

FINANCED BY THE EU PROGRAM FOR THE REFORM OF PUBLIC ADMINISTRATION AND FINANCE



MOVING FORWARD
TOGETHER

2019 Public Expenditure and Financial Accountability (PEFA) Performance Assessment Report

UKRAINE



2019 Public Expenditure and Financial Accountability (PEFA) Performance Assessment Report

UKRAINE

KYIV, 2019



Ukraine
Public Expenditure and Financial Accountability (PEFA) Assessment
Assessment of Public Financial Management Performance
November 20, 2019

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

PEFA Secretariat
February 9, 2020

All rights reserved.

This publication was produced with the financial support of the European Union. Its contents are the sole responsibility of the PEFA assessment team and do not necessarily reflect the views of the European Union.

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

Rights and Permissions

For permission to photocopy or reprint any part of this work, please send a request with complete information to the World Bank Office in Ukraine.

The material in this publication is copyrighted. Copying and/or transmitting portions or all this work without permission may be a violation of applicable law. The World Bank encourages dissemination of its work and will normally grant permission to reproduce portions of the work promptly.

ISBN 978-617-7239-40-5

©2019 The World Bank Group
1818 H Street NW
Washington, DC 20433
Telephone: 202-473-1000
Internet: www.worldbank.org

Acknowledgements

This report was prepared by the World Bank team based on the results of the Public Expenditure and Financial Accountability (PEFA) Assessment of the Ukrainian Central Government. The assessment was conducted under the Parallel EC-World Bank partnership Program for the Europe and Central Asia Programmatic Single-Donor Trust Fund/EU Program for the Reform of Public Administration and Finances (EUroPAF) (TF072780).

The World Bank team was led by Ms. Iryna Shcherbyna (Sr. Public Sector Specialist, Task Team Leader) (author of PI-4, PI-5, PI-7, PI-11, PI-23), and consisted of Mr. Oleksii Balabushko (Sr. Public Finance Specialist) (PI-1, PI-2, PI-3, PI-14, PI-15, PI-19, PI-20), Mr. Dmitri Gourfinkel (Sr. Financial Management Specialist) and Ms. Nataliia Ostapiuk (Consultant) (co-authors of PI-27, PI-29, PI-30, PI-31), Ms. Iryna Babich (Sr. Financial Management Specialist) and Ms. Natalia Konovalenko (Consultant) (co-authors of PI-6 and PI-26), Mr. Dmytro Donets (Procurement Consultant) (PI-24), Ms. Inna Samchynska (Consultant) (PI-9, PI-13, PI-16, PI-17, PI-18, PI-22, PI-25, PI-28); the PEFA Secretariat represented by Ms. Julia Dhimitri (Public Sector Specialist) (PI-10 and PI-12); and development partners from the US Department of Treasury – Ms. Seta Vandegrift (Resident Budget Advisor) (PI-21) and the Sweden-funded Project Gender Budgeting in Ukraine – Mr. Nihad Nakas (Consultant) with advisory support from Ms. Maja Bosnic (Project Team Leader) (PI-8). Mr. John Short (Consultant) supported in consolidation of the report. Mr. William Gallagher (Consultant) provided professional editorial review of the report.

Ms. Daria Gulei (Program Assistant), Ms. Anastasia Soltis (Team Assistant) and Ms. Iryna Kuzmina (Consultant) provided logistics and administrative support.

The report greatly benefited from the comments and observation given by the peer reviewers – Mr. Oleksii Zhak (Director, Department for Strategic Planning and European Coordination of the Ministry of Finance of Ukraine), Ms. Alexandra Janovskaia (First Secretary, Policy Officer; Economic Reforms – Public Finance Management, the Delegation of the European Union to Ukraine), Mr. Lewis Hawke (Lead Public Sector Specialist, The World Bank), and Ms. Holy Tiana Rame (Sr. Public Finance Specialist, the PEFA Secretariat). Ms. Michelle Stone (Technical Assistance Adviser, Public Financial Management in Fiscal Affairs Department, the International Monetary Fund), provided comments on the PEFA Concept Note.

The World Bank team is grateful to the PEFA Oversight Team – Mr. Yurii Heletiy (Deputy Minister of Finance of Ukraine on European Integration, Oversight Team Chair), Mr. Daniel Boyce (Practice Manager, the World Bank), Mr. Patrick Piker Umah Tete, (Acting Practice Manager, the World Bank), and Mr. Martin Klaucke (Head of Section, Good Governance and Rule of Law, EU Delegation) for the guidance provided.

The Bank team would like to acknowledge the efficient cooperation and assistance received from the Ministry of Finance of Ukraine in coordinating this activity from the Ukrainian side, in particular from Mr. Igor Shevliakov (Head of Expert Group on European Integration), Mr. Volodymyr Lozytskiy (Director of the State Budget Department), Mr. Mykhailo Bosak (Deputy Director of the State Budget Department), Mr. Ihor Buhhak (Head of the Office of Financial Control), Ms. Lyudmyla Haponenko (Head of the Department of Accounting Methodology and Regulatory Support of Audit Activities), Ms. Polina Yarova (Head of the Debt Policy Department), Ms. Iryna Troshchii (Deputy Director of the Department for Harmonization of State Internal Financial Control), Ms. Larysa Kalinichenko (Head of the Government Finance Statistics Unit). The team is grateful to all government institutions involved for their constructive collaboration at the stages of assessment and report finalization.

Table of Contents

Abbreviations and Acronyms	VI
Executive summary	VIII
Overview of the scores of the 2019 PEFA indicators	XIII
1. Introduction	2
2. Country background information	5
3. Assessment of PFM Performance	15
PILLAR ONE: Budget Reliability	15
PI-1. Aggregate expenditure outturn	15
PI-2. Expenditure composition outturn	16
PI-3. Revenue outturn	18
PILLAR TWO: Transparency of Public Finances	20
PI-4. Budget classification	20
PI-5. Budget documentation	21
PI-6. Central government operations outside financial reports	25
PI-7. Transfers to subnational governments	28
PI-8. Performance information for service delivery	31
PI-9. Public access to fiscal information	36
PILLAR THREE: Management of Assets and Liabilities	41
PI-10. Fiscal risk reporting	41
PI-11. Public investment management	46
PI-12. Public asset management	51
PI-13. Debt management	55
PILLAR FOUR: Policy Based Fiscal Strategy and Budgeting	59
PI-14. Macroeconomic and fiscal forecasting	59
PI-15. Fiscal strategy	62
PI-16. Medium-term perspective in expenditure budgeting	64
PI-17. Budget preparation process	67
PI-18. Legislative scrutiny of budgets	70
PILLAR FIVE: Predictability and Control in Budget Execution	75
PI-19. Revenue administration	75
PI-20. Accounting for revenue	78
PI-21. Predictability of in-year resource allocation	80
PI-22. Expenditure arrears	83
PI-23. Payroll controls	85
PI-24. Procurement	88
PI-25. Internal controls on non-salary expenditure	94
PI-26. Internal audit	98

PILLAR SIX: Accounting and reporting	104
PI-27. Financial data integrity	104
PI-28. In-year budget reports	107
PI-29. Annual financial reports	109
PILLAR SEVEN: External Scrutiny and Audit	112
PI-30. External audit	112
PI-31. Legislative scrutiny of audit reports	116
4. Conclusions of the analysis of PFM systems	119
5. Government PFM reform process	125
Annexes	127
Annex 1: Performance indicator summary	127
Annex 2: Summary of observations on the internal control framework	144
Annex 3: Sources of information	149
Annex 4: Calculations for PI-1, PI-2 and PI-3	161
Annex 5: The structure of inter-budgetary transfers by types of budgets in 2018 <i>(percentage)</i>	165
Annex 6: The structure of transfers from the State Budget to local budgets in 2018 <i>(thousand UAH)</i>	167
Annex 7: Financial reports of public corporations	171
Annex 8: Extended assessment of investment	178

Abbreviations and Acronyms

ACU	Accounting Chamber of Ukraine
AMC	Antimonopoly Committee of Ukraine
ATCs	Amalgamated territorial communities
BC	Budget Committee of the Verkhovna Rada of Ukraine
BCU	Budget Code of Ukraine
CG	Central Government
CPI	Consumer price index
DMS	Medium-term government debt management strategies
EBOs	Extra Budgetary Operations
EC	European Commission
EU	European Union
EUroPAF	EU Program for the Reform of Public Administration and Finances
FY	Fiscal Year
GDP	Gross domestic product
GFS/COFOG	Government Financial Statistics / Classification of the Functions of Government
GoU	Government of Ukraine
HR	Human Resource
IA	Internal Audit
IFI	International Financial Institutions
IIA	Institute of Internal Auditors
IMF	International Monetary Fund
IPSAS	International Public Sector Accounting Standards
ISSAI	International Standards of Supreme Audit Institutions
KPIs	Key performance indicators
KSU	Key Spending Unit of State Budget Funds
LPP	Law of Public Procurement
M1 WL	Weakest link method
M2 (AV)	Averaging method
MoE	Ministry for Development of Economy, Trade and Agriculture of Ukraine
MoES	Ministry of Education and Science of Ukraine
MoF	Ministry of Finance of Ukraine
MoH	Ministry of Health of Ukraine
MSP	Ministry of Social Policy of Ukraine
MTBF	Medium-term Budget Framework
MYS	Ministry of Youth and Sports of Ukraine
NBU	National Bank of Ukraine
NPSAR(S)	National Public Sector Accounting Regulations (Standards)
PEFA	Public Expenditure and Financial Accountability
PFM	Public Finance Management

PIP	Public Investment Project
PPP	Public-Private Partnership
SAS	State Audit Service of Ukraine
SD programs	Programs, related to service delivery
SDUs	Service delivery units
SFS	State Fiscal Service of Ukraine
SIDA	Swedish International Development Cooperation Agency
SNG	Subnational Government
SOE	State-owned enterprise
SPFU	State Property Fund of Ukraine
Treasury	State Treasury Service of Ukraine
TSA	Treasury Single Account
VAT	Value Added Tax
VRU	Verkhovna Rada of Ukraine (Parliament)

Currency and Indicative Exchange Rates

Local Currency Unit: Ukrainian Hryvnya (UAH)

1 US\$ = 26.17 UAH

1 EUR = 29.73 UAH

As of June 30, 2019

Fiscal Year

January 1 – December 31

Executive summary

- 1. The main purpose of the 2019 PEFA assessment is to provide the Government of Ukraine with an objective and up-to-date diagnostic of the national-level public financial management performance based on the latest internationally recognized PEFA methodology.** The 2019 PEFA is an assessment of the quality of the Ukrainian PFM system and monitors the results achieved through PFM reforms undertaken since the 2015 PEFA assessment. More specifically, the PEFA assessment measures which processes and institutions contribute to the achievement of desirable budget outcomes, aggregate fiscal discipline, strategic allocation of resources, and efficient service.
- 2. The assessment covers the central government.** It also includes the Ministry of Economy as the authorized body for Procurement Service, State Audit Service, Budget Committee of the Verkhovna Rada of Ukraine (Parliament), State Fiscal Service of Ukraine (revenue administration), and Accounting Chamber of Ukraine (supreme audit body). It also assesses aspects of the three extrabudgetary funds and qualifying state-owned enterprises in terms of the relevant indicators. A substantial number of government officials participated in the assessment.
- 3. Since the last PEFA assessment, overall reforms across the Ukrainian PFM system have proceeded gradually and progressively.** Specifically, the Government has made progress in: (i) implementing medium-term budget planning; (ii) integration of International Public Sector Accounting Standards (IPSAS) into Ukraine's statutory framework and the adoption of the 2025 public sector accounting (PSA) strategy; (iii) improving macroeconomic and budget forecasting tools; (iv) increasing transparency in public financial management through the introduction of an open budget portal; (v) fiscal risk management, and (vi) gradually introducing a gender-oriented approach to budgeting.
- 4. The Ministry of Finance is leading implementation and measuring progress of the PFM reform based on the PEFA-based PFM Reform Strategy. It has expressed its interest to update that strategy based on the 2019 PEFA findings and subsequent recommendations.** The 2017-2020 PFM Reform Strategy approved at the beginning of 2017 is aimed at establishing a modern and efficient PFM system that provides quality public services through the efficient accumulation of resources that fund medium- and long-term development priorities. The PFM Reform Strategy focuses on four priority directions: (i) adherence to general budget and taxation discipline in the medium-term; (ii) increasing the efficiency of reallocating resources when setting state policy; (iii) ensuring the efficient execution of the State Budget; and (iv) increasing transparency and accounting in public financial management.
- 5. Under the MoF's coordination, the 2019 PEFA assessment is led and undertaken by the World Bank within the Parallel EC-World Bank Partnership Program** for the Reform of Public Administration and Finances (EUROPAF). Some development partners (SIDA and US Treasury) participated in the assessment. The assessment covered fiscal years 2016 to 2018 and was performed in April/June 2019. The cut-off date was June 29, 2019. Assessment management and quality assurance arrangements are presented in Box 1.1 below.
- 6. Ukraine is an eastern European country with a population of about 42 million. The country has experienced acute political, security, and economic challenges during the past five years.** Since the "Maidan" uprising in February 2014 that led to the ousting of the President, the country has witnessed several momentous events, including the outbreak of conflict in eastern Ukraine and presidential, parliamentary, and local elections. Ukraine's relatively small and open economy has significant economic potential. It possesses a good agricultural land base, minerals and raw materials, and has a manufacturing base supported by an educated workforce and an expanding internal market. After experiencing a deep economic crisis in 2014-2015, economic growth resumed in the last few years at a rate of 2.4 percent in 2016, 2.5 percent in 2017, and 3.3 percent in 2018.
- 7. Overall there are positive features in the PFM system in Ukraine.** The production of accurate total revenue projections has ensured that the budget is spent as planned with few arrears due to strong commitment control with virement and supplementary budgets managed well. Ukraine has an impressive

array of information regarding the finances of budgetary central government. The Chart of Accounts, which underpins budget preparation, execution and reporting, is comprehensive but still requires work to fully integrate the budget and reporting elements. Information is included in the budget on a timely basis. Apart from the three social security funds, there is complete data regarding operations for public bodies in the budget documentation. However, these funds are significant in size, but they do produce annual budget and financial statements outside of the overall government reports. A large part of transfers to subnational governments mostly related to social protection, health and education services is transparently determined, while the Cabinet allocates some other transfers between local budgets after the approval of budgets during the fiscal year; sometimes transfers happen in the last months of the year, which may lead to ineffective use of budgeted funds. Mentioned is mostly applied to capital transfers which amounted 48.3 percent of the total amount of public capital investments financed by the State Budget in 2018, 56.1 percent in 2019 and 54.8 percent in 2020 year. Information on plans and achievements in service delivery performance is strong and there is good tracking of resources to service delivery units reflecting the strong accounting and reporting system. Public access to fiscal information is strong, including a citizen's (summary) budget which was produced for the first time as part of the most recent budget.

8. **Management of assets and liabilities shows uneven performance.** A comprehensive process is lacking in management of the public investment program. There is reporting of fiscal risks from state owned enterprises and local government but greater auditing of both sets of financial statements is required to make improvements. Public asset management is good but could be improved with better information on the usage and the age of non-financial assets. Debt recording management and approval are strong, but the debt management strategy lacks complete borrowing targets. The public procurement system is good, and this reflects the ProZorro electronic procurement system which has been recognized internationally and has received several awards. However, the share of competitive base electronic auctions could be increased. The public investment management lacks strategic and transparent allocation of resources and investment project costing. Selection of the major investment project is carried out according to the established selection procedures based on the standard criteria, but budget funds, including inert-budgetary transfers, are dispersed across medium or small size projects, and spending for projects which fall into the budget beyond competitive selection nearly double properly selected investments.

9. **Some limited progress has been made towards a comprehensive medium-term expenditure framework.** There is good information on the specification and evaluation of key performance indicators. However, this is not linked in a medium-term approach to expenditure budgeting as the budget is presented for the up-coming year only. The overall fiscal strategy only focuses on the budget year but does contain objectives to be achieved and there is no reporting against outcomes. There are no hard ceilings for budget preparation and there are only some costed sector strategies for budget formulation. The budget calendar does not provide adequate time to prepare individual budgets. The legislature only considers fiscal policies and aggregates for the budget year and not the medium-term.

10. **The State Fiscal Service of Ukraine was responsible for revenue collection at the time of the assessment.** The taxation system is based on comprehensive legislation providing information on the tax liabilities of taxpayers with respect to obligation and a redress system that guarantees independence from the administration. A comprehensive risk-based approach to administering revenues is lacking which impinges on audit planning. Revenue collected is relatively well managed in terms of the flow of funds to the Treasury and recording of transactions.

11. **The consolidation of cash balances in the Treasury Single Account at the National Bank of Ukraine is made on a daily basis.** The Treasury forecasts the annual cash flow broken down by month and updates the projections monthly. Monthly forecasts with daily cash flow estimates are also developed, however that forecast is limited to the calendar month and does not project beyond that month. Spending units can commit funds up to the value of their annual budget allocations and make payments up to the value of their monthly apportionment limits.

