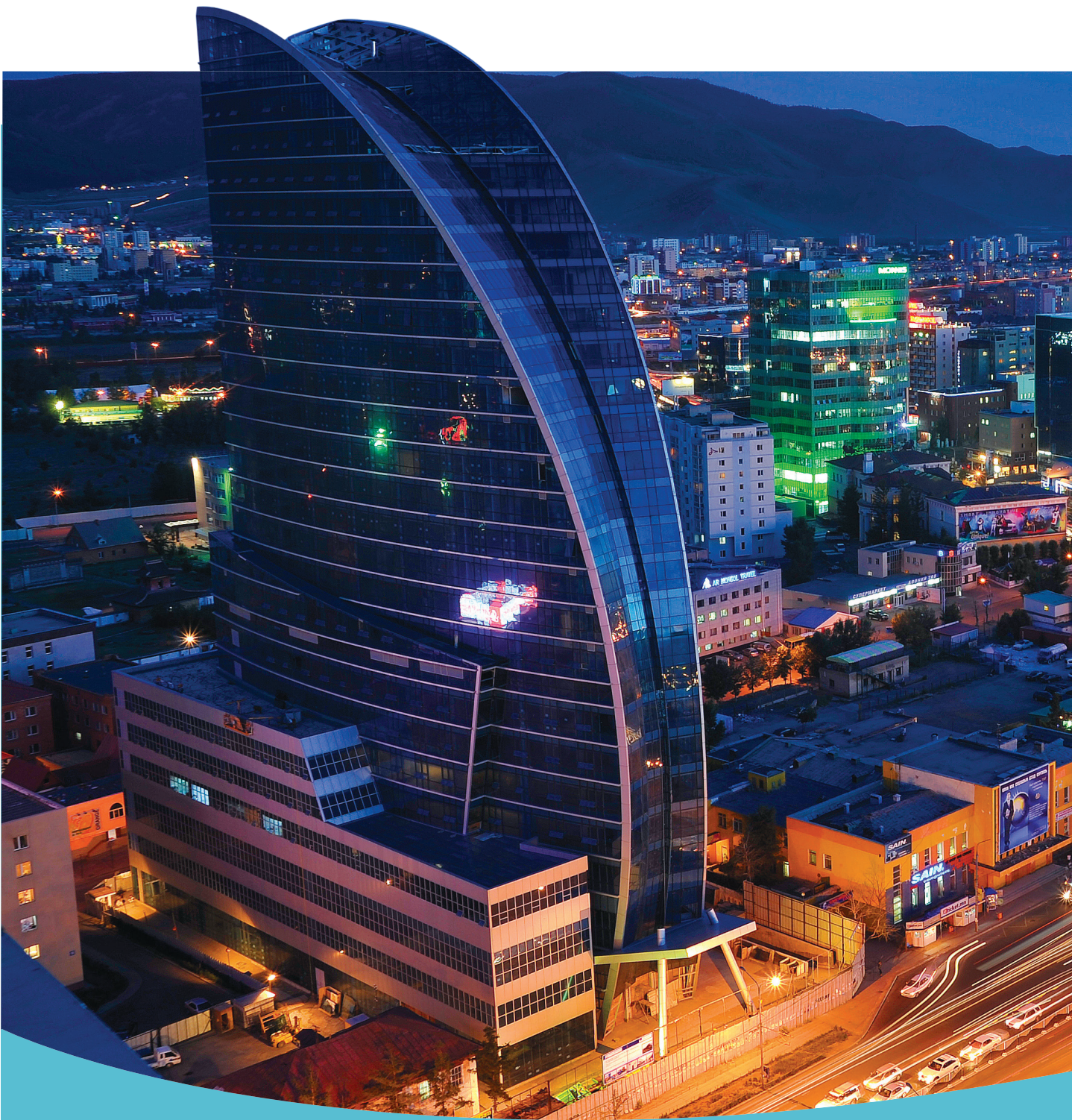
Coordination across government is essential to the achievement of PFM Reform Strategy objectives. The current Strategy is mainly focused at the MoF, and the implementing departments are within the MoF. However, the next Action Plan is to cover broader aspects and will include other line ministries and agencies including the Ministry of Economic Development, Ministry of Health, Ministry of Education and Science, Ministry of Labour and Social Projection, MNAO and UB City at the local level. The PFM Action Plan 2022-2026 will be developed based on the findings of the National PEFA Assessment Report and the UB City PEFA Assessment Report and will comprise institutional arrangements, intergovernmental fiscal transfers and decentralization actions on top of the current coverage.

Transparency of the PFM Program

At the time of the assessment, the previous PFM Reform Strategy 2018-2022 was made publicly available at the MoF's official website (www.mof.gov.mn), and the central government had indicated its readiness to publish the new 2022-2026 PFM Action Plan on its website once approved. The monitoring and evaluation mechanism makes it transparent as it includes quarterly reporting of each reform component by all implementing divisions and departments. Furthermore, the MoF organized a workshop in April 2022 to discuss the current progress and further development of the PFM Strategy 2022-2026, which was presented in its website. The workshop was introduced by the deputy minister and involved participation from leadership of key divisions within the MoF, as well as the EU Delegation in Mongolia and other development partners. All relevant divisions of the MoF presented on past achievements, current priorities and future aspirations.

Key aspects of the SNG specific PFM reform

UB City of Mongolia has no dedicated standalone PFM Reform Strategy, and all PFM reform activities are state led. As of the time of the assessment, the national government was in the process of elaborating the 2022-2026 PFM Action Plan and will form the basis of the local government reform program once approved by the Minister of Finance.





ANNEXES

ANNEX 1. PERFORMANCE INDICATOR SUMMARY

Indicator /Dimension	Score	Description of requirement met
SUBNATIONAL PILLAR: INTERGOVERNMENTAL FISCAL RELATIONS		
HLG-1 TRANSFERS FROM HIGHER-LEVEL GOVERNMENT	B+	
HLG-1.1 Outturn of transfers from higher-level government	A	Actual transfers were between 97% and 106% of the original budget estimate in the last three years.
HLG-1.2 Transfers composition outturn	A	Transfers composition outturn was less than 5% in the last three years.
HLG-1.3 Timeliness of transfers from higher-level government	A	A detailed budget circular of the UB City budget includes the transfers from HLG which are distributed evenly across the year.
HLG-1.4 Predictability of transfers	D	UB City identifies and explains the composition and purpose of the transfers from the central budget for the FY only.
HLG-2 FISCAL RULES AND MONITORING OF FISCAL POSITION	C+	
HLG-2.1 Fiscal rules for SNGs	C	There is effectively a fiscal rule in place that is respected by UB City, but the exemption from this rule and sanctions is not clearly stated.
HLG-2.2 Debt rules for SNGs	C	There is effectively no ceiling on subnational debt but a monitoring system is established.
HLG-2.3 Monitoring of SNGs	B	Annual financial statements are submitted between 3 and 6 months following the end of the year.
PILLAR I: BUDGET RELIABILITY		
PI-1 AGGREGATE EXPENDITURE OUTTURN	C	Aggregate expenditure outturn (as a % of original approved budget) was 127% in 2019, 90% in 2020 and 164% in 2021. The aggregate expenditure outturn was lower than 115% in only one of the last three FYs.
PI-2 EXPENDITURE COMPOSITION OUTTURN	D+	
PI-2.1 Expenditure composition outturn by function	C	Variance in expenditure composition was less than 15% in two of the last three fiscal years.
PI-2.2 Expenditure composition outturn by economic type	D	Economic composition outturn was more than 15% in the last three FYs.
PI-2.3 Expenditure from contingency reserves	A	Actual expenditure charged contingency vote was 0.7% on average in the last 3 years.
PI-3- REVENUE OUTTURN	D+	
PI-3.1 Aggregate revenue outturn	D	The actual revenue was 90% in 2019, 66% in 2020 and 104% in 2021. It was below the threshold of 92% in the two of the last three years, therefore the performance of UB City is less than required. Therefore, the score for this dimension is D.
PI-3.2 Revenue composition outturn	C	The revenue composition outturn was higher than 15% in only one of the last three fiscal years, hence the score for this dimension is C.
PILLAR II: TRANSPARENCY OF PUBLIC FINANCES		
PI-4 BUDGET CLASSIFICATION	C	Whereas administrative and economic classification equivalent to GFS is evident in the budget, budget execution reports and financial statements, the program classification (equivalent to COFOG) is only evident in the budget.
PI-5 BUDGET DOCUMENTATION	C	The requirements for four (out of four) basic elements are met. Also, requirements for one (out of six applicable) of the additional elements are met.

PI-6 SNG OPERATIONS OUTSIDE FINANCIAL REPORTS	A	
PI-6.1 Expenditure outside financial reports	A	There is no expenditure outside of financial reports
PI-6.2 Revenue outside financial reports	A	There is no revenue outside of financial reports
PI-6.3 Financial reports of EBUs	NA	There are no EBUs.
PI-7 TRANSFERS TO SNGS	C	
PI-7.1 System for allocating transfers	C	In 2021, some transfers were made transparently and rule-based but not for general education, which represents the majority of transfers.
PI-7.2 Timeliness of information on transfers	C	Budget calendar applied in 2021 cannot be considered sufficiently clear and detailed. Final amounts were not known to the districts until the entire budget of Ulaanbaatar City was approved.
PI-8 PERFORMANCE INFORMATION FOR SERVICE DELIVERY	D+	
PI-8.1 Performance plans for service delivery	C	Performance framework in the budget covers all service delivery but does not include output and outcomes measures.
PI-8.2 Performance achieved for service delivery	D	Performance reporting exists but is defined in terms outputs only and in a form that is not comparable to the budget and not published.
PI-8.3 Resources received by service delivery units	C	Data is published for each service delivery unit, but not compiled in a report.
PI-8.4 Performance evaluation for service delivery	D	There is no performance evaluation.
PI.9A. PUBLIC ACCESS TO FISCAL INFORMATION	D	UB City makes available to the public three (out of five) basic and two (out of three) additional elements. Since four or more basic elements are the requirement for any score higher than D, this performance indicator scores D.
PI.9B. PUBLIC CONSULTATION	C	
PI-9B.1 Public consultation in budget preparation	B	UB City conducts public consultation in multiple mechanisms, facilitated by an accessible, reader-friendly and understandable manner, giving sufficient time for the public to review, and incorporates the inputs in 2022 budget preparation.
PI-9B.2 Public consultation in the design of service delivery programs	C	For the last three completed FYs, UB City organized public consultation in the design of service delivery programs.
PI-9B.3 Public consultation in investment planning	D	During preparation of major investment projects for 2022, public consultation is conducted for all major investment projects managed and decided by the SNG, however no consultation document includes a summary of the key results of the economic analysis was provided.