12. **Overall the payroll system requires strengthening.** Each budgetary agency is responsible for maintaining its own payroll accounting system but information on employees and remuneration is not reconciled. Changes to the employee information and salary are made within three months following clear and detailed rules, and procedures provide a clear audit trail. There are regular inspections that monitor the eligibility, timeliness and completeness of salary payments but full payroll audits are conducted on average only once every three years.

Summary of 2019 PEFA Assessment Ratings: Indicators by Pillar

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

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

13. **Internal controls on non-salary expenditure show effective commitment controls and compliance with payment rules and procedures but segregation of duties with clear responsibilities could be improved.** The positive achievements are ensured by the management information system (“E-Treasury”) that supports the Treasury Single Account (TSA). The internal audit function is being developed and activities are primarily focused on compliance. Harmonizing systems and processes needs to be expanded in terms of effective coverage. Good implementation of internal audit recommendations ensures the effectiveness of the audit program.

14. **Accounts reconciliation and financial data integrity are areas of strength.** Data integrity is good as access and changes to records are restricted and recorded with a sufficient audit trail. However, the system lacks a dedicated operational unit. With respect to in-year budget reports, coverage and classification of data allows for direct comparison to the original budget. There are both monthly and quarterly budget execution reports at the payment stage and there are no material concerns regarding data accuracy. The annual financial statements include complete information on assets, liabilities (including long-term), revenue, expenditure, and reconciled cash statements and are submitted for external audit within three months. The national public sector accounting standards are largely consistent with the international standards. However, the differences between applicable national provisions and IPSAS are not presented. External audit is an area of significant strength. The financial statements are audited using standards based on International Standards of Supreme Audit Institutions (ISSAI). The content of audit completion certificates as well as recommendations and auditees’ reports on the elimination of detected shortcomings and implementation of audit recommendations are all published. Legislative scrutiny of audit reports is timely and transparent. However, the hearing of audit findings and follow up on audit recommendations could be improved.

Aggregate Fiscal Discipline

15. **Aggregate fiscal discipline is achieved due to control over spending during budget execution, as well as relatively realistic revenue forecasts.** Revenue administration ensures that revenues are efficiently collected, but the relative weaknesses in applying risk-based approaches to enforcement undermine overall discipline. The planned budget, on an aggregate basis, is not circumvented using virement and supplementary budgets. Treasury operations and cash management enables expenditures to be managed within the available resources. Control of contractual commitments is effective and has removed expenditure arrears. The external audit function enhances fiscal discipline.

Strategic allocation of resources

16. **The Chart of Accounts caters to a multi-dimensional analysis of expenditure.** However, there is an absence of a medium-term perspective in expenditure budgeting. Performance indicators are specified, and there is assessment and independent evaluation of performance achievement. Costed strategic plans, aligned to the budget process, are generally lacking and wider coverage would assist in the development of performance plans. There is an emphasis on overall fiscal forecasting, but this does not extend to a multi-year fiscal strategy to assist in resource allocation. Better management of investment would improve the strategic allocation of resources. Better allocation would ensure that the recurrent cost implication of investment is better factored into the budget process and that investments are also subjected to economic analysis and selected to generate the best return.

Efficient use of resources for service delivery

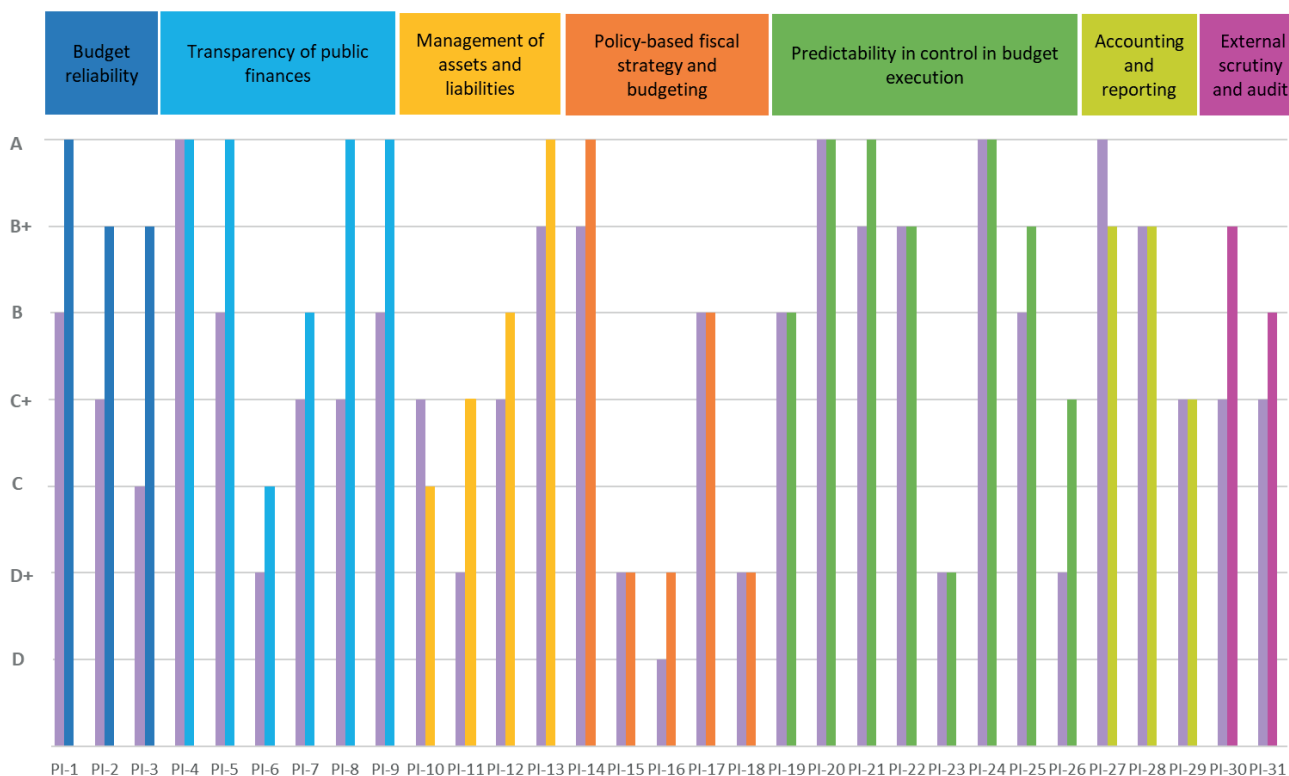
17. **The strength in the procurement process is good and impacts efficiency in service delivery though it may be possible to have more contracts based on competitive bidding.** Weakness in the payroll system particularly with the integration of payroll and personnel systems may mean that staff are not used effectively. The strengths in the accountability mechanisms make external audits effective as counter checks on inefficient use of resources. The annual production of consolidated annual financial statements ensures the timely impact of audits. The monthly (and quarterly) budget execution reports also ensure that there is a well-timed

assessment of resource usage relating to the planned budget. Publishing of performance targets and outcomes and their achievements supports the efficient use of resources in service delivery units as does the evaluation of performance.

Performance changes since the previous assessment

18. The 2019 PEFA and the previous PEFA assessments were carried out using the 2016 methodology so it is possible to compare both sets of scores directly. 29 of the 94 dimensions over 21 of the 31 indicators improved. This is a significant achievement and is testament to the hard work in implementing the PFM reform program. The score in 4 dimensions in 4 indicators declined. The changes in the indicator scores are presented in Figure 1.

Figure 1. Performance Changes In Overall Scores Since 2015 Using Pefa 2016 Framework



Overview of the Scores of the 2019 PEFA Indicators

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

1. Introduction

1.1 Rationale and purpose

19. **The main purpose of the 2019 PEFA assessment is to provide the Government of Ukraine with an objective and up-to-date diagnostic of the national-level public financial management performance based on the latest internationally recognized PEFA methodology.** The 2019 PEFA is an assessment of the quality of the Ukrainian PFM system and monitors the results achieved through PFM reforms undertaken since the 2015 PEFA assessment. More specifically, the PEFA assessment measures which processes and institutions contribute to the achievement of desirable budget outcomes, aggregate fiscal discipline, strategic allocation of resources, and efficient service delivery. The Ministry of Finance of Ukraine has expressed its interest to update the 2017-2020 PFM Reform Strategy based on the 2019 PEFA's findings and subsequent recommendations as a result of the PEFA assessment.

1.2 Assessment management and quality assurance

20. **This assessment is an external assessment led and undertaken by the World Bank under the Parallel EC-World Bank partnership Program for the Europe and Central Asia Programmatic Single-Donor Trust Fund/EU Program for the Reform of Public Administration and Finances (EUroPAF).** Other stakeholders of the PEFA assessment are national authorities and development partners (Sweden and the US Treasury) involved in PFM activities in Ukraine. The assessment oversight and management team included the Ministry of Finance, the World Bank, and the Delegation of the European Union to Ukraine.

21. **The Ministry of Finance coordinated the PEFA assessment for the Government.** This effort included data collection, advising the World Bank on key counterparts for individual indicators, and facilitating the arrangement of meetings between the PEFA assessment team and government counterparts. In addition, the Ministry of Finance assisted the provision of required information by other Government institutions (MoE, SAS, SFS, SPFU and others) and coordinated the Government's review of the Concept Note and assessment report.

22. **The World Bank, as the leader of this PEFA assessment, managed the work on behalf of the development partners.** It was responsible for the assessment undertaking, its quality assurance, and consolidating inputs of development partners. The EU funded the assessment and had a supervisory role as a member of the oversight and management team, and at the operational level reviewed the relevant documents, including the Concept Note and PEFA report, but without responsibility to be part of the assessment team. All members of the oversight team served as reviewers of the Concept Note and the PEFA assessment report. The assessment management and quality assurance arrangements are presented in Box 1 below.

23. **A substantial number of Government officials were interviewed, readily providing most of the documentation used for the assessment, as well as their views and insights on all the subjects covered.** Some development partners (SIDA and US Treasury) participated in the assessment. Others (IMF, the PEFA Secretariat and EC) contributed as reviewers of the Concept Note. The EC funded the PEFA assessment and was informed on the process, and its representative participated in meetings. The World Bank participated in the management and review process and also in active membership in the assessment team.

BOX 1.1. Assessment management and quality assurance arrangements**PEFA assessment management organization**

- Oversight Team — Mr. Yurii Heletiy, Deputy Minister of Finance on European Integration – Oversight Team Chair, Mr. Daniel Boyce, Practice Manager, World Bank, Mr. Martin Klaucke, Head of Section, Good Governance and Rule of Law, EU Delegation
- Assessment Team Leader and Team Members:
 - o **The World Bank:** Iryna Shcherbyna (*Team Leader*), Oleksii Balabushko, Dmitri Gourfinkel, Iryna Babich, Dmytro Donets, Barbara Ziolkowska, Inna Samchynska, Nataliia Ostapiuk, Nataliia Konovalenko, (*team members*); Daria Gulei, Anastasia Soltis, Iryna Kuzmina (*logistics and administrative support*)
 - o **US Treasury:** Seta Vandegrift
 - o **PEFA Secretariat:** Julia Dhimitri
 - o **Swedish Gov,** GRB Project: Maja Bosnic, Nihad Nakas

Review of Concept Note and/or terms of reference

- Draft Concept Note was circulated to Government of Ukraine and other peer reviewers on March 5, 2019
- Invited reviewers:
 - o **PEFA Secretariat**
 - o **The Ministry of Finance of Ukraine:** Oleksii Zhak, Director, Department for Strategic Planning and European Coordination
 - o **The World Bank:** Lewis Hawke, Lead Public Sector Specialist;
 - o **The Delegation of the European Union to Ukraine:** Alexandra Janovskaia, First Secretary; Policy Officer; Economic Reforms – Public Finance Management.
 - o **The International Monetary Fund:** Michelle Stone – Technical Assistance Adviser, Public Financial Management in Fiscal Affairs Department.
- Reviewers who provided comments: Lewis Hawke (March 6); A. Janovskaia (March 7); PEFA Secretariat (March 11); O. Zhak (March 12); M. Stone (March 13)
- Date of final Concept Note sent to PEFA Secretariat: March 25, 2019

Review of the assessment report

- Validation Report draft circulated on September 9, 2019 to the Government of Ukraine and to peer reviewers
- Invited reviewers and dates when they provided comments: Ministry of Finance of Ukraine – September 30, 2019 and January 21, 2020; Ministry for Development of Economy, Trade and Agriculture of Ukraine – September 27, 2019; State Property Fund of Ukraine – September 24, 2019; State Audit Service of Ukraine – September 24, 2019; PEFA Secretariat – 1st Review October 1, 2019, 2nd Review December 9, 2019; Lewis Hawke, the World Bank, Lead Public Sector Specialist – October 8, 2019; the Delegation of the European Union to Ukraine – October 1, 2019

24. **Many team members drew on knowledge gained through ongoing involvement with the Government on public finance management issues.** These projects include the US Treasury technical assistance, PFM work under the EURoPAF activities implemented by the World Bank, and Swedish technical assistance on gender budgeting. Detailed consultations were held with other development partners during the development of both the Concept Note and preparation of the report itself. Consultations were held with civil society and private sector representatives. Initial scoring of indicators and evidence was discussed with Government counterparts based on their written response on July 22 and 23, 2019.

25. **The PEFA assessment took account of recent analytical work on PFM.** This work included the World Bank's Public Finance Reviews (2017 and 2018), IMF TA reports (2017-2018), and the Ukraine Public Investment Management for Public-Private Partnership (PPP) assessment (2017). These reports analyzed the progress made in key areas of public financial management as part of ongoing efforts and suggest a menu of policy reforms.

1.3. Assessment methodology

26. **Coverage of the Assessment:** The assessment covers the central government, comprising 83 budgetary institutions (sectoral ministries and other key spending units), Authorized Body for Procurement Service (Ministry for Development of Economy, Trade and Agriculture of Ukraine), State Audit Service, Budget Committee of the Verkhovna Rada of Ukraine (Parliament), Accounting Chamber of Ukraine, and State Fiscal Service of Ukraine (revenue administration). It also assesses aspects of the three extrabudgetary funds (the Pension Fund, Social Security Fund and Unemployment Fund) in terms of the relevant indicators (PI-6 Central government operations outside financial reports, and PI-19 Revenue operations) and qualifying state-owned enterprises (PI-10 Fiscal risk reporting).

27. **The assessment team considered the fiscal years 2016 to 2018 as the time period covered** by the assessment and the time of the assessment was April/June 2019. The cut-off date was June 29, 2019.

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

29. **Other methodological issues for the preparation of the report:** The assessment was carried out using the 2016 PEFA Framework. All 31 indicators (and their 94 dimensions) were assessed and followed the methodology without deviation in terms of coverage and application. As the previous PEFA assessment was also carried out using the 2016 methodology, scores for both assessments are directly comparable with one another. Annex 1 contains a comparison of the assessments.

2. Country background information

2.1. Country economic situation

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

31. **Ukraine’s relatively small and open economy has significant economic potential.** It possesses a good agriculture land base, mineral and raw materials, and has a manufacturing base supported by an educated workforce and an expanding internal market. After experiencing a deep economic crisis in 2014-2015¹, economic growth resumed in the last few years at a rate of 2.4 percent in 2016, 2.5 percent in 2017, and 3.3 percent in 2018. While the resumption of growth is a positive development, the recovery remains weak following the cumulative 15.8 percent contraction in 2014-2015. Foreign direct investment was weak at 1.9 percent of GDP in 2018, compared to 3.4 percent on average before the crisis (2011-2013). Exports of goods grew by 9.2 percent in 2018 mostly due to improving commodity prices, while imports of goods continued to grow by 14.0 percent due in large part to investment and intermediate goods, but also due to gradually recovering disposable incomes. There is a current account trade deficit in each of the past three years. Inflation has declined to just below 10.0 percent in 2018.

32. **Both gross government debt and external debt are on a steep declining trend since 2016.** The Ukraine currency, Hryvnia (UAH) follows the Government’s flexible exchange rate policy and was trading at UAH 26.2 per US\$ in June 2019 but has been as low as UAH 29.9 per US\$ in January 2018. Nominal GDP per capita in US\$ terms is approximately US\$3,220.

33. **Poverty remains above pre-crisis levels and faster economic growth is critical for raising household incomes going forward.** Real wages grew significantly in 2017 and 2018 in part due to the sharp increase in public sector wages. This, together with growth of pensions, led to a decline in moderate poverty (World Bank’s national methodology for Ukraine) from a peak of 26.9 percent during the crisis in 2015 to 19.9 percent in 2018 and an estimated 17.8 percent in 2019. Despite the decline, it still remains slightly above the pre-crisis level of 14.1 percent in 2013.

¹ Ukraine: Economic Growth and Fiscally Sustainable Services (*The World Bank*).

Table A. Selected economic indicators

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

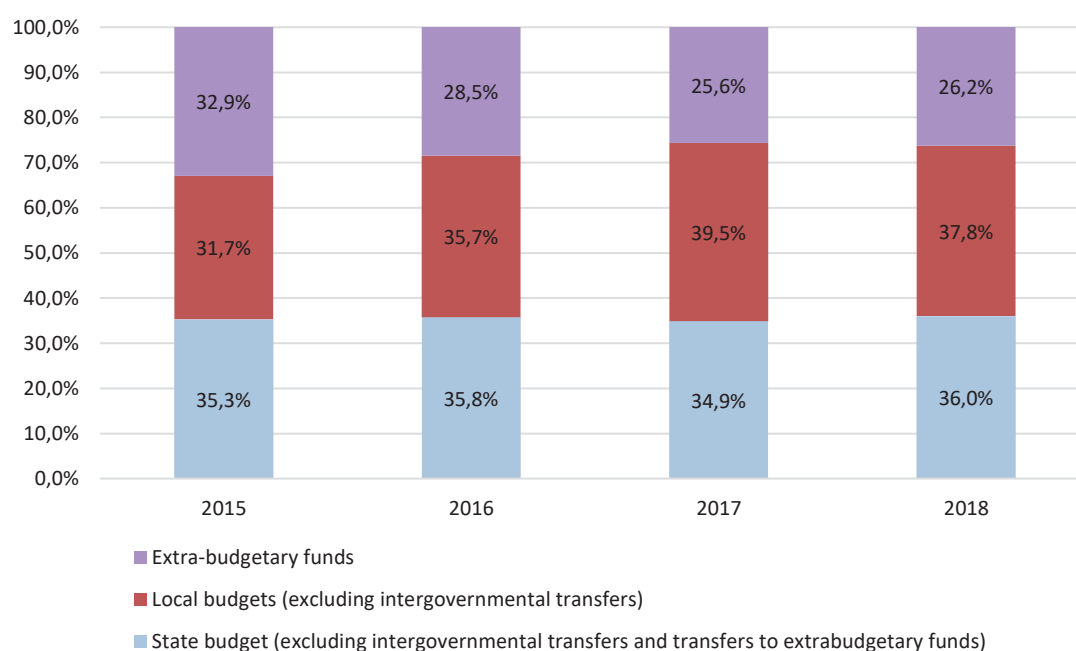
* World Bank calculations.

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

2.2. Fiscal and budgetary trends

34. In 2015-2018, the expenditures of the State Budget were equal to about 35.5 percent of the total central government expenditures (37.2 percent in 2010-2014), while local budgets accounted for about 36.2 percent (27.9 percent in 2010-2014) and the extrabudgetary funds 28.3 percent of expenditures (34.9 percent in 2010-2014). In 2010-2014, the portion of expenditures of the aforementioned funds did not change greatly, with their highest level in 2018 at 36.0 percent (see Figure 2). As a result of intergovernmental relations reform starting in 2015, the share of local budgets in expenditures increased, reaching 37.8 percent in 2018 compared with 32.6 percent in 2015 and 31.4 percent in 2014.

Figure 2. Central Government Expenditure Structure, 2015-2018



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

35. **Table B shows that revenue to GDP is around 26 percent from 2016 to 2018.** Expenditures over the three-year period to 2018 are on a declining trend and are 27.7 percent of GDP in 2018. There is thus an annual deficit but an annual primary surplus after interest payments have been deducted. Government debt and guaranteed debt has declined significantly from 2016 to 2018.

Table B. Aggregate fiscal data (% of GDP)*

Indicator	2016	2017	2018
Total revenue	25.8	26.6	26.1
- <i>Own revenue</i>	25.5	26.3	25.8
- <i>Grants</i>	0.3	0.3	0.2
Total expenditure	28.7	28.1	27.7
- <i>Noninterest expenditure</i>	24.6	24.4	24.4
- <i>Interest expenditure</i>	4.1	3.7	3.3
Net Credit	0.1	0.1	0.0
Aggregate deficit (including grants)	2.9	1.6	1.7
Primary surplus	1.1	2.1	1.6
Net financing	7.4	4.0	1.5
- <i>External</i>	1.4	1.2	1.3
- <i>Domestic</i>	6.0	2.8	0.2
State debt and State guaranteed debt	80.9	71.8	60.9

* Data does not include Pension fund and other extra-budgetary funds

Source: State Treasury Service of Ukraine.

36. **Table C shows the distribution of actual expenditure by the central government by function.** A salient feature of Table C is that some 30 percent of the total is taken up by inter-governmental transfers. Analysis of municipality spending indicates that health, education and social protection are significant areas of spending which can explain why central government spending in these areas may be lower than expected. Defense, public order, security and judicial authority and social protection and social security spending combined amount to the most significant part of central government spending on services it delivers.

Table C. Actual noninterest expenditures (current, capital) by function (% of total)

Item	2016	2017	2018
General public services	3.6	4.2	5.4
Defense	10.1	10.2	11.2
Public order, Security and Judicial Authority	12.2	12.1	13.4
Economic activity	5.3	6.5	7.3
Environment protection	0.8	0.7	0.6
Health protection	2.1	2.3	2.6
Culture and Sport	0.8	1.1	1.2
Education	5.9	5.7	5.1
Social protection and social security	25.8	19.8	18.8
Intergovernmental transfers	33.2	37.5	34.4
Housing and Communal Services	0.0	0.0	0.0
Total expenditures	100.0	100.0	100.0

Source: State Treasury Service of Ukraine.

37. **In terms of economic classifications, Table D below shows that transfers and others (including social welfare) are the single largest expenditure by far.** Wages and salaries show an increasing trend as does spending on goods and services, while interest payments are declining as a share of the total.

Table D. Consolidated actual expenditures by economic classification (% of total)

	2015	2016	2017
Current expenditures	96.1	95.1	92.9
- <i>Wages and salaries</i>	12.9	13.4	14.5
- <i>Goods and services</i>	14.0	14.5	16.0
- <i>Interest</i>	14.2	13.3	11.8
- <i>Transfers</i>	29.1	32.7	30.2
- <i>Others</i>	25.9	21.1	20.4
Capital expenditures	3.9	4.9	7.1
Total	100.0	100.0	100.0

Source: State Treasury Service of Ukraine.

2.3. Legal and regulatory arrangements for PFM

38. **Ukraine is a unitary, sovereign and independent, democratic, social and legal state, and a parliamentary-presidential republic.** The people exercise power directly through state authorities and local self-government bodies. Government in Ukraine is carried out according to the principle of its division into legislative, executive and judicial branches. Executive power in the country belongs to the Cabinet, and legislative power belongs to the Parliament (the Verkhovna Rada of Ukraine). The supreme body of the judiciary in Ukraine is the Supreme Court.

39. **The Constitution is the nation's fundamental law.** The Constitution was adopted and ratified at the 5th session of the Verkhovna Rada of Ukraine on June 28, 1996. The constitution mandates a pluralistic political system with the protection of basic human rights and liberties, and a parliamentary-presidential form of government.

40. **The Verkhovna Rada is the only legislative body of state power in Ukraine, and the President of Ukraine is elected by popular vote for a five-year term which is limited to two terms consecutively.** As a Parliament, the Verkhovna Rada has a collegiate structure and consists of 450 national deputies elected for a period of five years on the basis of universal, equal and direct suffrage by secret ballot. The Verkhovna Rada is the only legislative body authorized to pass laws. The powers of the Verkhovna Rada are realized through the collective activity of national deputies at its sessions. It ratifies international agreements and approves the budget.

41. **The Cabinet, commonly referred to as the Cabinet or Government of Ukraine, is the supreme body of executive power.** It is responsible to the President and the Verkhovna Rada (Parliament), and is under the control of and accountable to the Parliament within the limits provided by the Constitution. It consists of the Prime Minister, the First Vice-Prime Minister, three Vice-Prime Ministers, and other Ministers, who head their assigned ministries (departments). Ministerial positions are political and are regulated by the Constitution and the Law of Ukraine on the Cabinet. The Cabinet issues resolutions and orders that are mandatory for execution. The cabinet also possesses the power of legislative initiative and may introduce its own bills to the Parliament. The Parliament approves the Prime Minister after the President proposes a candidate. A vote in Parliament is required to approve or dismiss any government minister, and, except for the ministers of Defence and of Foreign Affairs, which are proposed by the President, the composition of the Cabinet is determined by the Parliament based on a petition by the Prime Minister. The President or one-third of members of the Parliament can initiate a vote of no confidence, but only once in a Parliamentary session.

42. **The judicial system of Ukraine consists of general jurisdiction courts (at three levels) and the Constitutional Court of Ukraine.** The courts of general jurisdiction form a single system, which consists of both general and specialized courts. The Supreme Court is the highest judicial body of general jurisdiction, and ensures the consistency of jurisprudence, although the Supreme Court may review the decisions of the

high specialized courts only in circumstances specified by law. Since the judicial reform of 2016, judges are appointed by the President upon their nomination by the Supreme Council of Justice.

43. **In June 2018 the High Anti-Corruption Court of Ukraine was established and it was expected to begin its work in late 2019.** Cases concerning corruption in Ukraine will be brought directly to this court. Appeals will be considered by a completely separate Appeal Chamber of the High Anti-Corruption Court.

44. **The Accounting Chamber of Ukraine established in 1996 is a supreme body of the independent external public financial control (audit) body subordinated to the Parliament.** The Chamber's main purpose is to provide control over the use of the State Budget of Ukraine.

45. **The bodies of the State Audit Service of Ukraine (SAS) and its interregional bodies carry out public financial control on behalf of the Government.** The SAS, established on October 28, 2015 as a result of the reorganization of the State Financial Inspection of Ukraine, is the central executive authority directed and coordinated by the Cabinet which forms and implements state policy regarding public financial control.

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

- The Budget Code, setting the overall regulatory frame for managerial accountability, internal control and internal audit in budget-spending entities
- Law on Basic Principles of State Financial Control, regulating tasks (including some audit) and powers of the State Audit Service
- The laws and rules concerning of the Treasury governing complete ex- ante commitment and payment controls
- The Cabinet Resolution No. 1001 of September 28, 2011 for the introduction of the internal audit function, and No.1062 of December 12, 2018 for the key principals of internal control in spending units
- Law on Accounting and Financial Reporting empowering the accounting departments role in the area of internal control
- Standards for Internal Audit of October 4, 2011 (Order N 1247 Minister of Finance)
- Methodological recommendations for Internal Control (Order Minister of Finance of 14.09.2012, No. 995, with changes dated December 10, 2014)

47. **The Budget Code specifies the key principles of organizing and conducting financial management and control, internal audit, accountability and responsibility of executives of public sector institutions and control over these institutions.** Budget Code article 26: Control and Audit for budget processes, together with Resolutions No. 1001 and No. 1062, define the regulatory framework for the internal control and internal audit responsibilities of the line ministries and other central organs of the executive (and their territorial organs and budget institutions).

48. **The Budget Code of Ukraine² with subsequent amendments is the fundament law covering all aspects of budget formulation, execution and reporting.** Ukraine unified its tax legislation into a single tax code in 2010. The tax code replaced numerous tax laws with comprehensive and coherent tax legislation and was amended in the course of the years after original approval. The Customs Code of Ukraine was approved in 2012 and came into force on June 1, 2012. The law on Accounting Chamber of Ukraine was adopted on July 2, 2015 and ratified by the President on August 5, 2015. The ACU is Ukraine's supreme audit institution, an independent body that reports to Parliament.

49. **The laws and regulations relating to public financial management are specified as part of the narrative in the relevant PEFA indicators in Chapter 3.**

² n2456-vi, dated 08.07.2010.

2.4. Institutional arrangements for PFM

50. **Institutions involved in Ukraine's budget process operate in accordance with internationally accepted practice.** The Government, the Ministry of Finance, the legislative body and the Accounting Chamber share their functions at different stages of the budget process. The Ministry of Finance and the Government have been implementing public financial management reforms which envisage strengthening of the capacity of all these institutions. They will continue to work in this direction.

Ministry of Finance

51. **The Ministry of Finance (MoF) is responsible for:**

- Forecasting and planning of budget revenues;
- Preparing analytical materials and forecast calculations;
- Defining the basic organizational and methodological principles of budget planning;
- Providing fiscal risk management;
- Managing State and State guaranteed debt;
- Providing regulation of intergovernmental relations between State and local budgets;
- Developing and implementing State policy in the field of other issues of the State financial and budgetary policy, of monitoring compliance with the budget legislation and State internal financial control;
- Managing Treasury and accounting operations.

52. **Functions in the MoF are structurally distributed to the relevant divisions.** Fiscal policy is planned and implemented through their coordinated work, including:

- **State Budget Department** prepares proposals and analytical materials for determining medium-term policy. Prepares annual draft budget and drafts of required legislative and normative acts. Coordinates the process of budget performance and prepares budget execution reports.
- **Debt Department** maintains a database on the total government debt and all State guarantees.
- **Department of the State Internal Financial Control Harmonization** became functional in 2017 and ensures the assessment, coordination and harmonization of internal audit, and internal control amongst budgetary units.
- **State Treasury Service of Ukraine (Treasury)** manages the Treasury Single Account and financial statements preparation.
- **State Financial Monitoring Service of Ukraine** prevents and counters the legalization (laundering) of proceeds from crime, the financing of terrorism and the proliferation of weapons of mass destruction;
- **State Fiscal Service of Ukraine** administers central and local budget revenues.

Ministry for Development of Economy, Trade and Agriculture

53. **The Ministry for Development of Economy, Trade and Agriculture is responsible for macro-economic forecasts, public procurement, public investment management and corporate policy, including the oversight of state-owned enterprises.** It carries out macro-economic forecasts and results of evaluations and the selection of public investments projects which are used in budget preparation, and approves the guidelines for development of key spending units' mid-term plans.

State Property Fund

54. **The State Property Fund maintains a register of the state-owned fixed assets.** It is the main authority responsible for the implementation of the privatization policy in Ukraine.

Public Procurement Body

55. **All public procurement is administered by the Ministry for Development of Economy, Trade and Agriculture, which is the authorized public procurement body.**

The Antimonopoly Committee of Ukraine

56. **The Antimonopoly Committee administers all complaints regarding the procurement process.**

State Audit Service

57. **The State Audit Service is a central executive body which elaborates and implements the State policy on State financial control.** The main objective of the SAS is to implement the policy on State financial control. This is aimed at assessing the effective, legal, targeted, efficient use and preservation of State (budget) resources, achieving budget savings; and eliminating the causes and conditions that led or may lead to the violations and deficiencies in the activities under control.

Accounting Chamber of Ukraine

58. **The Accounting Chamber is a supreme body of the independent external financial control (audit).** It carries out financial and performance audits, develops proposals and recommendations on measures to be taken for elimination and prevention of violations and deficiencies, and develops recommendations about improvement of relevant legislation. The Accounting Chamber also conducts an expert review of the draft Law on the State Budget and reports on its opinion. It reviews the annual report on execution of the Law of Ukraine on the State Budget for a relevant year submitted by the Government.

Parliament of Ukraine (Verkhovna Rada) and the Budget Committee

59. **The Budget Committee is responsible for the detailed consideration of the draft budget which is then debated and voted on by Parliament.** The Budget Committee scrutinizes the audits report of the Accounting Chamber and produces a report for the Parliament.

State Fiscal Service of Ukraine

60. **The State Fiscal Service of Ukraine (SFS) combines tax and customs administration and also collects social security payment financing on behalf of the pension fund and other social security funds.** In January 2019, the Cabinet approved reorganization of the SFS into separate State Tax Service (STS) and State Customs Service (SCS) units, however, as of June 2019 the reorganization has not been implemented.

State Statistics Service of Ukraine

61. **The goal of the State Statistics Service of Ukraine is to provide official statistics.** These are to reflect the state of the social, demographic, economic and natural environment of the country based on internationally recognized principles of statistics. The macroeconomic and fiscal parameters are agreed with the International Monetary Fund.

National Bank of Ukraine

62. **The National Bank provides independent monetary policy.** This is important for the stable development of the country and fiscal policy. The main function of the National Bank is to provide the stability of the monetary unit. The National Bank leads the country's monetary policy to ensure stability of prices and stimulates the stable functioning of the financial sector. It ensures stability and transparency of the financial system and promotes sustainable economic growth in the country. It develops and implements the monetary and credit policy, supervises the financial sector and ensures the function of the monetary – credit system. The National Bank is independent from Government in its activities.

2. Country background information

63. **The budget process in Ukraine is distributed between the executive and legislative powers.** The executive prepares and executes the State Budget, and the legislative body is responsible for budget adoption, amending and adding to the budget, State Budget, and control over execution through the Accounting Chamber. The list of key budget process participants and their major functions are summarized in Table E.