PILLAR III: MANAGEMENT OF ASSETS AND LIABILITIES

PI-10 FISCAL RISK REPORTING	B	
PI-10.1 Monitoring of public corporations	B	Public corporations publish their audited annual financial statements within 6 months of the end of the financial year and a consolidated performance report is produced but it does not address risks.
PI-10.2 Monitoring of subnational governments	A	Districts publish their audited annual financial statements within 9 months of the end of the financial year and a consolidated performance report is produced.
PI-10.3 Contingent liabilities and other fiscal risks	D	There is no reporting of contingent liabilities and other fiscal risks.
PI-11 PUBLIC INVESTMENT MANAGEMENT	D+	

PI-11.1 Economic analysis of investment proposals	D	UB City applies the national PIM framework but evidence of economic analysis is not available.
PI-11.2 Investment project selection	C	UB City applies the selection methodology from the national PIM framework.
PI-11.3 Investment project costing	C	Projects are costed and only total project cost and budget year costs published.
PI-11.4 Investment project monitoring	C	There is no consolidated published report on project implementation.
PI-12 PUBLIC ASSET MANAGEMENT	C+	
PI-12.1 Financial asset monitoring	C	Financial assets are recorded at cost and there is no performance reporting.
PI-12.2 Nonfinancial asset monitoring	C	Asset registers are maintained but do not include sub-soil assets.
PI-12.3 Transparency of asset disposal	B	Rules are established for asset disposal, but these cover only non-financial assets.
PI-13 DEBT MANAGEMENT	D	
PI-13.1 Recording and reporting of debt and guarantees	D*	While reporting of liabilities suggests effective accounting for debt, evidence was not provided of debt records or reconciliations.
PI-13.2 Approval of debt and guarantees	D	There are no policies or procedures that guide the debt processes.
PI-13.3 Debt management strategy	D	There is no debt management strategy.

PILLAR IV: POLICY-BASED FISCAL STRATEGY AND BUDGETING

PI-14. MEDIUM-TERM BUDGET STRATEGY	C	
PI-14.1 Underlying forecasts for medium-term budget	B	No medium-term expenditure and revenue estimates were included in the budget proposal submitted to the SNG council, and all estimates and underlying information and assumptions refer to the budget year only.
PI-14.2 Fiscal impact of policy proposals	C	The budget proposal includes information about the fiscal impact of the most major policy changes for the budget year (and not the two forward years).
PI-14.3 Medium-term expenditure and revenue estimates	D	Expenditure estimates are disaggregated using economic, administrative and program classification. However, do not cover the medium term (i.e. are available for the budget year only).
PI-14.4 Consistency of budget with previous year's estimates	NA	Since dimension 14.3 is scored D, this dimension is scored NA.
PI-17 BUDGET PREPARATION PROCESS	D+	
PI-17.1 Budget calendar	C	UB City uses a clear annual budget calendar that is generally adhered to; however, because it allows budgetary units a relatively short time (slightly under four weeks for districts and LOEs, while municipal departments were given six weeks) to meaningfully complete their detailed estimates, performance cannot be scored higher.
PI-17.2 Guidance on budget preparation	D	The budget circular does not contain expenditure ceilings for individual budgetary units, ministries nor administrative or functional areas.
PI-17.3 Budget submission to the subnational council		Although UB City forwards its budget proposals to CRKh timely (i.e. within five weeks before the start of the FY), it receives final information about approved transfers from the State level only six weeks before the start of its FY.
PI-18 LEGISLATIVE SCRUTINY OF BUDGETS	B+	
PI-18.1 Scope of budget scrutiny	A	The CRKh reviewed fiscal policies and forecasts, medium-term priorities of the Government, as well as details of expenditure and revenue for 2022.

PI-18.2 Legislative procedures for budget scrutiny	A	The CRKh's procedures and practice for reviewing budget includes arrangements for public consultation and internal organization arrangements.
PI-18.3 Timing of budget approval	A	The CRKh of UB City has approved the annual budget within the legal deadline and before the start of the year in each of the last three FYs.
PI-18.4 Rules for budget adjustment by the executive	B	The 2021 budget was adjusted in-year by the executive in line with the existing clear rules, however no limits on the extent and nature were adhered to.

PILLAR V: PREDICTABILITY AND CONTROL IN BUDGET EXECUTION

PI-19 TAX ADMINISTRATION	B	
PI-19.1 Rights and obligations for tax measures	A	Capital City Tax Department has multiple channels to provide comprehensive and timely information to taxpayers, including rights and redress mechanisms.
PI-19.2 Property tax register and value assessment	B	The property register contains data on address and location, use, property right and assessed value. Most properties are valued at registration price at the state registry but about 80% of the registered value of properties in UB corresponded to properties registered in the last 10 years.
PI-19.3 Tax risk management, audit and investigations	B	The CCTA conducts tax audit and investigations based on a systematic and structured procedure and risk management plan. For most core taxes, an overall documented improvement plan exists containing mitigating activities though not in detail with respect to high risk. The majority of planned audits and investigations were completed.
PI-19.4 Tax arrears monitoring	C	The stock of tax arrears as a share of the total tax collection for the year amounts to 33%, while the arrears older than 12 months account for 59% of the core tax arrears for the year.
PI-20 ACCOUNTING FOR REVENUE	A	
PI-20.1 Information on revenue collections	A	A revenue report is prepared monthly using data from entities collecting all revenues.
PI-20.2 Transfer of revenue collections	A	Revenue is transferred to the TSA daily.
PI-20.3 Tax accounts reconciliation	A	Revenue accounts are reconciled at least monthly.
PI-21 PREDICTABILITY OF IN-YEAR RESOURCE ALLOCATION	B+	
PI-21.1 Consolidation of cash balances	A	All balances are consolidated within the operation of the TSA.
PI-21.2 Cash forecasting and monitoring	A	Cash flow forecasts project out to the end of the year and are updated at least monthly.
PI-21.3 Information on commitment ceilings	C	Allotments provide certainty to commit funds for the month ahead.
PI-21.4 Significance of in-year budget adjustments	A	There are no adjustments to budget unilaterally instigated by the Governor.
PI-22 EXPENDITURE ARREARS	C+	
PI-22.1 Stock of expenditure arrears	A	Arrears were less than 1% in each of the last three years.
PI-22.2 Expenditure arrears monitoring	C	Comprehensive data on arrears is reported but only on an annual basis.
PI-23 PAYROLL CONTROLS	D+	
PI-23.1 Integration of payroll and personnel records	A	The CSC launched the Integrated Human Resource System (IHRS) in 2018 and all budget entities except Defense and Internal Affairs entities register personnel information in the system. The MoF established an Integrated Payroll System (IPS) for civil servants, which is connected to the CSC and are reconciled monthly.

PI-23.2 Management of payroll changes	A	Required changes to the personnel records and payroll are updated within ten working days in accordance with the Regulation, Cabinet Order No. 74, 2019. Retroactive adjustments are rare and corrected to the following monthly pay calculation.
PI-23.3 Internal control of payroll	A	Authority to change records and payroll is restricted, only the authorized person has access to both systems, and is adequate to ensure full integrity of data.
PI-23.4 Payroll audit	D	No comprehensive payroll audit has been conducted in the last three years.
PI-24 PROCUREMENT	B+	
PI-24.1 Procurement monitoring	A	The e-procurement system (www.tender.gov.mn) used by UB City includes data on what has been procured, and the value and vendor for all procurement types, and is accurate.
PI-24.2 Procurement methods	A	The PPLM ensures that procurement uses competitive methods except the low-value procurement under an established threshold by the Cabinet Resolution. As of 2021, 90.8% of the total value of the subnational contracts were awarded through competitive methods.
PI-24.3 Public access to procurement information	A	All key procurement information elements are complete and reliable for the SNG representing all procurement operations and is made available to the public in a timely manner.
PI-24.4 Procurement complaints management	D	The procurement complaint system meets five out of six elements, however, does not meet the criterion (1) the involvement of the procuring entity in the procurement transactions, as it enables the bidder to submit a written complaint to UB City in relation to the breach in procurement procedures.
PI-25 INTERNAL CONTROL ON NONSALARY EXPENDITURES	C+	
PI-25.1 Segregation of duties	B	Segregation of duties is prescribed throughout the expenditure process. Responsibilities are clearly laid down for most key steps while further details may be needed in a few areas.
PI-25.2 Effectiveness of expenditure commitment controls	D	No comprehensive expenditure commitment controls are in place and expenditure control is largely reliant on the cash payments within approved budget allocations.
PI-25.3 Compliance with payment rules and procedures	B	Compliance with rules for processing and recording transactions is high, with the majority of exceptions properly authorized and justified.
PI-26 INTERNAL AUDIT	C+	
PI-26.1 Coverage of internal audit	A	Internal audit is operational for all SNG entities as the Internal Audit Unit at the GBGs is responsible for the relevant budgetary units.
PI-26.2 Nature of audits and standards applied	C	Internal audit activities are primarily focused on financial compliance.
PI-26.3 Implementation of internal audits and reporting	A	Annual audit programs exist. All programmed audits are completed, as evidenced by the distribution of their reports to the appropriate parties.
PI-26.4 Response to internal audits	A	Management provides a full response to audit recommendations for all entities audited within twelve months of the report being produced.
PILLAR VI: ACCOUNTING AND REPORTING		
PI-27 FINANCIAL DATA INTEGRITY	B	
PI-27.1 Bank account reconciliation	B	Bank reconciliation for all active SNG bank accounts takes place monthly, usually within 5 days of each month.
PI-27.2 Suspense accounts	N/A	UB City does not maintain or use suspense accounts.
PI-27.3 Advance accounts	B	Reconciliation of advance accounts takes place at least quarterly and most advance accounts are cleared in a timely manner.

PI-27.4 Financial data integrity processes	B	Access and changes to records is restricted and recorded, and results in an audit trail.
PI-28 IN-YEAR BUDGET REPORTS	B+	
PI-28.1 Coverage and comparability of reports	B	Coverage and classification of the in-year reports are comparable to the original budget with partial aggregation. Expenditures made from transfers to districts are included in the report.
PI-28.2 Timing of in-year budget reports	A	In-year reports are produced within six days after the end of the month.
PI-28.3 Accuracy of in-year budget reports	B	There are no material concerns regarding data accuracy. An analysis of budget execution is conducted monthly with expenditures captured at payment stage.
PI-29 ANNUAL FINANCIAL REPORTS	B+	
PI-29.1 Completeness of annual financial reports	B	Financial reports for UB City are prepared annually covering the relevant budget entities and LOEs and comparable with the annual budget. It contains information on revenue, expenditure, financial assets and liabilities and a cash flow statement.
PI-29.2 Submission of reports for external audit	A	2021 Annual Consolidated Financial Statements were submitted to audit within 3 months of the end of the FY.
PI-29.3 Accounting standards	B	Accounting standards applied to UB City are disclosed and consistent with the country's legal framework and are consistent over time.

PILLAR VII: EXTERNAL SCRUTINY AND AUDIT

PI-30 EXTERNAL AUDIT	C+	
PI-30.1 Audit coverage	A	All entities of SNG are audited annually covering revenue, expenditure, and asset/liabilities. A full range of financial audits and some performance and compliance audits are performed and generally adhere to the international audit standards, focusing on significant and systemic issues.
PI-30.2 Submission of audit reports to the subnational council	C	Audit reports were submitted to the CRKh within nine months of receipt of the financial statements by the SAO for the last three completed FYs.
PI-30.3 External audit follow-up	C	There is clear evidence of formal responses by the executive to most audit recommendations issued by the State Audit Office (SAO) but qualified audits point to issues of comprehensiveness and timeliness of such responses.
PI-30.4 Independence of the public audit institution in charge of SNGs	A	In accordance with the Law on State Audit (2020) and the latest amendments to the Constitution (2019), the SAO in charge of SNG operates independently from the executive with respect to appointment and removal of the Chief Auditor of the SAO, who is appointed by the Auditor General.
PI-31 LEGISLATIVE SCRUTINY OF AUDIT REPORTS	B	
PI-31.1 Timing of audit report scrutiny	A	Scrutiny of audit reports on financial reports has been completed by the CRKh within three months from receipt of the reports.
PI-31.2 Hearings on audit findings	A	In-depth hearings on key findings of audit reports take place regularly with responsible officers (DBGs together with their accountants) from all audited entities participating in the meeting.
PI-31.3 Recommendations on audit by the legislature	D	As mandated by the IBL (Article 64.1.4), CRKh has the authority to conduct hearings on the audit report of the budget execution report and consolidated financial statements of UB City. However, there is no legal requirement for the CRKh to issue any recommendations based on its scrutiny. The CRKh has not issued any such recommendations in the last three years.
PI-31.4 Transparency of legislative scrutiny of audit reports	C	The CRKh is not authorized to organize public hearings on the audit reports for public, however, committee reports are published on the official websites of the SAO, CRKh and the Mayor's Office. The public is provided with an opportunity to post comments through the official websites on audit matters.

ANNEX 2.1 EVIDENCE FOR SCORING INDICATORS

Indicators (PEFA 2020 framework)	Evidence
HLG-1. Transfers from higher levels of government	Special Purpose transfer report on approved and execution provided by the MoF; Integrated Budget Law; LATUG and other legislations Interview with the Treasury Department officials of the MoF and the UB City officials
HLG-2. Fiscal rules and monitoring of fiscal position	IBL, LATUG, DML; Approved Budget of the UB City (2022); Audited Financial Statements of the UB City (2021)
PI-1. Aggregate expenditure outturn	Audit Reports on Annual Budget Execution (2019-2021) Audit Reports on Annual Financial Statements (2019-2021)
PI-2. Expenditure composition outturn	Audit Reports on Annual Budget Execution (2019-2021) Audit Reports on Annual Financial Statements (2019-2021)
PI-3. Revenue outturn	Audit Reports on Annual Budget Execution (2019-2021) Audit Reports on Annual Financial Statements (2019-2021)
PI-4. Budget classification	IBL; Budget Classification Manual; Chart of Accounts; MoF Order No.295 "Budget Economic Classification"; Approved Budget of the UB City (2022)
PI-5. Budget documentation	IBL; LATUG; MTF; Budgetary Documents (2019-2021) Budget Proposal of the UB City (2022) and Budget Execution Report (2020)
PI-6. SNG operations outside financial reports	IBL; Annual Financial Statement and the Approved budget of the UB City (2021); In-year budget execution reports (2019-2021) Interview with the UB City officials
PI-7. Transfers to SNGs	IBL; LATUG; LLSUCCM; MoF Regulation No. 244 on the Formulation of Local Budget Proposals and Cabinet Regulation No.445 on Methodology for Calculating local base expenditure; Budget Execution Report of the UB City (2021)
PI-8. Performance information for service delivery	IBL; Budget Proposal of the UB City (2022); Budget Execution Reports of the UB City (2019-2021); Annual Financial Statements (2019-2021)
PI-9A. Public access to fiscal information	IBL; GAL; Law on Information Transparency and Rights to Obtain Information; Approved Budget of the UB City (2022), and MTF.
PI-9B. Public Consultation	IBL; LATUG; Interview with the CRKh officials of the UB City; Budget Proposal submitted to the CRKh (2019-2021)
PI-10. Fiscal risk reporting	Annual Financial Statements of LOEs (2019-2022); Publication of the Annual Financial Statements from the GAP (2019-2022)
PI-11. Public investment management	List of major capital investment projects 2021 and 2022 provided by the UB City; Approved budget of the UB City (2021); Economic analysis of the Education projects (2022) provided by the UB City
PI-12. Public asset management	List of assets registered in line with the "Asset Registration Template" provided by the Capital City Property Department (2020, 2021); Law on State and Local Property
PI-13. Debt management	Debt Management Law; Report on On-lending balance provided by the UB City; Annual Financial Statement of the UB City (2019-2021)
PI-14. Macroeconomic and fiscal forecasting	Medium-Term Fiscal Framework (2022); UB City 2022 budget proposal; Budget Circular by the MoF

PI-17. Budget preparation process	IBL; Budget Circular from the MoF (2022); Budget proposals of the UB City (2019-2021)
PI-18. Legislative scrutiny of budgets	IBL; LATUG; and Resolution on "Procedures for meetings of the CRKh" 2014; Approved budget of the UB City (2019-2021)
PI-19. Revenue administration	IBL, GTL, Law on Immovable Property, GTL; Annual Financial Statement of the UB City (2021)
PI-20. Accounting for revenue	Monthly Revenue Reports from the UB City (2022); Budget Revenue data provided by the UB City, interview with the UB City officials.
PI-21. Predictability of in-year resource allocation	IBL, MoF Order No. 134 Regulation on "Budget Adjustment Procedure"; Approved Budget Allotment of the UB City (2021); Interview with UB City budget officials.
PI-22. Expenditure arrears	Accounting data and reports on expenditure arrears provided by the UB City (2019-2021); Interview with the UB City Debt Management Division officials.
PI-23. Payroll controls	The MoF Order No.109 "Manual for the IPS"; Cabinet Resolution No.74, the Regulation on "Recording and Access to the Information on Civil Servants"; Interview with the IPS consultant at the MoF and the UB City officials
PI-24. Procurement management	PPLM; Cabinet Resolution No. 124 "Threshold for the Competitive methods"; Procurement Evaluation Report of General Budget Governors by the MoF; Interview with the officials of the Procurement Policy Division of the MoF and the UB City.
PI-25. Internal controls on non-salary expenditure	IBL; Law on Accounting, Regulation on Treasury Operations; and Regulation on the GFMS; Annual Financial Statement of the UB City; Interview with the official of the UB City
PI-26. Internal audit	Interview with the IAD officials, data and reports from the IAD; Internal Audit Standards and regulations approved by the MoF; Approved budget of the UB City (2021)
PI-27. Financial data integrity	Accounting Instructions for Budgetary Organizations by the MoF; Joint decree of the MoF and the Governor of the BoM No.24/24/A-9; Cabinet Resolution No.24 "Treasury Operations"
PI-28. In-year budget reports	IBL; Monthly Budget Execution Reports provided by the UB City; Dates of submission of in-year budget execution reports; interview with the budget officer of the UB City.
PI-29. Annual financial reports	IBL; MoF Order No.341 Regulation on Annual Financial Statements Preparation Instruction; Annual Consolidated Financial Statements of the UB City (2019-2021); Interview with the UB City officials
PI-30. External audit	Law on State Audit; Constitution of Mongolia; Audit reports on Consolidated Financial Statements and the Budget Execution (2019-2021); Dates of submission of the financial reports to the legislature; interview with the SAO officials
PI-31. Legislative scrutiny of audit reports	Law on State Audit; IBL; LATUG; and Resolution on "Procedures for meetings of the CRKh" 2014; Dates of the audit report scrutiny; and Interview with the CRKhs officials