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

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

64. **The line ministries play a critical role in the PFM system.** Line ministries responsibilities include strategic and long-term planning, budgets preparation, including the development of budget programs and their performance indicators, developing projects of capital expenditures and their management, public procurement, budget management, shares management, supervision of public enterprises and internal control.

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

66. **Ukraine has three tiers of subnational government.** The top tier consists of 24 oblasts and the city of Kyiv. The second tier consists of 490 districts (rayons), 188 cities of oblast significance and amalgamated territorial communities (665). The third tier consists of cities of rayon significance and settlements and villages that have not been amalgamated into ATCs, yet (7,627). According to Article 118 of the Constitution, the executive power at the top tier and rayons is exercised by local state administrations. Executives at these levels are appointed by the President upon the recommendation of the Cabinet and are accountable to him. In this respect, subnational governments at the oblast and rayon level operate as deconcentrated agencies of the central government, rather than as governments accountable to local constituencies. Executives of cities of oblast significance and heads of ATC are directly elected, as well as heads of villages and towns (cities of rayon significance) that have not been amalgamated.

67. **Tables F to H show the structure of government in Ukraine in terms of number of units of general government and expenditure.** There are no extrabudgetary units as all agencies related to ministries are included in the budget and are included in the Treasury Single Account. Central government has 11,455 budgetary units. There are three Social Security Funds. Subnational government has a multi-layered structure which has over the recent past undergone significant reform (and continues to do so). As described in the previous paragraph, Ukraine has a three-tier government structure, in which each of its branches at the local level supervises the lower level. Nevertheless, the logic of the administrative hierarchy does not apply to the

public finance system, including inter-budgetary transfers. The Budget Code of Ukraine (BCU) differentiates revenue and executive power of each subnational tier and approaches in inter-budgetary relationships for each tier. Budgets of oblasts, rayons, cities of oblast significance and ATC receive transfers from the State Budget directly, and have their own revenue and expenditures power. Details are provided in the assessment of indicator PI-7.

Table F. Structure of public sector – number of entities

Year: 2018	Public Sector				
	Government Sub-sector		Social Security Funds ¹	Public Corporation	
	Budgetary Unit ²	Extra-budgetary Units		Sub-sector	
			Non-Financial Public Corporations	Financial Public Corporations	
Central	11,455	0	3	3,364 ³	5
Subnational	38,204	0	N/A	12,805 ⁴	N/A
1 st tier subnational (State)	N/A	N/A	N/A	N/A	N/A

N/A – Not Applicable

Notes to the table:

1. Depending on management control and funding arrangements, a social security fund is a public-sector entity that may form part of a particular level of government or be classified as a separate sub-sector of the government sector (GFS 2014, paragraph 2.78).
2. Budgetary Central Government comprises all central government entities included in the central government budget
3. In 2018.
4. At December 1st, 2018.

Source: Ukrainian authorities – Ministry for Development of Economy, Trade and Agriculture, State Treasury Service, State Statistics Service, <https://news.finance.ua/ru/news/-/418144/nbu-razdelil-banki-na-gruppy-na-2018-god-spisok>.

Table G. Structure of public sector – budget expenditure (UAH, billions)

Year: 2018	Central Government			
	Budgetary Unit	Extra-budgetary Units	Social Security Funds	Total Aggregated
Revenue	917.9	0	239.6	1,157.5
Expenditure	991.7	0	393.0	1,384.7
Transfers to (-) and from (+) other units of general governments	-443.0	0	139.4	-303.6
Liabilities (01/01/2018)	1,833.7	0	49.7	1,883.4
Financial assets (01/01/2018)	705.5	0	68.9	774.4
Nonfinancial assets (01/01/2018)	N/I	0	4.1	4.1

N/I – No Information

Source: Ukrainian authorities – State Treasury Service, Pension Fund, Social Insurance Fund and Unemployment Social Insurance Fund.

TABLE H. Structure of public sector – actual expenditure (UAH, billions)

Year: 2018	Central Government			
	Budgetary Unit	Extra-budgetary Units	Social Security Funds	Total Aggregated
Revenue	928.1	0	233.4	1,161.5
Expenditure	985.9	0	390.9	1,376.8
Transfers to (-) and from (+) other units of general governments	-441.8	0	150.1	-291.6
Liabilities (01/01/2018)	1,860.3	0	53.4	1,913.7
Financial assets (01/01/2018)	687.2	0	72.8	760.0
Nonfinancial assets (01/01/2018)	N/I	0	4.5	N/I
N/I – No Information				

Source: Ukrainian authorities – State Treasury Service, Pension Fund, Social Insurance Fund and Unemployment Social Insurance Fund.

2.5 Other important features of PFM and its operating environment

68. **The Budget Code provides for a centralized PFM system built around a TSA and an automated accounting and reporting system “E-Treasury”.** This system incorporates salary and other expenses as well as commitment controls and covers both central and local government. There are no earmarked revenues or extrabudgetary units in Ukraine except for sharing of some parts of income and company tax between central and local government. Financial control and scrutiny are exercised by the State Audit and Accounting Chamber. Audit reports are scrutinized by the Budget Committee in Parliament. A Budget Code was passed in 2010 and has been amended from time to time as ongoing PFM reforms are adopted. The Budget Code provides for public hearings on the budget formulation and Parliamentary hearings and debate for hearings on audit reports.

3. Assessment of PFM Performance

PILLAR ONE: Budget Reliability

PI-1. Aggregate expenditure outturn

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

69. 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. Implementing the budget as approved is an important aspect of the Government's ability to deliver public services for the year as expressed in fiscal/budgetary policy documents, output commitments and work plans. Coverage is budgetary central government. The assessment is based on the budget and actual expenditure for the last three completed fiscal years (2016, 2017 and 2018).

Summary of scores and performance table

Indicator/ Dimension	Current Assessment		Previous assessment <i>(applying PEFA 2016 framework)</i>	
	2019 Score	Brief justification for score	2015 Score	Explanation of change <i>(including comparability issues)</i>
PI-1: Aggregate expenditure outturn	A		B	
1.1 Aggregate expenditure outturn	A	Expenditure outturn deviation was below 5 percent in 2016-2018. The average annual variations across categories were 2.6 percent in 2016, 4.9 percent in 2017, and 0.6 percent in 2018.	B	There was a significant improvement in fiscal discipline since the 2015 PEFA assessment. The Government's efforts to undertake fiscal consolidation succeeded resulting in improvement of the score.

Performance level and evidence for scoring of the dimension

70. Ukraine's actual expenditures were very close to budgeted figure in 2016-2018. This was due to the Government's adherence to the IMF program. Under the IMF program, the Government achieved impressive fiscal consolidation. The budget deficit was reduced from 4.5 percent of GDP in 2014 to 2.2 percent of GDP in 2017. In addition, the quasi-fiscal deficit of Naftogaz was reduced by over 5 percent of GDP, making the fiscal discipline improvement even more impressive. In 2017, the fiscal deficit remained on target. An increase in expenditures by 11.7 percent in real terms from the doubling of the minimum wage, a 40 percent increase in wages of teachers and doctors, and higher spending on social programs (which reached 5.7 percent of GDP) was offset by strong revenue growth. In 2018 fiscal discipline weakened due to large wage and pension increases, however the central budget expenditures remained on track. The budget deficit stood at around 2.5 percent of GDP. Calculations and data for this indicator are included in Annex 4.

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

	FY 2016	FY 2017	FY 2018
Budget	667.8	800.0	991.7
Actual	684.9	839.5	985.9
% Deviation	102.6	104.9	99.4

71. The score for the indicator is A.

Performance change since the previous assessment

72. There was a significant improvement in fiscal discipline since the 2015 PEFA assessment. The Government's efforts to undertake fiscal consolidation succeeded in the improvement of the score.

Recent or ongoing reform activities

73. The authorities have continued to commit to sound fiscal policy, anchored in the new Stand-By Arrangement with the IMF (approved on December 18, 2018). The arrangement calls for a 14-month term and an overall amount of US\$ 3.9 billion. The 2019 budget was approved with the target deficit of 2.3 percent of GDP.

PI-2. Expenditure composition outturn

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

74. This indicator measures the extent to which reallocations between the main budget categories during execution have contributed to variance in expenditure composition. Where the sub-aggregate composition of expenditure varies considerably from the original budget, it is unlikely that the budget will be a useful statement of policy intent. The assessment is based on the budget and actual expenditure for the last three completed fiscal years (2016, 2017 and 2018). Coverage is Budgetary Central Government. Data and calculations for this indicator are included in Annex 4.

Summary of scores and performance table

Indicator/ Dimension	Scoring Method M1			
	Current assessment		Previous assessment <i>(applying PEFA 2016 framework)</i>	
	2019 Score	Brief justification for score	2015 Score	Explanation of change <i>(including comparability issues)</i>
PI-2: Expenditure composition outturn	B+		C+	
2.1 Expenditure composition outturn by function	B	Variance was below 10 percent in the last three completed fiscal years. The average annual variations across categories were 6.2 percent in 2016, 5.2 percent in 2017, and 6.3 percent in 2018.	C	The variations in budget outturns became considerably smaller, underscoring the improved fiscal discipline during 2016-2018.
2.2 Expenditure composition outturn by economic type	B	Variance was below 10 percent in the last three completed fiscal years. The average annual variations across categories were 5.8 percent in 2016, 6.8 percent in 2017, and 7.0 percent in 2018.	C	
2.3 Expenditure from contingency reserves	A	The actual expenditure charged to contingency fund did not exceed 1 percent of the original budget in the last three completed fiscal years.	A	The average amount of expenditure changed to a contingency vote remained low and continued to get an A score.

2.1. Expenditure composition outturn by function

Performance level and evidence for scoring of the dimension

75. **Despite the fiscal consolidation of 2016-2018, the Government improved on expenditure composition outturns.** This ensured that spending followed the priorities identified in the budget. The average annual variations across categories were 6.2 percent in 2016, 5.2 percent in 2017, and 6.3 percent in 2018. The functional breakdown was used to calculate the variance in budget composition.

Table 2.1. Expenditure Composition Variance by Functional Classification, 2016-2018

	FY 2016	FY 2017	FY 2018
Variance	6.2%	5.2%	6.3%

Source: Annual Budget Execution Reports, PEFA Team estimates.

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

2.2. Expenditure composition outturn by economic type

Performance level and evidence for scoring of the dimension

77. **Deviation of expenditure outturn by economic classification was below 10 percent for all three years covered by the assessment.** Capital expenditures were consistently higher than budgeted amounts, partially offsetting under-execution of capital spending in the previous years as identified by the 2015 PEFA assessment.

Table 2.2. Expenditure Composition Variance by Economic Classification, 2016-2018

	FY 2016	FY 2017	FY 2018
Variance	5.8%	6.8%	7.0%

Source: Annual Budget Execution Reports, PEFA Team estimates.

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

2.3. Expenditure from contingency reserves

Performance level and evidence for scoring of the dimension

79. **The actual expenditure charged to the contingency reserve fund typically accounts for less than 1 percent of the original budget expenditure and is subject to statutory limits, established in the Budget Code.** Allocations of resources from the reserve fund are made by decisions of the Government. Actual expenditure charged to the Reserve Fund (contingency) did not exceed 1 percent of the total original budget expenditure in any of the last three completed fiscal years.

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

Performance change since the previous assessment

81. **The variations in budget outturns became considerably smaller since the previous PEFA, underscoring the improved fiscal discipline during 2016-2018.**

PI-3. Revenue outturn

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

82. This indicator measures the change in revenue between the original approved budget and end of year outturn. Accurate revenue forecasts are a key input to the preparation of a credible budget. Revenues allow the government to finance expenditures and deliver services to its citizens. Optimistic revenue forecasts can lead to unjustifiable large expenditure allocations that will eventually require either an in-year and potentially disruptive reduction in spending or an unplanned increase in borrowing to sustain the spending level. On the other hand, pessimism in the forecast can result in the proceeds of an over-realization of revenue being used for spending that has not been subjected to the scrutiny of the budget process. As the consequences of revenue under-realization may be more severe, especially in the short term, the criteria used to score this indicator allow comparatively more flexibility when assessing an over-realization. The assessment is based on the budget and actual revenue from fiscal years 2016, 2017 and 2018. Coverage is Budgetary Central Government.

Summary of scores and performance table

Indicator/ Dimension	Scoring Method M2 (AV)			
	Current assessment		Previous assessment <i>(applying PEFA 2016 framework)</i>	
	2019 Score	Brief justification for score	2015 Score	Explanation of change <i>(including comparability issues)</i>
PI-3: Revenue outturn	B+		C	
3.1 Aggregate revenue outturn	A	The actual revenue was between 97 to 106 percent in 2 of the last three completed fiscal years, with the highest deviation in 2017. The deviation in 2016 was 3.5 percent, in 2017 – 8.5 percent, and in 2018 – 1.1 percent.	C	The indicator score improved since 2015 reflecting better and at the same time more conservative revenue forecast as well as economic recovery.
3.2 Revenue composition outturn	B	Revenue composition variance was less than 10 percent in the last three completed fiscal years. The variance in 2016 was 9.7 percent, in 2017 – 9.6 percent, and in 2018 – 8.2 percent.	C	

3.1. Revenue outturn

Performance level and evidence for scoring the dimension

83. The revenue forecast in Ukraine is undertaken by the Department of Tax, Customs Policy and Accounting Methodology of the Ministry of Finance based on the macro-economic forecast provided by the Ministry for Development of Economy, Trade and Agriculture (MoE). Budget revenues are determined by the base scenario (see PI-14). Therefore, revenue collection most of the time exceeds or meets the budgeted forecasts.

84. **The main factor of exceeding total revenues over forecast is “windfall” income from own revenues of spending units in part from grants, gifts and charitable contributions.** The average annual amount of such income was UAH 13.6 billion for 2016-2018. In 2017 there was significant “windfall” income from confiscated funds and funds received from the sale of property confiscated by a court decision for a corruption offense and corruption-related offenses (UAH 18.1 billion or 2.6 times more than originally planned). Conversely, in 2016, this income was not received with the plan of UAH 7.7 billion. In addition, corporate income tax exceeded the originally planned budget (about 116 percent).

85. **The revenue collection in Ukraine was higher than forecast in all three years under consideration.** The deviation in 2016 was 3.5 percent, in 2017 8.5 percent, and in 2018 1.1 percent above the forecast. Calculations and data for this indicator are included in Annex 4.

Table 3.1. Revenue Deviation Actual from Budget, 2016-2018

	FY 2016	FY 2017	FY 2018
Deviation	3.5%	8.5%	1.1%

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

3.2. Revenue composition outturn

Performance level and evidence for scoring the dimension

87. **Revenue composition variance over the reporting period was less than 10 percent in 2016-2018 and was on a declining trend, reflecting improved revenue forecasting.** The taxes on profit, income and capital gains have continuously outperformed revenue forecast in the budget documents.

Table 3.2. Revenue Composition Variance, 2016-2018

	FY 2016	FY 2017	FY 2018
Deviation	9.7%	9.6%	8.2%

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

Performance change since the previous assessment

89. **The indicator score improved since 2015.** This reflects better and at the same time more conservative revenue forecast as well as the economic recovery.

PILLAR TWO: Transparency of Public Finances

PI-4. Budget classification

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

90. This indicator evaluates the extent to which the government budget and accounts classification is consistent with international standards. Time period is last completed fiscal year. The coverage is Budgetary Central Government.

91. The application of budget classifications is governed by Articles 8 to 12 of the Budget Code, which provides for the definition, scope, and classification of data. In accordance with the Budget Code, the Ministry of Finance approves the budget classification, except for the programmatic classification of expenditure and lending (Order of the Ministry of Finance No. 11 dated 14 January 2011 “On Budget Classification”). The programmatic classification of expenditure and lending is approved annually with the State Budget law.

Summary of scores and performance table

Indicator/ Dimension	Current Assessment		Previous assessment <i>(applying PEFA 2016 framework)</i>	
	2019 Score	Brief justification for score	2015 Score	Explanation of change <i>(including comparability issues)</i>
PI-4: Budget classification	A		A	
4.1 Budget classification	A	The budget and reporting on its execution are based on all classifications which meet the requirements of the IMF Government Finance Statistics Manual/Classification of the Functions of Government. Moreover, programmatic classification is applied.	A	No significant changes in the budget classification were observed.

Performance level and evidence for scoring the dimension

92. Budget classification has the following components:

- Classification of revenue (divided into tax and non-tax revenue, revenue from capital transactions, and transfers);
- Functional classification;
- Departmental classification;
- Economic classification of expenditure;
- Lending classification;
- Classification of financing by type of creditor;
- Classification of financing by type of debt obligation;
- Classification of debt by type of creditor; and
- Classification of debt by type of debt obligation.