Annex 2.2 List of persons interviewed

Name	Position
Ulaanbaatar City	
B. Byambadorj	Head of the Health Department
J. Gantulga	Head of the Education Department
L. Buyantogtokh	Deputy head of the Education Department
D. Unubold	Deputy head of the Public Transportation Department
N.Naranbaatar	Head of the Finance and Treasury Division, UB Governor's Office
B. Mungunshagai	Head of the Legal Affairs Division, UB Governor's Office
G. Misheelt	Head of the Development Policy and Planning Division, UB Governor's Office
M. Ayasgalan	Head of the Economic Development and PPP Division, UB Governor's Office
B. Javzan	Head of the Ulaanbaatar Internal Audit Unit, UB Governor's Office
M. Bayaraa	Head of the Property Management Division, UB Governor's Office
M. Enkhbold	Head of the Capital City Property Relations Department
J. Erdenechimeg	Senior Officer in charge of Investment Policy and Planning Division, UB Governor's Office
B. Tugslkham	Senior Budget Officer of the Development Policy and Planning Division
S. Solongo	Budget General Accountant of the UB City
U.Gantulga	Senior Officer of the Debt Management Division, MUB
S. Gantulga	Officer of the Finance and Treasury Division, Ulaanbaatar Governor's Office
J. Saikhanbayar	Officer of the Ulaanbaatar Internal Audit Unit, UB Governor's Office
Citizens Representative Khural	
B. Batbyamba	Secretary of the CRKh
M. Khaliunbat	Head of the Economic and Budget Committee, CRKh
State Audit Office	
Ts. Bat-Ulzii	Head of the Financial Audit Division, Audit Department
n. Badamkhatan	Specialist of the Financial Audit Division, Audit Department
Ministry of Finance	
T. Batsukh	Consultant, Budget Expenditure Division, Fiscal Policy and Planning Department
E. Batmunkh	Specialist of the Budget Consolidation Division, Fiscal Policy and Planning Department
Ts. Ariunsanaa	Consultant, Treasury Department
Selected Districts	
M.Tsogzolmaa	Head of the Finance and Treasury Division
B. Uyanga	Head of the Finance and Treasury Division
Selected Service Delivery Units	
T. Chinbat	Principal of the Secondary School # 18
B. Erdenechimeg	Principal of the Secondary School # 48
T. Enkhzaya	Head of the General hospital, Khan-Uul district
M. Bold	Head of the General Hospital, Bayanzurh district
B. Ganbaatar	Director of the Public Transportation Service - 3

ANNEX 3. CALCULATION OF BUDGET OUTTURNS FOR HLG-1, PI-1, PI-2 AND PI-3

Calculation Sheet for PFM Performance Indicators HLG-1

Table 1

Fiscal years for assessment	
Year 1 =	2019
Year 2 =	2020
Year 3 =	2021

Table 2

2019 year						
Grants	budget	actual	adjusted budget	deviation	absolute deviation	percent
LDF	143,874,657.8	138,294,478.1	143,867,505.7	-5,573,027.5	5,573,027.5	3.9%
Preschool	346,623,518,800.0	346,623,518,800.0	346,606,287,827.1	17,230,972.9	17,230,972.9	0.0%
General education	649,200,659,700.0	649,200,659,700.0	649,168,387,340.1	32,272,359.9	32,272,359.9	0.0%
Primary healthcare	89,969,313,000.0	89,969,313,000.0	89,964,840,543.0	4,472,457.0	4,472,457.0	0.0%
Land	11,923,543,600.0	11,923,543,600.0	11,922,950,869.7	592,730.3	592,730.3	0.0%
Child protection	7,076,844,500.0	7,027,497,211.0	7,076,492,703.6	-48,995,492.5	48,995,492.5	0.7%
Grand Total	1,104,937,754,257.8	1,104,882,826,789.2	1,104,882,826,789.2	0.0	109,137,040.2	
	1,104,937,754,257.8	1,104,882,826,789.2				
					<i>HLG-1 indicator variation</i>	100.0%
					<i>HLG-2 indicator structure</i>	0.0%

Table 3

2020 year						
Grants	budget	actual	adjusted budget	deviation	absolute deviation	percent
LDF	172,306,572.8	165,694,441.4	172,305,726.4	-6,611,285.1	6,611,285.1	3.8%
Preschool	449,557,690,500.0	449,557,690,500.0	449,555,482,420.8	2,208,079.2	2,208,079.2	0.0%
General education	777,864,103,800.0	777,864,103,800.0	777,860,283,187.9	3,820,612.1	3,820,612.1	0.0%
Primary healthcare	94,671,856,700.0	94,671,856,700.0	94,671,391,703.0	464,997.0	464,997.0	0.0%
Land	14,011,655,400.0	14,011,655,400.0	14,011,586,579.4	68,820.6	68,820.6	0.0%
Child protection	9,930,664,200.0	9,930,664,200.0	9,930,615,423.9	48,776.1	48,776.1	0.0%
Grand Total	1,346,208,277,172.8	1,346,201,665,041.4	1,346,201,665,041.4		13,222,570.1	
	1,346,208,277,172.8	1,346,201,665,041.4				
					<i>HLG-1 indicator variation</i>	100.0%
					<i>HLG-2 indicator structure</i>	0.0%

Table 4

2021 year						
Grants	budget	actual	adjusted budget	deviation	absolute deviation	percent
LDF	228,260,846.5	228,260,846.5	227,354,099.5	906,747.0	906,747.0	0.4%
Preschool	406,692,043,800.0	406,692,043,800.0	405,076,493,852.5	1,615,549,947.5	1,615,549,947.5	0.4%
General education	745,479,184,700.0	745,290,186,000.0	742,517,831,322.0	2,772,354,678.0	2,772,354,678.0	0.4%
Primary healthcare	210,403,200,300.0	205,233,801,041.3	209,567,391,278.4	-4,333,590,237.1	4,333,590,237.1	2.1%
Land	13,504,379,600.0	13,504,379,600.0	13,450,734,587.5	53,645,012.5	53,645,012.5	0.4%
Child protection	9,582,371,600.0	9,435,440,286.6	9,544,306,434.5	-108,866,147.9	108,866,147.9	1.1%
Grand Total	1,385,889,440,846.5	1,380,384,111,574.4	1,380,384,111,574.4		8,884,912,770.1	
	1,385,889,440,846.5	1,380,384,111,574.4				
					<i>HLG-1 indicator variation</i>	99.6%
					<i>HLG-2 indicator structure</i>	0.6%

Table 5

Results Matrix		
years	for HLG-1.1	for HLG-1.2
	total grants Deviation	composition variance
2019	100.0%	0.0%
2020	100.0%	0.0%
2021	99.6%	0.6%

CALCULATION SHEET FOR DIMENSIONS PI1.1., PI-2.1, PI-2.3 AND PI-3.2.

Table 1

Fiscal years for assessment	
Year 1 =	2019
Year 2 =	2020
Year 3 =	2021

Table 2

Data for year = 2019						MNT thousand	
	budget	actual	adjusted budget	deviation	absolute deviation	percent	
Public Transport Regulatory Authority	116,051,254.80	115,445,284	100,416,817.0	15,028,466.8	15,028,466.8	15.0%	
Office of the Mayor of the Capital City	35,662,694.40	45,333,065	30,858,212.3	14,474,852.3	14,474,852.3	46.9%	
City Governor's Office	41,498,006.60	28,419,951	35,907,390.6	-7,487,439.6	7,487,439.6	20.9%	
Transfers to Districts	29,884,210.50	29,884,211	25,858,206.4	4,026,004.1	4,026,004.1	15.6%	
Capital City Citizens' Representatives Hural	5,176,902.50	6,001,149	4,479,469.6	1,521,679.8	1,521,679.8	34.0%	
Common service agency	5,200,101.60	5,239,285	4,499,543.3	739,742.0	739,742.0	16.4%	
Department of Employment	4,860,190.60	352,351	4,205,425.2	-3,853,074.2	3,853,074.2	91.6%	
Department of reducing air pollution	1,373,624.90	4,354,769	1,188,570.0	3,166,199.0	3,166,199.0	266.4%	
Traffic Management Center	2,370,274.90	2,352,995	2,050,951.2	302,043.5	302,043.5	14.7%	
Department of Environment	2,047,501.00	2,059,890	1,771,661.4	288,228.8	288,228.8	16.3%	
Road Development Agency	2,207,045.80	1,618,271	1,909,712.3	-291,441.7	291,441.7	15.3%	
Capital City General Planning Department	1,538,100.70	1,550,265	1,330,887.6	219,377.8	219,377.8	16.5%	
Mongolian Children's Palace LOE	1,457,735.50	1,428,081	1,261,349.2	166,731.6	166,731.6	13.2%	
Special centre for children's education	1,312,065.50	1,264,015	1,135,303.9	128,710.6	128,710.6	11.3%	
Central House of Culture	1,257,925.60	1,255,980	1,088,457.7	167,521.9	167,521.9	15.4%	
Other	676,423,215.60	556,697,803	585,295,405.7	-28,597,602.9	28,597,602.9	4.9%	
Total	928,320.9	803,257,364	803,257,363.5	0.0	80,459,116.7		
Interests							
Contingency							
total expenditure	928,320,851	803,257,364					
aggregate outturn (PI-1)						86.5%	
composition (PI-2) variance						10.0%	
contingency share of budget						0.6%	