93. **The budget classification is close to the IMF Government Finance Statistics Manual of 2001 in accordance with the Final Formulation of Methodology under the IMF Special Data Dissemination Standard.** Previously, the budget classification was consistent with the IMF Government Finance Statistics Manual of 1986. Although the process of transition to the 2001 version has begun, the accrual-based standards consistent with IPSAS are yet to be implemented in full. Budget-sustained institutions and compulsory state social and pension insurance funds use the accrual method. The Treasury accounts for the execution of state and local budgets on the cash basis using accruals in separate transactions (accounting of government debt, liabilities of spending units).

94. **When planning and approving the budget by expenditure, administrative and programmatic classifications are used together with the economic classification at the third digit level.** Each budget program code corresponds to a subfunctional classification code (through a conversion table prepared by the MoF). Annual budgets present a breakdown by the programmatic classification. However, based on the relationship between programmatic and functional classifications, the MoF formed and analyzed expenditures by functional classification at all stages of the budget process.

95. **Annual and in-year budget reports consist of the financial information by programmatic, functional and economic classification at the fourth digit level, while detailed information about budget programs could be found in other documents.** The Treasury issues reports on budget execution, while KSU produced documents which describe budget programs in more detail, including budget requests and passports. The Budget Code identifies a budget program as a range of measures aimed at achieving a common objective, tasks, and the expected result, identified and implemented by a spending unit according to its respective functions. Characteristics of budget programs include their tasks, areas of use of budget funds, performance indicators, etc. The Treasury publishes budget execution reports by all budget classifications.

96. **Extrabudgetary funds of compulsory State social insurance are not included in the State Budget³.** However, they draw up estimates and reports in accordance with the economic classification of expenditure.

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

Performance change since the previous assessment

98. **Compared with 2015, the assessment of the indicator has remained unchanged.**

Recent or ongoing reform activities

99. **The Cabinet approved the Strategy for the Modernization of the Public Sector Accounting and Financial Reporting System until 2025⁴.** Among other things, it entails analyzing a possibility to present budget execution operations using accrual accounting.

PI-5. Budget documentation

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

100. **This indicator assesses the comprehensiveness of the information provided in the annual budget documentation, as measured against a specified list of basic and additional elements.** Assessment time period is the last budget submitted to the legislature (Budget 2019). Coverage is Budgetary Central Government.

³ The Pension Fund of Ukraine, the Compulsory State Social Insurance Fund of Ukraine for Unemployment and the Social Insurance Fund

⁴ Order No. 437 June 2018.

Summary of scores and performance table

Indicator/ Dimension	Current assessment		Previous assessment <i>(applying PEFA 2016 framework)</i>	
	2019 Score	Brief justification for score	2015 Score	Explanation of change <i>(including comparability issues)</i>
PI-5: Budget documentation	A		B	
5.1 Budget documentation	A	Budget documentation contains 10 elements, including all basic ones. Each of them is publicly available. As part of macroeconomic assumptions, forecast indicators of the exchange rate and interest rates are given only for the planned year.	B	Information on the medium-term forecast and on the assessment of tax expenditures was included in budget documentation. This affected the improvement of the score from B to A.

5.1. Budget documentation**Performance level and evidence for scoring the dimension**

101. **The annual budget proposal of the Executive ensures an understanding of the Government's fiscal forecast and the actual outcomes of budget execution in the current and previous years.** In accordance with Article 38 of the Budget Code, the following information is submitted along with the draft budget: an explanatory note; forecast indicators of the consolidated, state and local budgets; a list of tax and fee benefits; amounts of funds used for the fulfillment of state target programs; a list of public investment projects; information on government debt and government-backed debt; a plan for state borrowing and investment projects under which State guarantees may be provided; a report on the execution of the State Budget in the current year; key spending units' explanations to the draft State Budget; information on the goals of state policy in the relevant area which is ensured by the key spending unit and indicators of their achievement, etc.

102. **Parliament's website provides the information described in the previous paragraph for 2018 at the following address:** http://w1.c1.rada.gov.ua/pls/zweb2/webproc4_1?pf3511=64598

103. **There is compliance with the four basic and six additional elements.** Compliance is ensured by documents that the Cabinet submits to the Parliament together with the draft budget as well as other documents submitted by the Government to the Parliament or documents approved by the Parliament. Thus, the annual report on execution of the State Budget submitted by the Cabinet to the Parliament contains: (1) actual figures for the previous year in the same format as the draft budget submitted; (2) information on financial assets; and (3) aggregate actual indicators for the previous year and indicators planned for the current year on revenue and expenditure for the budget classification with a detailed breakdown. The approved State Budget law, which is published on the website of the Parliament, includes indicators approved for the current year in the same format as the draft budget submitted as well as the indicated aggregate target indicators for the current year. Since in 2018 the aggregate actual and planned indicators, following an initiative by the Ministry of Finance, were incorporated in the budget documentation to the draft State Budget law for 2019, the relevant explanation is given in Table 5.1. The budget documentation also has information that is consistent with the remaining seven elements.

104. **Table 5.1 presents the four basic and six additional PEFA elements.**

Table 5.1. Compliance with the four basic and six additional elements

Elements	Consistent or not consistent (Yes/No)	Explanation
Basic elements		
1. Forecast of the fiscal deficit or surplus or accrual operating result	Y	Indicated in Annex 2 to the draft State Budget law.
2. Previous year's budget outturn, presented in the same format as the budget proposal	Y	The annual report submitted by the Cabinet to the Parliament and published on the website of the Treasury contains actual indicators for the previous year in the same format as the indicators of the draft budget submitted.
3. Current fiscal year's budget presented in the same format as the budget proposal	Y	Annexes to the approved State Budget law for the current year, which can be found on the website of the Parliament, contain approved indicators for the current year in the same format as the indicators of the draft budget submitted.
4. Aggregated budget data for both revenue and expenditure according to the main heads of the classifications used, including data for the current and previous year with a detailed breakdown of revenue and expenditure estimates	Y	The indicators of the State Budget for 2017-2018 submitted together with the draft budget for 2019 contain aggregate actual revenue and expenditure indicators by budget classification with a detailed breakdown for the previous year and approved for the current year.
Additional elements		
5. Deficit financing, describing its anticipated composition	Y	Indicated in Annex 2 to the draft State Budget law.
6. Macroeconomic assumptions, including at least estimates of GDP growth, inflation, interest rates, and the exchange rate	Y ⁵	The explanatory note to the draft budget contains projected GDP growth and inflation for three years. The same explanatory note includes forecast exchange rates or the planned year, and the state borrowing plan submitted together with the draft budget incorporates a forecast of interest rates also for the planned year only. Regarding the exchange rate for the two years following the planned one, the explanatory note specifies that during the calculation of indicative forecast indicators of the State Budget for 2020 and 2021, assumptions are taken into account concerning the official exchange rate of Ukrainian hryvnia to US dollar on average for the year and as of the end of the year on the basis of which indicators of the Forecast of Economic and Social Development of Ukraine for 2019-2021 approved with the decision of the Cabinet No. 546 dated 11 July 2018 were calculated. The full version of this resolution is placed on the MoE's website: https://bit.ly/2OWoLvx .

⁵ The majority of indicators have been achieved, except for the fact that the forecast indicators of interest rates are given only for the planned year.

3. Assessment of PFM Performance

Elements	Consistent or not consistent (Yes/No)	Explanation
7. Debt stock, including details at least for the beginning of the current fiscal year presented in accordance with GFS or other comparable standard	Y	According to the Special Data Dissemination Standard (which has been provided by the IMF to the Government of Ukraine), the budget documentation contains information on the projected amount of government debt and government-backed debt as of the end of the planned year. This information is presented for maturity of debt obligations detailed by their types (loans, securities) and creditors in terms of loans.
8. Financial assets, including details at least for the beginning of the current fiscal year presented in accordance with GFS or other comparable standard	Y	The report on execution of the State Budget submitted by the Cabinet to the Parliament and published on the Treasury's website contains the Balance Sheet that presents information on financial assets by categories comparable to GFS as of the beginning of the fiscal year.
9. Summary information of fiscal risks, including contingent liabilities such as guarantees, and contingent obligations embedded in structure financing instruments such as public-private partnership contracts, and so on	N	Information on fiscal risks and their potential impact on the State Budget in 2019 has been provided together with the draft State Budget law for 2019 in the descriptive form. From among the fiscal risks, state guarantees and other risks associated with the activities of state-owned enterprises are given together with macroeconomic risks, risks of government debt, lack of revenue from privatization of state-owned property, and risks of the financial sector. Given that these risks are not calculated, this document does not meet the established criterion.
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	N	The Government does not submit such information to the Parliament with the draft State Budget law. Starting from the draft budget for 2016, the budget documentation contains a list of public investment projects with expenditure for the planned year. The Ministry for Development of Economy, Trade and Agriculture sends to the Budget Committee of the Parliament a list of expenditure for the planned year and the two fiscal years following the planned year before the draft budget is received by the Parliament from the Government.
11. Documentation on the medium-term fiscal forecasts	Y	The medium-term forecast for the State Budget (2020 and 2021) has been submitted together with the draft State Budget law for 2019. It contains a forecast of certain macroeconomic indicators for these years; indicators of the deficit, government and government-backed debt, revenue and expenditure of the consolidated and State Budgets and financing of the State Budget by the main sections of the budget classification.
12. Quantification of tax expenditures	Y	A list of tax and fee benefits (compulsory payments) along with the calculation of loss of revenue of the Consolidated Budget from their provision in the current year and the forecast of loss for the planned year is contained in the budget documentation.

105. **The requirements are met for 4 basic elements and 6 additional elements out of 12.**

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

Performance change since the previous assessment

107. **The budget documentation includes the following information on:**
- The medium-term forecast as a result of an improvement in discipline. The requirement to submit such information is contained in Article 38 of the Budget Code since 2010, but it was not submitted at the time of the previous assessment to the laws on the drafts of the State Budget for 2014 and 2015;
 - The assessment of tax expenditures (at the time of the previous assessment, such information was also compiled but not published).
108. **The score improved from B to A.**
109. **Compared to 2015, the budget documentation includes additional information.** It includes a list of public investment projects; lists and amounts of long-term energy service obligations; information on taking into account the Higher Council for Justice's proposals to the draft law on the State Budget by articles related to the functioning of courts and the activities of judges, judicial bodies and institutions (with a reasoned justification); information on the implementation of the action plan to align the total government debt and government-backed debt with the established requirements (in case of approval of such an action plan)⁶.

Recent or ongoing reform activities

110. **The Cabinet shall annually, no later than June 1 of the year preceding the planned one, approve and submit to the Parliament a Budget Declaration to determine the medium-term fiscal forecast and the assessment of fiscal risks⁷.** These actions are currently described but not assessed. Consequently, Parliament will receive such information before the Government submits a draft budget.

PI-6. Central government operations outside financial reports

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

111. **This indicator measures the extent to which the government' revenue and expenditure are reported outside the central government financial reports.** The assessment of this indicator is based on the information and reports available for the last completed fiscal year 2018. The coverage is CG.
112. **All expenditures and revenues of the budgetary units are included in the annual financial reports of the CG.** All revenues of the budgetary units are included both in the TSA and the annual financial reports of the CG, including those received from the budget funds, own revenues, grants and those received from the international donor organization or any other sources. Likewise, all expenditures of the budgetary units are included both in the TSA and the annual financial reports. As a result, there is no operation of budgetary units (i.e., revenue and expenditure) outside CG financial reports.
113. **Other than the three funds that meet the PEFA definition (Pension Fund, Ukraine Social Insurance Fund, and Unemployment Social Insurance Fund) there are no other extrabudgetary units.** The extrabudgetary units in Ukraine as of the time of this assessment are limited to these three funds as noted in Table G Structure of public sector – budget expenditure and Table H Structure of public sector – actual expenditure, which demonstrate zero budgeted and actual expenditures of extrabudgetary units. Other remaining SOEs (which do not meet the PEFA definition of public corporations and are therefore not assessed in PI-10.1) are not classified as extrabudgetary units per definitions in the GFS Manual 2014.
114. **Two funds (the Temporary Disability Social Insurance Fund of Ukraine and the Industrial Accident and Occupation Disease Social Insurance Fund) have been fully merged into a single Ukraine Social Insurance**

⁶ In accordance with amended Article 38 of the Budget Code.

⁷ In accordance with the recently adopted amendments to the Budget Code # 2646-VIII of 6 December 2018.

Fund. The process of merging started in 2015, and was fully completed in 2017.

Summary of scores and performance table

Indicator/ Dimension	Scoring Method M2 (AV)			
	Current assessment		Previous assessment <i>(applying PEFA 2016 framework)</i>	
	2019 Score	Brief justification for score	2015 Score	Explanation of change <i>(including comparability issues)</i>
PI-6: Central government operations outside financial reports	C		D+	The previous score was aggregated as an M1 and should have been scored C.
6.1 Expenditure outside financial reports	D	The share of Social Fund Extra Budgetary Operations (EBOs) in CG expenditures is 28.1 percent in 2018.	D	There are no significant changes.
6.2 Revenue outside financial reports	D	EBO revenues are above 25 percent of budgetary central government in 2018.	D	There are no significant changes.
6.3 Financial reports of extrabudgetary units	A	According to budget law, the reporting of (EBOs) is now done to both the Executive and to the Legislature, and reporting requirement is complied with. Quarterly and annual EBO reports are to be disclosed, however, there are slippages in compliance with this requirement. Data on all EBOs is included into ex-post report and detailed at least at the level of GFS economic classification or equivalent.	A	In 2017 the Temporary Disability Social Insurance Fund and the Industrial Accident and Occupation Disease Social Insurance Fund were merged in one fund – the Social Insurance Fund of Ukraine. In order to unify accounting and financial statements (also in Funds), a Chart of Accounts for Public Sector Accounting and National Public Sector Accounting Policy Standard 101 “Presentation of Financial Statements” have been approved; they came into effect from 2016. Consequently, the Funds started compiling the same financial statements as all other spending units, which improved reports comparability. The reporting requirements for the funds expanded, and now include reporting to both the legislative and executive branches.

6.1 Expenditure outside financial reports

Performance level and evidence for scoring the dimension

115. The ratio of Social Fund EBOs expenditures to CG expenditures (combined central budget and EBOs) declined from 38.2 percent in 2014 to 28.1 percent in 2018. The funds expenditure data is not included in the annual financial report of the Government.

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

6.2. Revenue outside financial reports

Performance level and evidence for scoring the dimension

117. **The total revenue of the social funds for 2018 was UAH 233.5 billion.** This amounts to more than 25 percent of relevant budgetary central government revenues of UAH 928.1 billion in 2018. The funds revenue data is not included into the annual financial report of the Government.

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

6.3. Financial reports of extrabudgetary units

Performance level and evidence for scoring the dimension

119. **Each fund prepares its annual budget.** These are submitted to the Ministry of Social Development. After endorsement of their draft budget by the Ministry of Finance, Ministry of Justice, Ministry for Development of Economy, Trade and Agriculture, the proposed budgets are then submitted to the Cabinet for final approval.

120. **The reporting requirement for the funds has expanded, and now includes reporting to both the legislative and executive branches.** Funds compile quarterly and annual reports and submit them to the Cabinet, Parliament, President, Accounting Chamber, and the Treasury. Data on the Funds are included in annual reports at the level of GFS economic classification or equivalent.

121. **According to an Order of the Ministry of Finance⁸, funds must compile execution reports in respect to budget funds in line with the economic expenditure classification outlined in PI-4.** This requirement was approved in 2012 and substantially unified the work to be done to generate public finance statistics. Per this order, quarterly reports are due 45 days after the end of each quarter, and annual reports are due by April 15 of the year that follows a reporting year. Annual reports of the funds for 2018 were submitted to the Cabinet in March 2019. The requirement of order of the Ministry of Finance is complied with in practice.

122. **In order to improve the discipline as regards the publication of reports by Funds, legislation was amended in 2014 to require all funds to publish their budgets and budget execution reports within 5 business days of their approval on their official web sites.** They are then published in official bulletins of the Parliament and the Cabinet within two weeks. In practice, this requirement is mostly complied with. The Pension Fund regularly discloses its reports. The other two funds also periodically disclose their respective reports; however, the website interface complicates easy access to such information by the public.

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

Table 6.3a. Financial reports of extrabudgetary units (revenues), UAH million

Name of the Fund	Planned own revenues, 2018	Actual own revenues, 2018	Percentage of the actual State Budget revenues, 2018 (%)
The Pension Fund	206,921.3	202,084.3	21.8
Ukraine Social Insurance Fund	20,504.8	19,643.9	2.1
Unemployment Social Insurance Fund	12,211.0	11,703.4	1.3
TOTAL	239,637.1	233,431.6	25.2
State Budget revenues	917,879.4	928,114.9	

⁸ Funds submit financial and budget reports in accordance with the requirements of: NPSAR(S) No. 101, Order No. 44. Established with Order No. 44 of the Ministry of Finance of January 24, 2012, "On Approval of the Procedure of the Compilation of Financial, Budget, and Other Reports by Spending Units and Budget Fund Recipients" that the Funds should submit the following quarterly and annual reports: financial statements in the form of a balance sheet; separate budget reports on proceeds and spending of resources of the general and special funds; reports on debt related to budget funds; reports on the implementation of budget estimates of the Funds.

Table 6.3b. Financial reports of extrabudgetary units (expenditures), UAH million

Name of the Fund	Planned own expenditures, 2018	Actual own expenditures, 2018	Percentage of the actual State Budget expenditures, 2018 (%)
The Pension Fund	237,174.8	244,652.0	24.8
Ukraine Social Insurance Fund	22,183.1	21,518.4	2.2
Unemployment Social Insurance Fund	12,062.7	10,722.5	1.1
TOTAL	271,420.6	276,892.8	28.1
State Budget expenditures	991,700.0	985,851.8	

Performance change since the previous assessment

124. **The EBOs accounting and reporting systems, including disclosure practices have improved since the last PEFA report.** In 2017 the Temporary Disability Social Insurance Fund and the Industrial Accident and Occupation Disease Social Insurance Fund were merged in one fund – the Social Insurance Fund of Ukraine.

125. **In order to unify accounting and financial statements (also in funds), a Chart of Accounts for Public Sector Accounting and National Public Sector Accounting Policy have been approved⁹.** These came into effect starting in 2017. Consequently, the funds started compiling the same financial statements as all other spending units, which improved comparability. As a result, the quality of the data improved due to more unified accounting practices. The reporting requirements for the funds expanded, and now include reporting to both the legislative and executive branches.

Recent or ongoing reform activities

126. **Two of the funds were merged between 2015 and 2017, as described above.**

127. The Treasury developed and published on its website a consolidated 2018 FY financial report on the general asset status and results of performance of public sector, which included Pension Fund, Social Insurance Funds, the State and subnational budgets. That report was prepared based on the Law on Accounting and Financial Reporting in Ukraine and first published in early 2019. That report has not been submitted to the Government.

PI-7. Transfers to subnational governments

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

128. **This indicator assesses the transparency and timeliness of transfers from CG to subnational governments with direct financial relationships to it.** It considers the basis for transfers from CG and whether subnational governments receive information on their allocations in time to facilitate budget planning. The assessment of this indicator is based on the last completed fiscal year (2018). The coverage is CG and the subnational governments who have direct financial relationship with the CG.

129. **Ukraine has a three-tier government structure, where each of its branches at the local level supervises the lower level.** Nevertheless, the logic of the administrative hierarchy does not apply to the system of fiscal transfers between different authorities. In 2018, the budgets of oblast (24), the city of Kyiv, rayon (490); the budgets of cities of oblast significance (188) and the budgets of amalgamated territorial communities (ATC) (665) received fiscal transfers directly from the State Budget (1,368 budgets in total). The cities of rayon significance, settlements and villages that have not yet united into ATCs, (7,627) and ATCs that united after the approval of the State Budget (21) received intergovernmental transfers from rayon budgets, which, consequently, received them from the State Budget.

⁹ Standard 101 "Presentation of Financial Statements".

130. **The Budget Code established basic policy and identified specific mechanisms of inter-governmental transfers to support the fiscal decentralization, while specific regulations are subject to the Government decisions.** Chapter IV of the Budget Code established key principles of inter-government transfers, distinguished the expenditure power between levels of authorities based on clearly listed criteria, and identified types and key elements of the system of intergovernmental transfers.

131. **At the end of 2014, amendments to the Budget Code were introduced to reform intergovernmental fiscal relations as part of the fiscal decentralization reform; however, the value of transfers in local budget revenues and their number remains high.** Amendments to the Budget Code introduced new models of financial provision for local budgets and intergovernmental fiscal relations. In particular, the amendments changed dramatically the approach from equalization of expenditures and revenues to focusing on the revenue collection capacity of the territories. To support the decentralization reform, all newly established ATCs received the same revenue and expenditures powers as cities of oblast significance, and have direct financial relationship with the CG. Also, additional targeted grants (subventions) for health and education expenditures were introduced at the subnational level. They are calculated according to formulas similar to those previously used to calculate transfers to equalize financial provision.

Summary of scores and performance table

Indicator/Dimension	Scoring Method M2 (AV)			
	Current assessment		Previous assessment <i>(applying PEFA 2016 framework)</i>	
	2019 Score	Brief justification for score	2015 Score	Explanation of change <i>(including comparability issues)</i>
PI-7: Transfers to subnational governments	B		C+	
7.1 Systems for allocating transfers	A	In 2018, 95 per cent of the intergovernmental transfers were distributed on the basis of transparent rules.	B	Score improved from B to A since the ratio of transfers allocated based on a formula approach exceeds 90 percent of total transfers.
7.2 Timeliness of information on transfers	C	Local governments have received the estimates of intergovernmental transfers approved by the Parliament after the established deadline.	C	There are no significant changes.

7.1. Systems for allocating transfers

Performance level and evidence for scoring the dimension

132. **Subnational budgets received 41 intergovernmental transfers from the State Budget in 2018 which was about 53 percent of their revenues.** The system of transfers is rather complicated despite rules and procedures used. In 2018, there were five types of grants and 36 types of subventions. Some transfers were allocated from the state to local budgets directly, while others were allocated through oblast or rayon level to lower tiers. Inter-budgetary transfers were provided for fiscal equalization, subsidization of social protection policy, maintenance of budget entities and investments. The structure of transfers by recipients is presented in Annex 5.

133. **Horizontal equalization of the revenue collection capacity¹⁰ is carried out taking into account the following parameters:** (i) the population; (ii) corporate income tax (for oblast budgets); (iii) individual income tax; (iv) revenue collection capacity index of the relevant local budget. This index is a coefficient that determines

¹⁰ of regional budgets, budgets of cities of oblast significance, rayons and ATCs.

the level of revenue collection capacity of the relevant budget compared to a similar average for all relevant local budgets in Ukraine per capita.

134. **The stabilization grant is a temporary transfer, which will exist until the completion of the process of amalgamation of territorial communities in accordance with the Law of Ukraine “On voluntary amalgamation of territorial communities”.** The allocation of this grant is formula based. Allocation criteria included the population; the amount of individual income tax; revenue collection capacity indexes. The approach is quite like the distribution of the additional subvention for maintenance of educational and health facilities.

135. **Allocation of subventions is determined based on different approaches.** For example, the main criterion for the distribution of educational and medical subventions is the number of service users among the students and the population, respectively. Social subventions are to be allocated based on the contingent of recipients to support vulnerable groups of the population. Some subventions related to the social and economy development or public investments at the local level were allocated based on political decisions. In addition, some of transfers are distributed among local budgets after the fiscal year has begun, which reduces the transparency of the distribution of such transfers. In 2018, the total volume of transfers allocated without clear criteria or during the budget year amounted to UAH 13.8 billion (Annex 6), or 4.6 percent of the total volume of intergovernmental transfers (Table 7.2). For example, the procedure for providing the largest volume of such subventions, namely for the implementation of measures for the socio-economic development of certain territories¹¹, defines only the directions for sending the funds and the need for a commission to be established by the Ministry of Finance for their distribution, but does not define the criteria for the distribution of subvention funds.

Table 7.1. The structure of transfers from the State Budget to local budgets in 2016-2018

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

136. **95.4 percent of both budgeting and actual intergovernmental transfers were distributed according to clear rules.**

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

7.2. Timeliness of information on transfers

Performance level and evidence for scoring the dimension

138. **Local budgets must be approved by December 25 of the year before the planned year¹².** According to part three of Article 15 of the Law of Ukraine “On Access to Public Information”, dated January 13, 2011, No. 2939 draft regulatory acts, decisions of local self-government bodies must be made public no later than 20 working days **before** the date of their consideration for the purpose of adoption. Consequently, the draft local budget should be completed and published before November 27, the year preceding the planned year.

139. **Due to the late approval of the 2018 Annual Budget Law, local authorities received information about allocations of intergovernmental transfers with delay.** Pursuant to the Rules of Procedure of the Parliament, transfers shall be determined during the consideration of the State Budget law in Parliament at the second hearing (no later than November 20). Local governments (local state administrations) shall draft their

¹¹ Resolution of the Cabinet of Ukraine dated 06.02.2016 No. 106 as amended on 01.01.2017, No. 1040.

¹² In accordance with part two of Article 77.

budget proposals, taking into account both the indicators received from the Ministry of Finance after approval of the draft State Budget by the Cabinet and the indicators approved at the second hearing in the Parliament. Nevertheless, in 2017, the draft law on the State Budget 2018 was adopted at the first hearing on November 14, and later at the second hearing, and entirely, on December 7. As a result, local authorities received the information about the volumes of intergovernmental transfers to develop their draft budgets after the date when drafting local budget decisions had to be completed in accordance with the law.

140. The 2018 Annual State Budget Law did not identify allocations of 4.5 percent of the total amount of transfers which in some cases did not leave sufficient time for planning and disbursement at the local level.

The Cabinet considered allocation of those transfers during the fiscal year following provisions of the Budget Code¹³, and the State Budget Law. Thus, the transfers were allocated as follows: (i) a stabilization grant (UAH 200 million) was allocated on December 18, 2018; (ii) a subvention to support high-quality, modern and affordable general secondary education “New Ukrainian School” (UAH 1,369 million) was allocated for oblast budgets on April 4, 2018 with further segregation between lower level local budgets; (iii) a subvention for modernization and updating of materiel of vocational schools (UAH 100 million) – on April 11, 2018; (iv) a subvention for the payment of monetary compensation for the proper living space for certain categories of citizens in the amount of UAH 200 million – on June 13, 2018; in the amount of UAH 299.9 million – on May 16, 2018; in the amount of 134.8 million UAH, – on July 4, 2018; (v) a subvention for implementation of socio-economic development measures – in the amount of 2,114.3 million UAH was allocated on June 13, 2018; in the amount of UAH 1,724.3 million – November 7, 2018; and in the amount of UAH 1,162.2 million – December 5, 2018.

141. The score for the dimension is C.

Performance change since the previous assessment

142. The score for dimension 7.1 improved from B to A as the ratio of transfers allocated based on a formula approach exceeds 90 percent of total transfers.

Recent or ongoing reform activities

143. The main step in reforming intergovernmental relations was the adoption of amendments to the Budget Code at the end of 2014. These introduced new models of financial support for local budgets and intergovernmental fiscal relations.

144. Medical care institutions of all levels will be funded from the State Budget starting from 2020. This is in accordance with the Law of Ukraine “On State Financial Guarantees in the Medical Care Sector for the Population”, dated October 19, 2017, No. 2168-VIII.

PI-8. Performance information for service delivery

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

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

¹³ “2. The procedure and conditions for granting subsidies from the State Budget to local budgets is set by the Cabinet of Ukraine. (Article 97)”.

146. **Under the adopted program budgeting regulations and methodology, performance information is a mandatory part of a budget program and integrated in the annual budget planning and reporting cycle.** The Budget Code requires all stakeholders in the budget process to plan and execute budget programs upholding the principles of efficient and effective delivery of public services throughout all budget stages. There were around 550 service delivery and administrative budget programs from 83 KSUs presented in Annex 3 to the 2019 Law on the State Budget.

147. **Key Spending Units plan and report on program implementation annually¹⁴.** Budget programs are formulated and submitted by KSUs as a part of budget program requests, which must be aligned with the budget declaration and the KSU's medium-term action plans, as per Article 22 of the Budget Code and thus ensure a link with the fiscal framework and sectoral policy objectives, respectively. Within 45 days from approval of the annual budget, KSUs propose and the MoF approves individual Budget Program Passports. Each program is managed by a chief program manager responsible for in-year monitoring and annual evaluation in line with the MoF Decree no. 608 that sets out the methodological guidance for evaluating budget program efficiency. Resources available to service delivery units (SDUs) are comprehensively recorded and information about their collection and expenditure is available through the government accounting system. Performance of each program is reported annually. Independent evaluation and performance audit are being introduced, but further technical capacity is needed.

148. **In agreement with the MoF, the assessment and scores for this indicator are based on the sample of KSUs.** This sample includes the Ministry of Education, Ministry of Health, Ministry of Youth and Sports, and Ministry of Social Policy. The following table illustrates availability of performance information on planned and executed service delivery (SD) programs for the sampled KSUs.

Table 8.1. Performance data on planned service delivery and reporting on actual delivery for the sampled KSUs

KSUs	Budget allocation (in UAH billion)	SD programs (total programs)	Performance data for service delivery programs				
	SD programs		Program Objectives	KPIs	Planned and reported performance		
					Outputs	Outcomes	Activities
MoH (2300000)	42.2	36	Yes	Yes	Yes	Yes	Yes
MoES (2200000)	39.4	40	Yes	Yes	Yes	Yes	Yes
MYS (3400000)	3.0	8 (11)	Yes	Yes	Yes	Yes	Yes
MSP (2500000 and 2500001)	236.1	38	Yes	Yes	Yes	Yes	Yes
Total	320.7	122 (125)					
Percentage of SD programs compliant (%)			100	100	100	100	100

Sources of information: Annex 3 to the 2019 Budget Law, MSP and MYS data, publicly available budget program passports and program budget passport reports, assessment team calculations.

¹⁴ In line with the MoF Decree no. 1098 [of 29.12.2002].

Summary of scores and performance table

Indicator/ Dimension	Scoring Method M2 (AV)			
	Current assessment		Previous assessment <i>(applying PEFA 2016 framework)</i>	
	2019 Score	Brief justification for score	2015 Score	Explanation of change <i>(including comparability issues)</i>
PI-8: Performance information for service delivery	A		C+	
8.1 Performance plans for service delivery	A	Key Spending Units (KSUs) annually publish information on planned program objectives, and KPIs outputs and outcomes.	B	Methodology refined, and with improvement in actual performance.
8.2. Performance achieved for service delivery	A	Reports on performance achieved are published annually but deviations from the plan are not always explained and reports do not include basis for comparability over time.	C	Methodology refined, improvement in the amount of information generated.
8.3. Resources received by service delivery units	A	Information on all resources disaggregated by sources of fund received and used by service delivery units across sectors are recorded and available from in-year and annual budget execution reports of each service delivery unit.	A	No change in performance.
8.4. Performance evaluation for service delivery	B	Independent evaluations and audit of programs have been carried out and published.	D	KSUs have started publishing assessment results of program performance. Spending reviews have been introduced for the first time in 2018. Efficiency audits are carried out and published but the degree of conformance with the relevant ISSAIs could not be confirmed due to insufficient evidence.

8.1. Performance plans for service delivery

Performance level and evidence for scoring the dimension

149. **KSUs publish disaggregated data on planned performance for each program upon MoF approval of the individual Program Budget Passports.** The Passports are delivered on a standardized template which requires the KSUs to include information on the program-related state policy goals, budget funds use direction, objectives and key performance indicators (KPIs). Methodology prescribed under the MoF Decree no. 1536 for preparation of the quantitative and qualitative KPIs, requires the KSUs to develop indicators of cost (input), product (output), performance (efficiency) and quality (effectiveness) in service delivery, which cover KSUs' and their subordinate spending units' activities, outputs and outcomes. As of recently, the documents include gender considerations and sex disaggregated KPIs.

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

8.2. Performance achieved for service delivery

Performance level and evidence for scoring the dimension

151. **Information on each budget program performance for the previous year is reported annually by 15 March in the respective Budget Program Execution Report.** All KSUs formally comply with the reporting requirement and this information reaches the Parliament as an integral part of the overall annual budget execution report. Contents of budget program execution reports correspond to the information presented in budget program passports, allowing the comparison of performance achieved against the annual plan. Realization against specific KPIs is to be fully disclosed in Section 8 of the individual program report. As of 2015 amendments to the BCU, KSUs are also required to publish their budget program execution reports separately. For 2018 fiscal year reporting period, these reports were published by most KSUs on their websites and included the information about quantity of outputs produced and outcomes achieved, disaggregated by programs. As required by a unified template adopted by the MoF¹⁵, the presented information was consistent with annual planned outputs and outcomes as set forth in budget program passports and if any deviation in the actual performance that is explained in the most cases.

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

8.3. Resources received by service delivery units

Performance level and evidence for scoring the dimension

153. **Comprehensive coverage of the TSA includes all of the accounts operated by SDUs, regardless of the sector (i.e. health, education, infrastructure, and others).** Specific own-source revenues collected and external grants received, in-kind contributions by SDUs are planned and recorded under the Special Fund of the State Budget. Their use is earmarked and the actual spending is tracked by the Treasury territorial units.

154. **Accounting information on all financial resources received and executed by the SDUs is available from in-year and annual budget execution reports of each service delivery unit disaggregated by budget programs and sources of fund. Each SDU submits reports on revenues and expenditures** disaggregated by budget programs and types of financial sources on monthly, quarterly and annual basis.¹⁶ Those reports consist of the information on non-financial resources in kind¹⁷ and associated with them expenditures. Moreover, SDUs submitted to the Treasury a specific statement on natural earnings disaggregated by budget programs and sources of fund on monthly basis. The source of funds includes budget, own sources and any external funds, including but not limited grants and natural earnings. Information from interviews and available evidence confirms that this is all implemented as planned.