Table 3

Data for year = 2020						
	budget	actual	adjusted budget	deviation	absolute deviation	percent
Public Transport Regulatory Authority	116,852,284	118,862,693	77,949,804.8	40,912,888.1	40,912,888.1	52.5%
Office of the Mayor of the Capital City	46,510,478	52,644,915	31,026,202.8	21,618,711.9	21,618,711.9	69.7%
City Governor's Office	36,520,599	42,521,686	24,362,155.6	18,159,530.1	18,159,530.1	74.5%
Transfers to Districts	31,424,961	31,424,961	20,962,958.2	10,462,002.3	10,462,002.3	49.9%
Capital City Citizens' Representatives Hural	16,396,220	4,962,811	10,937,588.0	-5,974,777.0	5,974,777.0	54.6%
Common service agency	7,532,140	8,028,694	5,024,538.5	3,004,155.4	3,004,155.4	59.8%
Department of Employment	5,723,770	393,411	3,818,211.3	-3,424,800.6	3,424,800.6	89.7%
Department of reducing air pollution	32,180,277	16,134,960	21,466,814.3	-5,331,854.2	5,331,854.2	24.8%
Traffic Management Center	2,857,677	2,237,385	1,906,298.5	331,087.0	331,087.0	17.4%
Department of Environment	3,058,608	2,822,162	2,040,335.9	781,826.0	781,826.0	38.3%
Road Development Agency	2,714,061	1,992,545	1,810,495.7	182,049.4	182,049.4	10.1%
Capital City General Planning Department	1,763,171	1,810,182	1,176,176.0	634,006.2	634,006.2	53.9%
Mongolian Children's Palace LOE	2,027,618	1,654,368	1,352,583.3	301,784.7	301,784.7	22.3%
Special centre for children's education	1,799,744	1,612,746	1,200,572.6	412,173.5	412,173.5	34.3%
Central House of Culture	1,590,629	1,068,049	1,061,076.3	6,972.9	6,972.9	0.7%
Other	785,015,983	441,592,594	523,668,349.7	-82,075,755.5	82,075,755.5	15.7%
Total	1,093,968,216	729,764,162	729,764,161.5	0.0	193,614,374.8	
interests						
contingency						
total expenditure	1,093,968,216	729,764,162				
aggregate outturn (PI-1)						66.7%
composition (PI-2) variance						26.5%
contingency share of budget						1.0%

Table 4

Data for year = 2021						
	budget	actual	adjusted budget	deviation	absolute deviation	percent
Public Transport Regulatory Authority	138,853,471	124,233,728	128,919,614.1	-4,685,886.2	4,685,886.2	3.6%
Office of the Mayor of the Capital City	55,301,615	56,816,213	51,345,226.2	5,470,987.0	5,470,987.0	10.7%
City Governor's Office	43,513,935	32,917,880	40,400,860.1	-7,482,980.1	7,482,980.1	18.5%
Transfers to Districts	28,644,300	28,655,265	26,595,029.1	2,060,235.5	2,060,235.5	7.7%
Capital City Citizens' Representatives Hural	19,931,787	5,782,197	18,505,826.4	-12,723,629.8	12,723,629.8	68.8%
Common service agency	9,960,339	8,361,298	9,247,756.7	-886,459.0	886,459.0	9.6%
Department of Employment	6,345,051	408,700	5,891,112.9	-5,482,412.6	5,482,412.6	93.1%
Department of reducing air pollution	30,980,832	27,751,319	28,764,401.3	-1,013,082.4	1,013,082.4	3.5%
Traffic Management Center	3,059,913	2,092,894	2,841,000.6	-748,106.5	748,106.5	26.3%
Department of Environment	3,068,838	2,732,021	2,849,286.8	-117,265.8	117,265.8	4.1%
Road Development Agency	2,730,575	1,885,953	2,535,224.5	-649,272.0	649,272.0	25.6%
Capital City General Planning Department	1,746,518	1,571,883	1,621,568.6	-49,685.4	49,685.4	3.1%
Mongolian Children's Palace LOE	1,922,248	1,659,687	1,784,726.9	-125,040.3	125,040.3	7.0%
Special centre for children's education	1,788,759	1,711,889	1,660,788.0	51,100.7	51,100.7	3.1%
Central House of Culture	1,466,354	1,181,649	1,361,448.4	-179,799.6	179,799.6	13.2%
Other	646,343,399	626,663,988	600,102,691.2	26,561,296.4	26,561,296.4	4.4%
Total	995,657,934	924,426,562	924,426,561.6	0.0	68,287,239.2	
interests						
contingency						
total expenditure	995,657,934	924,426,562				
aggregate outturn (PI-1)						92.8%
composition (PI-2) variance						7.4%
contingency share of budget						0.9%

Table 5

Results Matrix			
	for PI-1.1	for PI-2.1	for PI-2.3
year	total exp. Outturn	composition variance	contingency share
2019	86.5%	10.0%	0.8%
2020	66.7%	26.5%	
2021	92.8%	7.4%	

CALCULATION SHEET FOR EXPENDITURE BY ECONOMIC CLASSIFICATION VARIANCE PI-2.2

Table 1

Fiscal years for assessment	
Year 1 =	2019
Year 2 =	2020
Year 3 =	2021

Table 2

Economic classification	Data for year = 2019				Thousand MNT	
	budget	actual	adjusted budget	deviation	absolute deviation	percent
Cost of goods and services	147,995,455.10	146,510,421.77	128,057,490.9	18,452,930.9	18,452,930.9	14.4%
Interest	-	-	0.0	0.0	0.0	0.0%
Subsidies	108,496,838.50	108,586,447.69	93,880,132.3	14,706,315.4	14,706,315.4	15.7%
Current Transfer	302,994,702.60	325,649,479.62	262,175,222.5	63,474,257.1	63,474,257.1	24.2%
Capital Costs	338,949,643.80	192,626,803.82	293,286,310.0	-100,659,506.2	100,659,506.2	34.3%
Net loan after deposit payment	-	-	0.0	0.0	0.0	0.0%
Transfers to districts	29,884,200.0	29,884,200.0	25,858,197.2	4,026,002.8	4,026,002.8	15.6%
Total expenditure	928,320,840	803,257,353	803,257,352.9	0.0	201,319,012.3	
Outturn		87%				
composition variance						25.1%

Table 3

Economic classificaiton	Data for year = 2020					
	budget	actual	adjusted budget	deviation	absolute deviation	percent
Cost of goods and services	350,959,076.60	183,942,826.26	234,117,724.1	-50,174,897.8	50,174,897.8	21.4%
Interest	6,380,736.40	6,380,736.40	4,256,460.6	2,124,275.8	2,124,275.8	49.9%
Subsidies	115,561,512.60	117,938,424.70	77,088,755.1	40,849,669.6	40,849,669.6	53.0%
Current Transfer	287,873,753.40	161,875,123.43	192,034,776.9	-30,159,653.4	30,159,653.4	15.7%
Capital Costs	301,768,177.00	228,202,089.83	201,303,466.7	26,898,623.1	26,898,623.1	13.4%
Net loan after deposit payment	0	0	0.0	0.0	0.0	0.0%
Transfers to districts	31,424,900.0	31,424,900.0	20,962,917.2	10,461,982.8	10,461,982.8	49.9%
Total expenditure	1,093,968,156	729,764,101	729,764,100.6	0.0	160,669,102.5	
Outturn		67%				
composition variance						22.0%

Table 4

Data for year = 2021						
Economic classificaiton	budget	actual	adjusted budget	deviation	absolute deviation	percent
Cost of goods and services	217,554,768.80	195,344,512.76	201,990,470.6	-6,645,957.8	6,645,957.8	3.3%
Interest	4,122,342.60	6,021,095.50	3,827,422.1	2,193,673.4	2,193,673.4	57.3%
Subsidies	138,106,257.60	124,358,795.54	128,225,862.9	-3,867,067.4	3,867,067.4	3.0%
Current Transfer	464,620,677.20	470,142,931.91	431,380,795.4	38,762,136.5	38,762,136.5	9.0%
Capital Costs	142,609,587.70	99,903,961.27	132,407,015.9	-32,503,054.6	32,503,054.6	24.5%
Net loan after deposit payment	0	0	0.0	0.0	0.0	0.0%
Transfers to districts	28,644,300.0	28,655,300.0	26,595,030.2	2,060,269.8	2,060,269.8	7.7%
Total expenditure	995,657,934	924,426,597	924,426,597.0	0.0	86,032,159.5	
Outturn		93%				
composition variance						9.3%

Table 5

Results Matrix	
year	composition variance
2019	25.1%
2020	22.0%
2021	9.3%

CALCULATION SHEET FOR REVENUE BY ECONOMIC CLASSIFICATION VARIANCE PI-3.2

Table 1

Fiscal years for assessment	
Year 1 =	2019
Year 2 =	2020
Year 3 =	2021

Table 2

Revenue Composition	Data for year = 2019				Million MNT	
	budget	actual	adjusted budget	deviation	absolute deviation	percent
Tax Income	628,488	626,189	571,653.7	54,535.3	54,535.3	9.5%
Non-tax Income	144,517	67,491	131,448.3	-63,957.3	63,957.3	48.7%
Grants	23,161	23,140	21,066.8	2,073.1	2,073.1	9.8%
Transfers from the districts	81,265	81,265	73,916.4	7,348.9	7,348.9	9.9%
Total revenue	877,431.77	798,085.21	798,085.2	0.0	127,914.5	16.0%
Outturn		91%				
composition variance						16.0%

Table 3

Revenue Composition	Data for year = 2019				Million MNT	
	budget	actual	adjusted budget	deviation	absolute deviation	percent
Tax Income	707,040.00	502,271.15	490,294.9	11,976.3	11,976.3	2.4%
Non-tax Income	195,870.55	86,036.00	135,825.9	-49,789.9	49,789.9	36.7%
Grants	25,450.58	21,470.70	17,648.6	3,822.1	3,822.1	21.7%
Transfers from the districts	110,883.20	110,883.20	76,891.6	33,991.6	33,991.6	44.2%
Total revenue	1,039,244.33	720,661.05	720,661.05	-	99,579.76	
Outturn		69%				
composition variance						13.8%

Table 4

Data for year = 2021						
Revenue Composition	budget	actual	adjusted budget	deviation	absolute deviation	percent
Tax Income	717,050.15	727,489.72	740,193.8	-12,704.0	12,704.0	1.7%
Non-tax Income	74,698.68	92,997.50	77,109.7	15,887.8	15,887.8	20.6%
Grants	28,172.22	29,934.00	29,081.5	852.5	852.5	2.9%
Transfers from the districts	125,055	125,055	129,091.5	-4,036.3	4,036.3	3.1%
Total revenue	944,976.25	975,476.42	975,476.42	(0.00)	33,480.66	
Outturn		103%				
composition variance						3.4%

Table 5

Results Matrix	
Year	Composition variance
2019	16.0%
2020	13.8%
2021	3.4%

ANNEX 4. SERVICE DELIVERY ASSESSMENT

This annex assesses the impacts of PFM system performance on service delivery. The Service Delivery assessment module (the SD module) is applied in order to identify bottlenecks in service delivery due to PFM performance and thus inform efforts to improve service delivery in future. The Service Delivery assessment is conducted according to the SD module set out in the Guidance for SNG PEFA assessments.

The scope of the service delivery to be covered by the SD assessment includes¹⁷ health, education, maintenance and transport. As these services are predominantly delivered by districts and private enterprise but financed mainly by national government, the following analysis seeks to describe how the relationships between UB City and such entities impacts on service delivery.

Indicator	Questions to be asked in assessing the impact of each dimension on service delivery
SUBNATIONAL PILLAR: INTERGOVERNMENTAL FISCAL RELATIONS	
HLG-1.1 TRANSFERS FROM HIGHER-LEVEL GOVERNMENT	
HLG-1.1 Outturn of transfers from higher-level government	Recurrent transfers from the central government to UB City and its districts are predictable in both their value and timing. As such, service delivery units in the health and education sector can execute their budgets according to the agreed budget release schedule for these transfers. Capital transfers are understood to be transferred on a less consistent basis, reflecting that the release of such funds matches the timing of the incurrence of obligations and also potentially subject to cash flow controls of the central treasury.
HLG-1.2 Transfers composition outturn	
HLG-1.3 Timeliness of transfers from higher-level government	
HLG-1.4 Predictability of transfers	
HLG-2 FISCAL RULES AND MONITORING OF FISCAL POSITION	
HLG-2.1 Fiscal rules for SNGs	The recurrent budgets for most service delivery units, including health, education and transport, are very closely defined based on norms and standards (\$ per unit funding of activity). The intergovernmental fiscal arrangements are designed to support service delivery only at these levels, with any surplus of revenue above these levels returned to central government (as is the case with UB City). As such, these quasi-fiscal rules provide almost no flexibility for UB City or its districts to determine policy regarding the levels or quality of service delivery and/or to trade these off against fiscal parameters – particularly in the areas of health and education. For transport and maintenance, budgets are also set according to norms and standards but, while there remains oversight by central government, these are set by UB City, who can therefore make choices as to the level of service delivery and corresponding overall cost of such services – noting that central government would need to agree to any such policy change. While capital budgets are not defined by such norms and standards, decisions regarding funding also ultimately reside with (or subject to veto by) the CG. The large investment in transport infrastructure and roads in UB City recently focused on traffic congestion, which significantly reduced UB City's agreed surplus in 2022, has been an example of such discretionary element to capital budgeting impacting fiscal policy setting.
HLG-2.2 Debt rules for SNGs	
HLG-2.3 Monitoring of SNGs	

¹⁷ It is noted that responsibility for aspects of service delivery is shared, include retained elements of central control, are in transition and/or being clarified as part of the decentralization process.

PILLAR I: BUDGET RELIABILITY	
PI-1 AGGREGATE EXPENDITURE OUTTURN	As recurrent transfers are released according to the budget and allocation schedules, the variances that existing between budget and outturn for service delivery units relates mostly to capital spending. In the face of cash shortfalls, the CG cuts back on capital spending including for service delivery units. An example in the significant reduction in the funding for the acquisition of new buses and a new transport administration building during 2021. The original budget for bases of 5Bn was cut back to 2bn during 2021.
PI-2 EXPENDITURE COMPOSITION OUTTURN	
PI-2.1 Expenditure composition outturn by function	While there are changes in the composition of expenditure overall within the UB City budget, it is understood that virements and other adjustments do not impact adversely on service delivery units. Nonetheless, the rigidity of the approach to budgeting, where norms and standards are used to defined budget allocations (many of which are said to be out of date or unrealistic in the context of service delivery in UB City) does require some internal adjustments (mainly upwards from other areas such as contingencies) to address budget shortfalls.
PI-2.2 Expenditure composition outturn by economic type	
PI-2.3 Expenditure from contingency reserves	
PI-3 REVENUE OUTTURN	
PI-3.1 Aggregate revenue outturn	While education services are notionally free, it is understood that parents fund the supply of education materials in many schools, including preschools. In 2019 the amount of OSR collected in schools was lower than planned (8 million collected verses 12 million budgeted for Sukhbaator District), implying some possible constraints on service delivery.
PI-3.2 Revenue composition outturn	
	There are no officially mandated fees for health service delivery but some evidence of informal fees being charged which, if accurate, would impact significantly and adversely on how services are allocated and the consistency of service delivery quality.
	Within the transport sector, the price of bus fares is regulated by UB City but not sufficient to recover costs (and there are a range of mandated cohorts who receive free travel), hence a subsidy is paid to the bus companies but this is not sufficient to maintain quality services and results in both poor service delivery and expenditure arrears of the business companies (LOEs).
	The UB City maintenance company receives funding from UB City that is inadequate to cover costs, despite significant cost cutting measures (such as the company manufacturing its own brooms). The company enters into other commercial contracts for maintenance and construction works for other entities on a commercial basis, in order to make a profit that can cross-subsidize loss-making public services. There is a risk that inability to raise such revenue would further impact service delivery quality and/or the level of expenditure arrears.
PILLAR II: TRANSPARENCY OF PUBLIC FINANCES	
PI-4 BUDGET CLASSIFICATION	The budget classification system is sufficiently broad to enable coverage of all service delivery entities in the budget and accounts (including entities at both the UB City and district level and including LOEs) and to include transaction level data by economic classification. However, audit reports indicate that there are some instances of recurrent costs being classified as capital – potentially as a mechanism to fund needed recurrent expenditures not allowed for in the recurrent funding. The economic classification includes basic accrual information, including payables, assets, inventories, etc.
PI-5 BUDGET DOCUMENTATION	Budget documentation exists includes detailed estimates of expenditure and revenue. Specific estimates are presented for SD units of health and education sector in the district budgets. Some of the costing data for major new spending proposals, including new capital spending for service delivery units appears to be limited.

PI-6 SNG OPERATIONS OUTSIDE FINANCIAL REPORTS	
PI-6.1 Expenditure outside financial reports	All service delivery units, including the LOEs, are included within the scope of the budget and financial reports. Systems exist for the consolidation of financial reports from all service delivery units on at least a semi-annual basis.
PI-6.2 Revenue outside financial reports	
PI-6.3 Financial reports of EBUs	
PI-7 TRANSFERS TO SNGS	
PI-7.1 System for allocating transfers	<p>While this indicator relates to transfers from the UB City to its districts, for health and education service delivery, it is essential to recognize that such funding originated primarily from the central government's budget (via UB City). Specific recurrent funding transfers are made from the central government to UB City and its districts for delivery of health and education services. These notionally very closely defined based on national norms and standards (\$ per unit funding of activity). It is understood that these norms are applied reasonably closely for preschool education. However, for other general areas of education and health evidence indicates that these norms have not been applied consistently in determining transfer amounts over the last three years – where factors such as historical funding levels for example have become more significant in determining budgeted transfers. In addition, service providers indicate that such norms are out of date and often do not reflect the unique and often more costly aspects of service delivery between UB City and other parts of the country and/or between inner and outer urban districts of UB City. It is also the case that the central government has announced a policy change, such as increases in salaries, which impact that cost base but these have not been reflected in the funding (an “unfunded mandate”).</p> <p>It is noted that some reforms have been introduced in relation to funding of service delivery, including performance budgeting and funding mechanisms in the health sector, the health insurance scheme funding, and more direct linkages between district service units and central line ministries in health and education sectors. There are no transfers for transport and maintenance services.</p> <p>In terms of capital funding, health and education units may make requests for project funding and often request funding far in excess of what is likely to be approved (essentially wish lists). While there is a PIM framework in place for prioritizing projects, decisions regarding which service delivery related projects get funded is opaque (and sometimes surprising) to the service delivery units.</p>
PI-7.2 Timeliness of information on transfers	As funding for health and education are determined by the central government and thus subject to the governance and approval processes associated with the central government and UB City, the service delivery units at the district level do not receive information regarding their grants until very late in the year. While, for recurrent budget, the formulas used for determining grants and historical patterns provide a good indicator of likely funding, there is a high degree of uncertainty regarding capital funding – which makes it difficult to adjust budgets or prepare for executing service delivery projects prior to the start of the year.
PI-8 PERFORMANCE INFORMATION FOR SERVICE DELIVERY	
PI-8.1 Performance plans for service delivery	<p>The education sector does not have a performance management framework integrated within the PFM system, beyond the measurement and reporting of staffing and financial resources.</p> <p>Within the health sector, some reforms were introduced during the assessment period to provide some performance information to inform budgeting, including KPIs, a system introduced that links a portion of the budget (up to 20%) to the attainment of performance targets. As a part of these reforms, some of the tight centralized controls over budget allocation and staffing have been relaxed/delegated in the health sector. This has the prospect that managers will be better able to respond to the individual opportunities and threats facing their unit and that performance information may be available to better inform future policy making and resource allocation decisions.</p>