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

8.4. Performance evaluation for service delivery

Performance level and evidence for scoring the dimension

156. **The BCU promotes a target-based approach to budgeting and requires budget program managers to monitor and assess budget programs at each stage of the budget process.** Targeted performance is monitored and evaluated through data on performance indicators from official statistics, government reports and internal managerial systems. The methodological background for annual assessment of program efficiency is contained in Ministerial Order no. 608. Ministry of Social Policy, the KSU which accounts for 74.2 percent of the total sample by budget size (table 8.1), published the evaluation results in 2018. Interviews with development partners indicate that monitoring and evaluation practices vary across government KSUs.

¹⁵ In line with the MoF Decree no. 1098 [of 29.12.2002].

¹⁶ MoF Decree no. 44 [of 24.01.2012].

¹⁷ MoF Decree no. 1407 [of 24.12.2012].

157. **Budget programs and their performance metrics are refined each year, but analysis of specific Budget Program Passports suggests there is room to improve coherence between purposes, goal, objectives, measures, and KPIs.** Whereas all KSUs in the sample annually publish information on planned service delivery, the volume of reported information and its internal coherence reduces the possibilities for performance-based analysis and allocation decisions.

158. **In early 2018, the Cabinet authorized a spending review exercise in five service delivery KSUs and the results have been published** (including MSP and MoH which stand for 87 percent of the total sampled KSUs). Reviews of programs were conducted by inter-sectoral working groups with representatives of the reviewed KSU, MoF and other sector-specific KSUs. Cabinet Decree no. 101 provided procedural instructions and some methodological guidance on conducting the exercise. A second round of spending reviews for five different KSUs is scheduled in 2019 in line with a new methodological guidance note.

159. **There is an adequate legislative framework for performance audit of government operations.** In the period covered by this dimension (2016 to 2018), the Accounting Chamber carried out and published the results of nearly 200 audits of efficiency. Plans are in place to develop a dedicated performance audit methodology with technical assistance support. The State Audit Service has the mandate and could offer additional capacity for audit of program performance through its combined audit approach. There is insufficient evidence, however, to confirm the degree of conformance with the relevant performance auditing ISSAIs.

160. **Finally, the Government benefited from a number of independent reviews and evaluations in key service delivery sectors.** The most notable of these independent reviews was the World Bank's Public Expenditure Reviews in health and four more sectors in 2016.

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

Performance change since the previous assessment

162. **Structurally, performance of the Ukrainian PFM system on PI-8 remains largely unchanged relative to the previous assessment.** Individual budget programs continue to correspond to organizational structures and/or the legal mandate of the KSU. Quality of program objectives, KPIs, outputs and outcomes differs across individual programs and KSUs but there have been notable improvements in performance metrics achieved in part with external technical assistance. Available information suggests that there is room to further improve the coherence of program structure and strengthen the links between objectives, goals, measures and KPIs (i.e. between Form 1 and Form 2 of the budget request). Horizontal and vertical alignment and coordination of activities under budget programs (among KSUs on CG level and between CG and SNG programs, respectively) continues to pose a challenge.

Recent or ongoing reform activities

163. **The State Budget Department at the MoF is undertaking a comprehensive review exercise of the main Decrees that regulate program budgeting with a view to align them with the most recent amendments to the Budget Law and introduction of the Medium-term Budget Framework (MTBF) approach.** Decrees 1098 and 1536 have been updated and amendments to Decree 608 are pending (by end 2019). New requirements, effective as of 2019, call for publication of realized program metrics in a format which allows for comparison over time. MoF is developing the spending review methodology at the time of the assessment. In parallel, the Ministry of Economy is leading a comprehensive overhaul of medium-term (three-year) planning by KSUs that is expected to impact planning of individual budget programs and overarching target programs which reflect government policy objectives and priorities.

164. **The reporting template requires the KSUs to explain any deviations from the planned activities, outputs and outcomes but this information is at times omitted from program budget execution reports.** Additional issues are noted with the reliability of information generated by program managers from internal, management accounting systems. Moreover, report template is missing comparable information on service delivery levels from the previous reporting period which would allow users to understand service delivery

trends. Looking beyond the volume of information produced and published, the concern is with completeness, integrity and straightforward comparability of the reported information over time. While not in the calibration, all three aspects are used as best practice benchmarks throughout the Framework and taken into consideration as an implicit requirement. Reporting remains a largely formal exercise with gaps in information to guide analysis and decision-making on program performance against targets and over time. The current PFM Reform Strategy 2017-2020 and its Action Plan include objectives and activities related to the improvement of budget programs' strategic orientation and introduction of efficient performance monitoring.

165. **Since 2014, SIDA's Project 'Gender Budgeting in Ukraine' provided support to capacity development of program managers to run effective gender analysis of budget-funded programs and employ the findings for the development of an effective gender approach to budgeting.** In 2018, the Project supported a gender analysis within a number of selected budget-funded programs which resulted in some reconsideration of the programs at the central and local levels, including the ministerial level. Additionally, the performance indicators are based on data disaggregated by gender. Resident US Treasury budget adviser is providing technical assistance for program budgeting (KPIs in particular) and spending reviews in support of the respective PFM Reform Strategy objectives.

166. **The pilot spending reviews highlighted in the narrative were limited to one budget program in each KSU and there are no findings which could be generalized to provide an impression of overall spending efficiency and effectiveness.** The pilot aimed to testing of the methodology, therefore the MoF is going to improve it and introduce the mechanisms of spending reviews further.

PI-9. Public access to fiscal information

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

167. **The indicator assesses the comprehensiveness of fiscal information available to the public based on specified elements of information to which public access is considered critical.** This information is important for the public. At the same time, transparency of fiscal information implies its easy access, without restrictions (registration and fee). The time period for the is last completed fiscal year and the coverage is Budgetary Central Government.

Summary of scores and performance table

Indicator/ Dimension	Current assessment		Previous assessment <i>(applying PEFA 2016 framework)</i>	
	2019 Score	Brief justification for score	2015 Score	Explanation of change <i>(including comparability issues)</i>
PI-9: Public access to fiscal information	A		B	
9.1 Public access to fiscal information	A	The Government discloses all the five basic elements and all four additional ones.	B	Compared to the assessment made in 2015, the rating improved from B to A, since the requirement for the publication of the Summary of the Budget Proposal (citizen's budget) was observed in the last fiscal year, while this was not complied with in the previous assessment. However, legislation does not require such publication, so there is a risk of non-compliance with the requirement in future. Due to the change in the methodology, another extra element is observed: publication of the macroeconomic forecast (according to the PEFA methodology, under which the previous assessment was conducted, the publication of the medium-run budget was assessed).

Performance level and evidence for scoring the dimension

168. **Requirements for the disclosure of fiscal information are contained in various Laws.** These include the Budget Code, Law of Ukraine No. 183-VIII dated 11 February 2015 “On Openness of Public Funds Use”, Law of Ukraine No. 2939 dated 13 January 2011 “On Access to Information in Public Domain”, Law of Ukraine No. 576 dated 2 July 2015 “On the Accounting Chamber” as well as within the general requirements for the official publication of legislative acts, which are set forth in the Laws of Ukraine No. 1861 dated 10 February 2010 “On the Rules of Procedure of the Verkhovna Rada of Ukraine”, No. 794 dated 27 February 2014 “On the Cabinet of Ukraine” and No. 539 dated 23 September 1997 “On the Procedure of Covering the Activities of Governmental Authorities and Local Self-Government Authorities in Ukraine by Mass Media”.

169. **Information must be made public.** The main dissemination vehicles are the websites of the relevant governmental authorities and in the press.

170. **Article 7 of the Budget Code defines the principle of publicity and transparency.** This relates to informing the public on the issues of drafting, reviewing, approving and executing the State Budget and local budgets as well as controlling the execution of the State Budget and local budgets. Article 28 of the Budget Code sets out requirements for availability of budget information. In accordance with these requirements, the Ministry of Finance ensures the disclosure of the following: (1) draft State Budget law, (2) State Budget law, (3) information and analytical materials on the State Budget (in a form accessible to the public), (4) information on execution of the State Budget according to the results of the month, quarter and year, and (5) information on execution of the consolidated budget. In addition, according to the same Article 28, key spending units ensure the publication of annual reporting information about the budget by budget programs and indicators, passports of budget programs, and reports on their execution.

171. **The Parliament enters a draft State Budget law and accompanying materials (budget documentation),¹⁸ to the database of bills of the e-network of the Parliament’s website¹⁹.** In accordance with Article 139 of this Law, the legislature publishes a State Budget law on its official website.

172. **The Accounting Chamber publishes an annual report on its activities on its official website for open access²⁰.** This is in the form of open data. As well as it regularly makes public in the mass media the information about its activities including reports on state external financial control (audit) and publishes as open data such information, work plans, and decisions of the Accounting Chamber on its official website.

173. **Governmental authorities ensure the publication of reports on their official websites²¹.** As indicated in paragraph 7 of table 9.1, the State Audit Office shall publish audit reports on its website.

174. **The situation with public access to fiscal information improved in February 2015 with amendments to the Budget Code.** This obliged the Ministry of Finance to publish a summary of the approved budget in a form available to the public within a month after the approval of the State Budget law. In addition, the situation on access to fiscal information improved after the creation of an e-data web portal (spending.gov.ua), which provides information on public expenditure. As a result, Ukraine improved its result according to the Global Open Data Index and ranked 54th out of 100 in 2015.

175. **All five basic and four additional elements are available to the public.** Table 9.1 presents evidence of meeting the requirements for access of the public to fiscal information.

¹⁸ assessed in PI-5.

¹⁹ In accordance with part four of Article 92 of the Law on the Rules of Procedure.

²⁰ According to Article 30 of the Law on The Accounting Chamber.

²¹ In accordance with the Law on Access to Information in Public Domain.

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

Element/ Requirements	Met (Y/N)	Evidence used/Comments
Basic elements		
<p>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.</p>	Y	<p>The Parliament ensures the publication on its website (http://w1.c1.rada.gov.ua/pls/zweb2/webproc2) of a complete set of documents for a draft budget compiled by executive power (which is estimated under PI-5) within a week after the official submission by the Cabinet. It consists of a draft law on the State Budget with annexes and all accompanying documents thereto (draft State Budget for 2019: http://w1.c1.rada.gov.ua/pls/zweb2/webproc4_1?pf3511=64598).</p>
<p>2. Enacted budget. The annual budget law approved by the legislature is publicized within two weeks of passage of the law.</p>	Y	<p>The Parliament ensures the publication of the approved State Budget law on its website (https://zakon.rada.gov.ua), and the Ministry of Finance – in the official press within two weeks after the adoption of the law as soon as the State Budget law has been signed by the President.</p>
<p>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.</p>	Y	<p>The Treasury makes public on its official website (https://www.treasury.gov.ua/ua/file-storage/vikonannya-derzhavnogo-byudzhetu) monthly and quarterly reports on execution of consolidated, state and local budgets within several days from the day these reports were drawn up.</p>
<p>4. Annual budget execution report. The report is made available to the public within six months of the fiscal year's end.</p>	Y	<p>The Treasury makes public on its official website reports on execution of the consolidated, state and local budgets within three months after the end of the fiscal year before April 1 of the next year. Link to the report on execution of the State Budget in 2018: https://www.treasury.gov.ua/ua/file-storage/richnij-zvit-pro-vikonannya-derzhavnogo-byudzhetu-ukrayini-za-2018-rik.</p> <p>In addition, starting from 2018, the Ministry of Finance introduced a presentation of the ministerial yearly report on execution of the State Budget law to experts, civic activists and the media, and the publication of that report in the form of infographics on its website. So, in March 2019 (the third month after the end of the fiscal year), the Ministry of Finance presented that report for 2018 (https://www.minfin.gov.ua/news/view/minfin-prozvituvav-pro-vykonannia-zakonu-ukrainy-pro-derzhavnyi-biudzh-et-ukrainy-na--rik?category=bjudzh-et), and in March 2018 – for 2017 (https://www.minfin.gov.ua/news/view/minfin-prozvituvav-pro-vykonannia-derzhbiudzh-et-ukrainy-na--rik?category=bjudzh-et).</p>
<p>5. Audited annual financial report, incorporating or accompanied by the external auditor's report. The reports are made available to the public within twelve months of the fiscal year's end.</p>	Y	<p>The Accounting Chamber annually reviews the annual report on execution of the Law of Ukraine on the State Budget for a relevant year submitted by the Government. Based on the results of the review, it decides on the approval of opinions of the Accounting Chamber on the findings of analyzing the annual report on execution of the State Budget law, which it publishes on its official website (http://www.ac-rada.gov.ua/control/main/uk/publish/category/16748557). Such a decision on the State Budget law for 2018 was adopted on 9 April 2019 and published on the website of the Accounting Chamber in the fourth month after the end of the fiscal year.</p>

Element/ Requirements	Met (Y/N)	Evidence used/Comments
Additional elements		
<p>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 fiscal year.</p>	Y	<p>In accordance with the Budget Code (Article 33) and the Rules of Procedure of the Verkhovna Rada (Article 152), the Verkhovna Rada reviews a preliminary report on the budget (Key Areas of Budget Policy), which the Cabinet must approve before April 1 (nine months before the beginning of the budget year). In 2018, the Cabinet approved this document with a delay of 18 days, namely on April 18 (Order No. 315-r) and published on its official website (https://www.kmu.gov.ua/ua/npas/pro-shvalennya-proektu-osnovnih-napryamiv-byudzhethoyi-politiki-na-20192021-roki). On May 16, this document was transferred to the Parliament and published on its official website (http://w1.c1.rada.gov.ua/pls/zweb2/webproc4_1?pf3511=63995). The Parliament did not review it due to the violation of the term. Nevertheless, published more than six months before the beginning of the budget period, the Key Areas of Budget Policy for 2019-2021 approved by the Government defined draft budget parameters on key macroeconomic indicators that form a basis for the budget, budget deficit, limits of debt and guarantees; subsistence minimum; a total amount of public capital investments.</p>
<p>7. Other external audit reports. All nonconfidential reports on CG consolidated operations are made available to the public within six months of submission.</p>	Y	<p>The Accounting Chamber publishes all its audit reports on its official website on the State Budget and on local budgets in the part of the transfers from the State Budget. Such reports are published during one month since their signing. (https://rp.gov.ua/FinControl/FinReports/?pid=111)</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>	Y	<p>The Ministry of Finance made available to the public a presentation of the draft State Budget law for 2019 submitted by the Cabinet to the Parliament on its website on September 21, 2018 (within a week after the submission of the draft State Budget law) (https://www.minfin.gov.ua/news/view/derzhavnyi-biudzheth-na--rik-proekt-do--chytannia?category=bjudzheth). This was the first ever draft State Budget presented in a form accessible for the public, drawn up upon initiative of the Ministry of Finance (the Budget Code does not require it). Therefore, there is a risk that this practice will not continue in the years to come. On December 14, 2017, the Ministry of Finance published on its website a glossary of budget terms for the public to understand the State Budget law.</p>
<p>9. Macroeconomic forecasts. The forecasts, as assessed in PI-14.1, are available within one week of their endorsement.</p>	Y	<p>The Forecast of Economic and Social Development of Ukraine for 2019-2021 approved by the Government on July 11, 2018 was made available to the public within one week after its approval: published in the <i>Uriadovyi Kurier</i> (Government's Herald) newspaper on July 19, 2018, on the website of the Cabinet https://www.kmu.gov.ua/ua/npas/pro-shvalennya-prognozu-ekonomichnogo-i-socialnogo-rozvitku-ukrayini-na-20192021-roki) and the Parliament(https://zakon.rada.gov.ua/laws/show/546-2018-%D0%BF). Along with this, the forecast of Economic and Social Development for 2019-2021 itself, approved by the above-mentioned resolution, was placed on MoE's official website under the following link https://bit.ly/2OWoLvx.</p>

176. The requirements are met for all 5 basic elements and all 4 additional elements.

177. The score for the indicator is A.

Performance change since the previous assessment

178. **Compared to the assessment made in 2015, the rating improved from B to A.** The requirement for the publication of the Summary of the Budget Proposal (citizen's budget) was observed in the last fiscal year, while this was not complied with in the previous assessment. However, legislation does not require such publication, so there is a risk of non-compliance with the requirement in future. Due to the change in the methodology, another extra element is observed: publication of the macroeconomic forecast (according to the PEFA methodology, under which the previous assessment was conducted, the publication of the medium-term budget was assessed).

179. **The Ministry of Finance published a presentation of the Law on the State Budget for 2018 in a form accessible to the public on its website on December 29, 2017 (within one month after its approval)**²². However, it does not affect the level of assessment for this indicator.