	<p>Within the transport and maintenance sectors, UB City sets tight performance standards for the delivery of specific outputs and reflects these in funding agreements/contracts with LOEs and private providers. It then measures the performance in delivering these standards, through detailed reporting by the service providers and via monitoring. In the maintenance sector, UB City engages NGOs to undertake observational measurement of the delivery of services. The funding agreements/contracts have specific penalties for those situations where outputs are not delivered – for example # tugrik per minute that a bus is late on a specific route. One of the challenges for these companies is that they are unable to receive a higher/ bonus payment for good performance and the penalties for poor performance, a lack of working capital, places them in a worse position to fund performance improvements and thus risks a spiraling downwards of both performance and financial outcomes.</p>
<p>PI-8.2 Performance achieved for service delivery</p>	<p>Service delivery units prepare performance reports which are not published but rather utilized for release of performance-based funding and also consolidated on an annual basis to enable the UB City mayor to prepare the annual performance report submitted to the national Cabinet Secretariat. The Mayor’s performance report is also not published. As such, there is limited publicly available performance information regarding service delivery in UB City.</p>
<p>PI-8.3 Resources received by service delivery units</p>	<p>There is complete data available regarding the resources budgeted and actually received by service delivery units as these are included within the budgets of UB City and/or the respective district. This includes both general budget funding as well as own-source revenues.</p>
<p>PI-8.4 Performance evaluation for service delivery</p>	<p>There is no broadly applied framework of program performance evaluation. However, there is in place a program of performance auditing by the UB City Branch National Audit Office and this sometimes covers service delivery units, for example the 2020 Performance audit on current effectiveness of preschool education in UB City and districts. The absence of a program evaluation with broad coverage means that there is no formal process of analyzing the underlying factors driving policy performance outcomes, including the effectiveness of current program design and delivery.</p>
<p>PI-9A PUBLIC ACCESS TO FISCAL INFORMATION</p>	<p>Fiscal information covering service delivery units is generally prepared but there are delays in publishing key documents, including the UB City budget and in-year budget execution reports. This limits the transparency of decision-making and the ability for public to have input on decisions related to service delivery units.</p>
<p>PI.9B. PUBLIC CONSULTATION</p>	
<p>PI-9B.1 Public consultation in budget preparation</p>	<p>UB City budget, undertakes broad consultation during the budget process. For example, budget consultation sessions in 2020 involved 400 people at citizens hall meeting. This consultation extends to priorities for SD performed by the UB City, including for example regarding the quality of the maintenance of city spaces and facilities and useability and coverage of transport services. The LDF program includes a consultation mechanism that is undertaken prior to the budget process – and this now includes SD areas. Schools have Parent Teacher Associations that input on how schools are run. However, it is noted that the major policy and program design decisions regarding health and education are made at the national level and the assessment revealed no clear mechanisms by which consultations at the local level impact centralized decision-making.</p>
<p>PI-9B.2 Public consultation in the design of service delivery programs</p>	
<p>PI-9B.3 Public consultation in investment planning</p>	

PILLAR III: MANAGEMENT OF ASSETS AND LIABILITIES	
PI-10 FISCAL RISK REPORTING	
PI-10.1 Monitoring of public corporations	UB City engages LOEs in the delivery of transport and maintenances services (but not health and education). These entities are included within the coverage of the budget and consolidated annual financial reports. In addition, each LOE prepares its own financial statements, which are audited. Noting that there are also closely monitored contractual arrangements in place, it is understood that UB City has clear line of sight regarding the service delivery activities, performance and financial status of the LOEs.
PI-10.2 Monitoring of SNGs	<p>Districts report to UB City on the provision of health and education services. There are two types of reports: (1) a report on main activities by 15 September of each year, and (2) Action Plan report, focuses on financial and non-financial performance, including for service delivery, which feeds into mayors' report on an annual basis.</p> <p>In addition, UB City monitors the quality of the provision of health and education service by the districts. This is mainly done with reference to standard reports and investigating complaints from the public.</p>
PI-10.3 Contingent liabilities and other fiscal risks	There is no evidence of the fiscal risks associated with the LOEs and districts delivery of services. Nonetheless, it is clear that such risks exist, as evidenced by the regular and systemic use of the UB City budget and contingency reserves to cover shortfalls in the budgets of service delivery units and significant arrears by transport LOEs.
PI-11 PUBLIC INVESTMENT MANAGEMENT	
PI-11.1 Economic analysis of investment proposals	<p>UB City has adopted the national PIM framework for analysis and selection of major projects. In practice, the assessment team was unable to view these as they were not provided as evidence and they are not published. In addition, it is understood that the requests for capital from SD unit are far in excess of what can be funded from discretionary funding (such as the LDF) and there is not provision for capital in the special purpose transfers. SD units are therefore reliant on discretionary capital funding decisions from the UB City and central government. This makes it very difficult for SD unit to manage the strategic direction of their service delivery. When projects are selected, the annual costs are not transparently presented, including an absence of an annual breakdown for total project costs across multiple years and unclear impacts on associated recurrent costs. The links between public investment and service delivery within UB City are not clear and, similar to recurrent budgets, highly dependent on the policy priorities of central entities.</p>
PI-11.2 Investment project selection	
PI-11.3 Investment project costing	
PI-11.4 Investment project monitoring	
PI-12 PUBLIC ASSET MANAGEMENT	
PI-12.1 Financial asset monitoring	Financial asset monitoring practices do not impact on service delivery units.
PI-12.2 Nonfinancial asset monitoring	<p>UB City maintains a comprehensive register of most nonfinancial assets used for service delivery, utilizing comprehensive data gathered from the service delivery units. The asset database is used in financial and national statistical reporting.</p> <p>The interviews with service delivery managers indicated that there was, during the assessment period, a disconnection between asset ownership and operation was identified, specifically that UB City owned some schools but operated by districts. This created some issues with how and by who asset related decisions are made.</p>
PI-12.3 Transparency of asset disposal	There are clear rules for disposal of assets by SD units.

PI-13 DEBT MANAGEMENT

PI-13.1 Recording and reporting of debt and guarantees	
PI-13.2 Approval of debt and guarantees	
PI-13.3 Debt management strategy	

PILLAR IV: POLICY-BASED FISCAL STRATEGY AND BUDGETING

PI-14. MEDIUM-TERM BUDGET STRATEGY

PI-14.1 Underlying forecasts for medium-term budget	<p>Budget documents contain some sector-specific information (e.g. on education, health, environmental rehabilitation/protection, and public transportation services) which was consistent with sector strategies. Additional sector-specific information is contained in UB City Governor’s Action Plan and Plan of Activities to be implemented, 2021-2024 UB City Strategic Plan, and 2022 UB City Development Plan adopted by the CRKh prior to the consideration of the budget proposal. Like expenditure and revenue estimates, information in this chapter refers to the budget year only.</p> <p>Fiscal strategy does not contain targets such as percentage of expenditure devoted to education or health, reflecting that fiscal strategy is reflected in MTFE rather than a full MTBF that aligns spending to sectors. The nature of the funding is such that subnational education and health strategies do not exist independently of the national strategies.</p>
PI-14.2 Fiscal impact of policy proposals	<p>Proposed changes in funding are evident in budget documents, including those related to service delivery operations. This included for example covid recovery policies in the 2022 budget. But the data in the budget includes only the aggregate fiscal impact and the budget year impacts but there is no disaggregation for the forward years. This means that the fiscal impacts of policy changes may not be clear to service delivery managers or other stakeholders.</p>
PI-14.3 Medium-term expenditure and revenue estimates	
PI-14.4 Consistency of budget with previous year’s estimates	

PI-17 BUDGET PREPARATION PROCESS

PI-17.1 Budget calendar	<p>The annual budget calendar specifies roles and contributions to the annual budget preparation process by all budget entities at the SNG level (including department of health, education, and the LOEs as well as the districts).</p> <p>There are elements of decentralization, including the ability of LOE and districts involved in service delivery to make budget submissions. However, ultimately it is the central line ministries who determine health and education policy and funding. In addition, the timeframe within which health and education units can make such submissions is very tight and the SD units do not receive certainty regarding their approved funding envelope until December. This process makes it very difficult for any SD Unit to engage in a discussion regarding policy or performance-oriented changes to their budget.</p> <p>It is noted that reform in place in 2022 will result in health and education units reporting directly to the respective central line ministries, which may provide clearer lines of communication and, within the health sector, the introduction of KPIs which may promote more discussion regarding performance impacts of policy and funding decisions.</p> <p>This situation is somewhat different for transport and maintenance as the LOEs do not formally participate in the budget process by making decisions, rather the respective central policy and oversight unit within the Governor’s office determines the budget for these services.</p>
PI-17.2 Guidance on budget preparation	
PI-17.3 Budget submission to the subnational council	

PI-18 LEGISLATIVE SCRUTINY OF BUDGETS	
PI-18.1 Scope of budget scrutiny	<p>The review of the draft budget by the CRKh does not result in significant changes to the recurrent budgets for service delivery units. For health and education, this reflects that the funding is defined by central government. For the transport LOEs, the funding is contractually defined. In addition, rules are in place that limit the capacity for the CRKh to alter the size of the budget during their deliberations.</p> <p>For the 2022 Budget, the listed documents were actively scrutinised, debated and commented on by the CRKh. Most of those related to services delivery (in particular, health, education and transportation). Notable adjustments passed by the Khural included funds for reducing congestion in Ulaanbaatar, investments for construction of schools and kindergartens, and reallocation of LDF funds.</p>
PI-18.2 Legislative procedures for budget scrutiny	
PI-18.3 Timing of budget approval	<p>The budget is approved prior to the start of the year but the health and education SD units do not receive confirmation of their budgets until very late in the year, so there is limited time to make adjustments prior to the start of the budget year.</p>
PI-18.4 Rules for budget adjustment by the executive	<p>As provided for in the IBL, the executive can shift funds between economic categories of expenditure and in practice this is an important mechanism for service delivery units to respond flexibly to underfunding of some line items – for example, fuel. In addition, the flexibility of UB City to shift discretionary funding, including contingencies, into the SD units is utilized to address areas of unforeseen need and/or underfunded line items.</p>
PILLAR V: PREDICTABILITY AND CONTROL IN BUDGET EXECUTION	
PI-19 TAX ADMINISTRATION	
PI-19.1 Rights and obligations for tax measures	<p>For the transport LOEs, the price of bus tickets is set by UB City CRKh and there are mandated cohorts who receive fee-free bus travel. As such, the revenue collected is significantly insufficient to cover costs, hence the need for subsidies of these services. The mandating of price and fixed subsidies therefore prevents competition and limits innovation within the transport sector.</p> <p>Within the education sector, access is supposed to be fee free but specialized schools do charge some tuition fees. Each school by law should have a charter which would outline the nature of fees charged. School fees cannot be more than 50% of school budget. In practice the fees charged are much lower and, for preschool, relate to parents paying for education materials and supplies. The need for schools to charge fees, particularly for education materials and supplies is an indicator or potential under-funding of education services. The need to charge fees will potentially limit the ability of some parents to send their children to preschool and/or limit their choices.</p> <p>Officially, there are no fees for health services. In practice, there is some anecdotal evidence that informal fees/gifts are paid by patients in order to get timely quality treatment. If this is the case, it would create some distortions regarding how services are allocated and adversely impact on the most vulnerable members of the UB City community.</p>
PI-19.2 Property tax register and value assessment	
PI-19.3 Tax risk management, audit and investigations	
PI-19.4 Tax arrears monitoring	
PI-20 ACCOUNTING FOR REVENUE	
PI-20.1 Information on revenue collections	
PI-20.2 Transfer of revenue collections	
PI-20.3 Tax accounts reconciliation	

PI-21 PREDICTABILITY OF IN-YEAR RESOURCE ALLOCATION	
PI-21.1 Consolidation of cash balances	The recurrent budget is released according to agreed schedules. It is understood that, in recent times, there has been some cash rationing by the national treasury based on agreed priorities. It is also understood that, despite cash shortages, the transfers for health and education have been released on a timely basis. However, the allocations to capital projects has been reduced and during 2021 for example, this resulted in a significantly lower level of spending on the bus acquisition project.
PI-21.2 Cash forecasting and monitoring	
PI-21.3 Information on commitment ceilings	
PI-21.4 Significance of in-year budget adjustments	
PI-22 EXPENDITURE ARREARS	
PI-22.1 Stock of expenditure arrears	
PI-22.2 Expenditure arrears monitoring	
PI-23 PAYROLL CONTROLS	
PI-23.1 Integration of payroll and personnel records	SD units are able to hire (temporary) staff without approval by the SNG and vacant staff positions available within budget limits. With the new HR and payroll systems in place, new staff and other changes can be reflected in close-to-real time by the respective SD unit. While general compliance audits include coverage of payroll, there has been no specific payroll audits in SD units during the assessment period, raising the prospect of some potential anomalies in staffing lists, etc.
PI-23.2 Management of payroll changes	
PI-23.3 Internal control of payroll	
PI-23.4 Payroll audit	
PI-24 PROCUREMENT	
PI-24.1 Procurement monitoring	Annual procurement plans are prepared by health and education SD units but not LOEs responsible for transport and maintenance.
PI-24.2 Procurement methods	
PI-24.3 Public access to procurement information	Public Procurement Agency and the UB City Procurement Dept and District Procurement Unit oversees procurement framework and system. Health and education and LOEs conduct their own procurement. Capex is completed by central LM.
PI-24.4 Procurement complaints management	Due to limited examination of entity-level data and engagement on this topic with SD units, further analysis of the procurement practices of SD units and associated issues is suggested.
PI-25 INTERNAL CONTROL ON NONSALARY EXPENDITURES	
PI-25.1 Segregation of duties	
PI-25.2 Effectiveness of expenditure commitment controls	
PI-25.3 Compliance with payment rules and procedures	

PI-26 INTERNAL AUDIT	
PI-26.1 Coverage of internal audit	<p>Internal audit functions are in place for each of the main departments of UB City (direct Budget Governors), including the coverage of the LOEs. Each district has an audit committee which receives the internal audits from across the district, including audits that cover the health and education SD units. Internal Audit reports are sent to the central internal audit units of the MoF for the purposes of monitoring internal audit policy, practices and coordination.</p> <p>As the SD units in health and education operate at district level, and associated internal audits are submitted to the district level audit committees, there is no evidence that the findings and recommendations of such internal audits are summarized or in any way presented to UB City and the central line ministry, who set policies, norms and standards for such units.</p> <p>Due to the limited sample of internal audit reports reviewed that cover individual SD units in health and education sectors, further analysis may identify specific internal control and performance issues associated with such units.</p> <p>Regarding the LOEs, these are understood to have internal control units in place, rather than internal audit units. These internal control units are understood to perform an operational role and report to the Director of the LOE rather than reporting to an audit committee or the governance committee (board of the LOE), as would be the case with an internal audit function. This means that there is no unit within the transport and maintenance SD units who is undertaking an independent review of the effectiveness of the internal control frameworks. However, the LOEs under the responsibility of UB City is covered by the IAD, hence audited regularly.</p>
PI-26.2 Nature of audits and standards applied	
PI-26.3 Implementation of internal audits and reporting	
PI-26.4 Response to internal audits	
PILLAR VI: ACCOUNTING AND REPORTING	
PI-27 FINANCIAL DATA INTEGRITY	
PI-27.1 Bank account reconciliation	<p>The service delivery units are embedded within the internal control framework of the Treasury, which includes defined business processes for recording revenue transactions (typically via the banking system) and for processing expenditures during the execution of the budget. On the expenditure side, such internal control includes strong and independent ex-ante controls. The newly implemented HR and payroll systems embed tight controls - noting that payroll is the largest expenditure item of the SD units. This results in there being a high degree of integrity over budget execution data for the SD units. However, accounting (for financial reporting) is done on a different accounting basis utilizing separate systems (different to the budget execution system) and there is therefore a high degree of reliance on manual consolidation and reconciliation processes between these two systems. This contributes to some issues of comparability of data.</p>
PI-27.2 Suspense accounts	
PI-27.3 Advance accounts	
PI-27.4 Financial data integrity processes	
PI-28 IN-YEAR BUDGET REPORTS	
PI-28.1 Coverage and comparability of reports	<p>The in-year budget reports make information on budget execution available for service delivery units. However, these are financial reports only and do not provide any quantitative description and analysis of the activities and achievements of all SDUs for the reporting period.</p>
PI-28.2 Timing of in-year budget reports	
PI-28.3 Accuracy of in-year budget reports	

PI-29 ANNUAL FINANCIAL REPORTS	
PI-29.1 Completeness of annual financial reports	
PI-29.2 Submission of reports for external audit	
PI-29.3 Accounting standards	
PILLAR VII: EXTERNAL SCRUTINY AND AUDIT	
PI-30 EXTERNAL AUDIT	
PI-30.1 Audit coverage	<p>UB City branch of the National Audit Office provides audit coverage of districts, including individual SD units in the health and education sector. While most SD units in health and education are covered by the general audit of the consolidated district accounts, some of the larger SD units (such as specialized schools and hospitals) are individually audited. LOEs are individually audited by the local branch of the NAO, but such audit is outsourced to a commercial audit provider.</p> <p>There is generally good systemic follow-up to external audits but the assessment did not specifically sample the results of follow-up by individual SD units and therefore this is an area for further examination.</p>
PI-30.2 Submission of audit reports to the subnational council	
PI-30.3 External audit follow-up	
PI-30.4 Independence of the public audit institution in charge of SNGs	
PI-31 LEGISLATIVE SCRUTINY OF AUDIT REPORTS	
PI-31.1 Timing of audit report scrutiny	<p>Audit reports on the consolidated financial statements of UB City are scrutinized by the CRKh. This may include specific discussion of service delivery in specific sectors or entities but this would be at the discretion of the CRKh rather than any systemic requirement to examine the audit findings related to service delivery.</p> <p>The fact that the CRKh does not issue recommendations regarding audit findings, and the hearings are not public, reduces the likelihood of public discourse and engagement around the issues identified in the audits. This is not only a concern regarding transparency but also represents a lost opportunity to ensure that there are multiple sources of influence on the executive to address any internal control and performance issues identified in audits.</p> <p>As the assessment focused on audit findings and follow up generally, there would be some value in future examination of the audit findings by specific SD sectors, particularly health and education due to the control framework extending across multiple levels of government.</p>
PI-31.2 Hearings on audit findings	
PI-31.3 Recommendations on audit by the legislature	
PI-31.4 Transparency of legislative scrutiny of audit reports	



Address: 5th Floor, MCS Plaza Building,
4 Seoul Street, 14250 Ulaanbaatar, Mongolia
Tel: +(976) 70078200
Web: www.worldbank.org/mn
Facebook: World Bank Mongolia