Recent or ongoing reform activities

180. **Given the latest amendments to the Budget Code (adopted in December 2018) the Government will adopt the Budget Declaration for the planned fiscal year and next two years starting from 2019**²³. This is a pre-budget statement and is to be available no later than June 1 of the year preceding the planned one (one month later than the time of the assessment). Since decisions made are published after their adoption, this document will be available to the public no less than six months before the commencement of the fiscal year; therefore, the requirement to publish this document (paragraph 6 of table 9.1) will still be complied with.

181. **The second module of the portal, namely an open "Budget for the Public" (openbudget.gov.ua) has been made public**²⁴. The project aims to show all stages of the budget process from beginning to end, i.e., budget planning, execution, and analysis. At present, the portal contains monthly detailed information on execution of state and local budgets; comparison of indicators at different stages of the State Budget for 2019 (submitted by the Government, revised for the second reading, approved by Parliament). All information is presented in the open data format and updated on a monthly basis. Full implementation of the project will take about two years. Its goal is to make available as much data as possible in a form that is understandable to the public. Implementation of this project will facilitate public access to budget documentation, although without an impact on the assessment.

²² In accordance with the requirements envisaged in paragraph 2 of part one of Article 28 of the Budget Code, in February 2015.

²³ In 2019 Declaration was not adopted.

²⁴ On 17 September 2018, the Acting Minister of Finance of Ukraine, Oksana Markarova, presented at a press conference on the occasion of the third anniversary of launching the E-Data portal.

PILLAR THREE: Management of Assets and Liabilities

PI-10. Fiscal risk reporting

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

182. **This indicator measures the extent to which fiscal risks to central government are reported.** Fiscal risks can arise from adverse macroeconomic situations, financial positions of subnational governments or public corporations, and contingent liabilities from the central government's own programs and activities, including extrabudgetary units. They can also arise from other implicit and external risks such as market failure and natural disasters. The assessment is based on the information available for the last completed fiscal year 2018. Coverage for dimension 10.1 is CG-controlled public corporations. For dimension 10.2 it is subnational government entities that have direct fiscal relations with the CG and for dimension 10.3 it is CG.

Summary of scores and performance table

Indicator/ Dimension	Scoring Method M2 AV			
	Current assessment		Previous assessment <i>(applying PEFA 2016 framework)</i>	
	2019 Score	Brief justification for score	2015 Score	Explanation of change <i>(including comparability issues)</i>
PI-10: Fiscal risk management	C		C+	
10.1 Monitoring of public corporations	C	The GoU receives annual financial statements from all public corporations within nine months of the end of the fiscal years.	C	There are no changes.
10.2 Monitoring of subnational government	C	Unaudited reports on the financial position and performance of all subnational governments are published at least annually within nine months of the end of the FY.	A	While the previous PEFA scored this dimension as A it was not based on the PEFA scoring methodology relating to annual reports. There is no change.
10.3 Contingent liabilities and other fiscal risks	N/A	The GoU does not have significant contingent liabilities as defined by the PEFA framework.	D	There are no significant changes even though the previous PEFA scored this D instead of N/A.

10.1. Monitoring of public corporations

Performance level and evidence for scoring the dimension

183. **Enterprises fall into two broad categories: state and communal unitary enterprises, and commercial enterprises (e.g., joint-stock companies) in line with the Ukrainian State Commercial Code.** The Consolidated Register of the State Property and the Register of State's Corporate Rights, which is a part of the Consolidated Register, maintained by the State Property Fund of Ukraine (SPFU)²⁵ include information on the legal entities registered exclusively as state property (state enterprises, amalgamated state enterprises, institutions and organizations) and commercial enterprises with corporate stock held by the state (stock companies, limited liabilities companies). According to the Consolidated Register of the State Property, in 2018 the total number

²⁵ The website of the State Property Fund of Ukraine: <http://www.spfu.gov.ua>

of legal entities (state owned enterprises, and their subsidiary enterprises) was 3,279. In 2018, according to the Register of State's Corporate Rights the total number of commercial entities with stocks held by the state was 468, out of which 388 were stock companies and 80 limited liability companies. The SPFU on quarterly basis provides to the Ministry for Development of Economy, Trade and Agriculture (MoE) and the MoF information on the legal entities. Information is also publicly available at <http://www.spfu.gov.ua/ua/content/spf-stateproperty-Subiekti-gospodaruvannya.html> and <http://www.spfu.gov.ua/ua/documents/docs-list/spf-management-Reestr-korporativnih-prav.html>, as well as at the single state web-portal of open data (data.gov.ua)²⁶.

184. The GoU has established procedures to ensure that all governing entities provide accurate and timely information in regard to their SOEs. As the administrator of the register, the SPFU coordinates with 148 administrative entities, including 89 entities with stocks hold by the state. SPFU has introduced a standardized methodology for collecting information on state properties, according to which the Fund updates the Register quarterly on the basis of information submitted by the administrative departments of state-owned entities. In addition, in accordance with Article 7 of the Methodology for Conducting the Inventory of the State Properties endorsed by the Cabinet, dated November 30, 2005, resolution No. 1121, information on the state property entities is submitted by relevant administrative departments to the SPFU within 55 days after the closing of the reported quarter or by April 25 of the year following the reporting period.

185. GoU has made progress in improving the legal and regulatory framework governing the activities of the SOEs. Since 2014, the MoE has expressed concerns about the available expertise or capacity to manage such a large portfolio efficiently or invest in the SOEs in a proper manner- the number of SOEs is overwhelming and impossible for any government to oversee (OECD²⁷, 2017). An important Law "On Privatization of State and Municipal Properties" was adopted on January 18, 2018, by the Parliament. On May 10, 2018, the Government approved several by-laws aimed at the implementation of the Law of Ukraine "On Privatization of State and Municipal Property". In addition, the Government introduced amendments to a number of regulations that addressed privatization issues in order to bring them into accordance with the Law of Ukraine "On Privatization of State and Municipal Property".

186. The top 100 largest SOEs account for 93.3 percent of the total value of assets of all operating SOEs in Ukraine²⁸. The top 100 largest SOEs operate mainly in six sectors: (i) oil and gas; (ii) transportation; (iii) energy; (iv) food and agriculture; (v) machine building; and (vi) chemicals. According to the information provided by the MoE, 80 SOEs are classified as public corporations in accordance with GFS 2014²⁹, for which the information is summarized in Annex 7³⁰.

187. All public corporations are required to prepare annual financial statements³¹. These statements must be in compliance with forms stipulated by the legislation. According to Article 14 of the Law "On Accounting and Financial Reporting in Ukraine, No. 2164-VIII, dated October 5, 2017, which became effective on January 1, 2018, public interest enterprises (except for large enterprises that are do not issue securities), natural monopolies entities at the national market and the enterprises carrying out extraction of mineral resources of national importance have to publish the audited annual financial reporting and the audited consolidated financial reporting on their websites (in full) and through other means as specified by the legislation, *not later than April 30 of the year following the reporting period*³². According to clause 3, Article 78 of the Law on the

²⁶ According to the Cabinet's Resolution dated June 19, 2007 № 832 "On Approval of the procedure for the control over the fulfillment of state property management functions and criteria of efficiency in state property management" the SPF provides to the MoE and MoF the list of economic entities to monitor the efficiency of the management of state property objects.

²⁷ Organization for Economic Co-operation and Development.

²⁸ Overview Report on SOEs prepared by the WB.

²⁹ As per PEFA guidance, for the purpose of this dimension, public corporations are defined in accordance with GFS 2014. In this regard it is possible that certain institutional units that are legally constituted as corporations may not be classified as corporations for statistical purposes if they do not charge economically significant prices.

³⁰ The companies operating in the oil, gas and mining sector with tariffs regulated by the government, is not included in Annex 7 as does not meet the definition of public corporation in accordance with the GFS 2014.

³¹ According to the CoM Regulation No. 419 "On Approval of the Procedures for Submitting Financial Statements" dated 2000 and revised on 2018.

³² According to the law "Large enterprises that are not securities issuers and medium enterprises shall publish the annual financial reporting,

“Joint Stock Companies”, the public joint stock companies shall maintain their own website for disclosing information, in particular the annual financial reports and reporting forms submitted to the relevant public institutions in compliance with the terms and procedures stipulated by the National Security and Stock Exchange Commission. Furthermore, SPFU as per the procedures stipulated in the Resolution of the Cabinet of Ukraine dated Oct. 21, 2015, No. 835 “On Procedures for Disclosing Public Data” is required to publish the data maintained by the SPFU and its regional branches including financial reporting of state-owned enterprises.

188. It is unclear whether all annual financial statements of public corporations were externally audited. With respect to external audit, since June 2015 SOEs fulfilling certain criteria (being thus divided into two groups³³) have been required to undergo external audit. The procedure for the selection of the auditors and the appointment criteria for such auditors for Group I were defined by the Cabinet Resolution No. 390 dated April 6, 2015³⁴. Law #996 “On Accounting and Financial Statements in Ukraine” defines the rules, organization and functioning of accounting and compiling of financial statements in Ukraine. Article 14 of Law # 996 stipulates the procedure for submission and publishing of financial statements with an audit report by entities of public interest and medium enterprises. Furthermore, Law #2258 “On Audit of the Financial Statements and Auditing” stipulates the provisions for the audit of financial statements and auditing activity in Ukraine as well as regulates the relations that emerge while conducting it. According to Article 1 of Law # 2258, the mandatory audit of financial statements means the audit of financial statements (consolidated financial statements) of economic entities that are required by law to publish or provide financial statements (consolidated financial statements) to the users of financial statements together with an audit report following an audit that is conducted by audit companies on the basis and under the procedure established by that law. While the full list of public corporations was provided by the MoE, information on the audited annual financial statements and respective publication dates was available and shared with the assessment team for only 36 public corporations which accounted for 51.23 percent of the public corporations’ expenditures.

189. The annual financial statements of public corporations contain information on the contingent liabilities. These are assessed using different methodologies as stipulated in the Cabinet Resolution #7, dated January 11, 2018 “On the approval of the methodology for the assessment of fiscal risks”. In addition, as per paragraph 13 of Article 38 of the Budget Code “Information on fiscal risks and their potential impact on the State Budget in 2018” identifies and consolidates the contingent liabilities from sovereign guarantees to the SOEs sector in the country. MoE monitors and assesses the efficiency of the management of the SOE sector and publishes quarterly reports³⁵.

190. Information on the audited annual financial statements and respective publication dates were provided for only 36 public corporations, which account for 51.23 percent of their total expenditure (this is less than “most/75 percent or more by value” which is required for a B score). To be in compliance with the legislation, all public corporations are required to prepare annual financial statements in compliance with forms stipulated by the legislation and shall publish the audited annual financial reporting and the audited consolidated financial reporting on their websites (in full) and through other means, not later than April 30 of the year following the reporting period. However, the GoU receives annual financial statements from all public corporations within four months of the end of the fiscal years.

191. Therefore, as the timeframe is the less than the 9 months required, the score for this dimension is C.

together with the auditor’s opinion, on their website (in full) not later than 1 June of the year following the reporting period. The other financial institutions belonging to micro-enterprises and small enterprises shall publish the annual financial statements together with the auditor’s opinion on their own website (in full) not later than by the 1st of June of the year following the reporting period”.

³³ Group I include SOEs with value of assets exceeding UAH 2 billion, with net annual income exceeding UAH 1.4 billion; Group II includes SOEs with value of assets exceeding UAH 250 million.

³⁴ The companies of the first group used the services of the biggest, most reputable audit companies, most often one of the top auditing firms in Ukraine. According to the MoE data published in its 2016 Top-100 SOEs report, the implementation has been very poor. In particular, in 2016 out of 46 SOEs that belong to Group I only 19 had undergone external audit, others are still in the process of being audited or have not taken any steps towards this end at all. Implementation by the SOEs of the Group II is no better; in 2016 only 34 SOEs out of total 99 SOEs of this group have adhered to this requirement.

³⁵ <http://www.me.gov.ua/Documents/List?lang=uk-UA&id=2e24db81-1b0d-4322-80ce-89e6d3c269e2&tag=MonitoringEfektivnostiUpravlinniaObiektamiDerzhavnoiVlasnosti>

Performance change since the previous assessment

192. **There is no change in performance.** The previous assessment does not provide the list of state-owned enterprises which qualify as public corporations according to the definition of the PEFA framework. The dimension has been scored mostly on qualitative terms rather than demonstrating the extent to which the materiality for a C score is met. As a result, the current score and the score of the previous assessment cannot be compared without knowing the coverage of the previous assessment. This rationale is also in compliance with the guidance prepared by the PEFA Secretariat on “Tracking PFM Performance changes over time”, which outlines as a good practice for assessors to avoid re-rating the previous assessments and explain why the current and previous score are not comparable.

Recent or ongoing reform activities

193. **The GoU has established a special portal (<https://spending.gov.ua>), which will give access to information and could be consolidated by different groups of enterprises³⁶.**

194. **These Public Interest Enterprises are also required to prepare financial reporting and consolidated financial reporting applying international accounting policies and standards in accordance with the legislation.** The first reporting period for which the enterprises shall apply international standards and submit financial reporting is 2019. In 2020, financial reports based on international financial reporting standards should be submitted using a single reporting format – eXtensible Business Reporting Language (XBRL).

10.2. Monitoring of subnational government

Performance level and evidence for scoring the dimension

195. **According to the Constitution of Ukraine, the subnational government (SNG) structure consists of three layers.** The first layer consists of 27 units including 24 regions (oblasts), the Autonomous Republic of Crimea and two cities with special status, Kiev and Sebastopol. The second layer encompasses 490 districts (rayons) and another 182 cities of oblast significance. Finally, the third layer is composed of 278 towns of rayon significance and around 11,000 village councils within different districts that incorporate around 28,000 different villages and rural settlements. The process of amalgamation aimed at reducing the number of units in the third layer by either joining them with a nearby larger settlement or combining two or more of those into an ATC.

196. **Only SNGs of certain size can issue debt within clear thresholds on the level of debt and debt service³⁷.** For instance, large cities, i.e., an oblast capital can borrow internally and externally. Other cities can borrow internally and externally only from international financial institutions (IFIs). Oblasts can also borrow externally from IFIs. According to the Budget Code, Article 17, cities and oblasts can also issue guarantees.

197. **The Treasury prepares and submits annual financial reports on the implementation of the local budget according to the forms approved (financial and budget)³⁸.** The combined indicators of reporting on the budget implementation are simultaneously submitted by the treasury to the local executive body of the Autonomous Republic of Crimea on issues of finance, to financial bodies of local state administration and to executive bodies of the relevant local councils. The annual financial statements are audited by the Budget Commission of the respective Local Council (as per part 4 of Article 80 of the Budget Code). In 2018, Accounting Chamber audited only the transfers received from the CG. The State Audit Services (SAS)³⁹ is

³⁶ According to the Law “On the Openness of Using Public Funds” # 183-VIII, dated February 11, 2015.

³⁷ According to the Budget Code, Article 16 dated July 8, 2010.

³⁸ As stipulated in the Article 80 of the Budget Code.

³⁹ According to the national legislation, the integral components of the state financial control system are the i) SAS bodies (government control) authorized by the CoMs to perform state financial control, ii) Accounting Chamber, that conducts state financial control on behalf of the Parliament of Ukraine (Parliamentary control), and sub-divisions on internal audit of spending units. In the system of state financial

responsible for controlling the local budgets in particular by conducting the combined state financial audit, during which all budget process stages are audited. The correctness of the accounting and the reliability of the annual financial statements and accounting are subject to such audits, which are undertaken in compliance with the rules and procedures stipulated by the law. In 2018, SAS's bodies have conducted 73 audits of annual financial statements. The total value of financial and material assets covered by the audits amount to UAH 162,011 million., which accounts for around 28 percent of the SNG expenditure⁴⁰. The annual financial statements are published annually and the audit reports containing the relevant findings are published within four days after signing⁴¹.

198. **Subnational governments operate through the Treasury system; hence the local budgets are part of the regular Treasury reporting.** They are not allowed to spend more than their budget. Revenues and expenditures of all public units at all levels pass through the Treasury system and are reported in accordance with the GFS/COFOG classification, so providing for full consolidation of all general government expenditure on a sectoral basis. In compliance with Article 28 of the Budget Code, the Treasury publishes monthly, quarterly and annually reports on the execution of the State Budget, which are prepared according to the requirements of Articles 59-61 of the Code, on its official web site. These reports include information about the consolidated indicators on the implementation of local budgets for revenues, expenditure, lending and financing in the context of budget classification codes. The consolidated report for 2018 approved by Cabinet and sent to the Accounting Chamber for auditing of the State Budget part, was published on the Treasury website at: <https://www.treasury.gov.ua/ua/file-storage/richnij-szvit-pro-vikonannya-derzhavnogo-byudzhetu-ukrayini-za-2018-rik?page=1>⁴² on April 1, 2019.

199. **The consolidated report on the financial position and performance of all (*materiality by value as defined by PEFA 2016 Framework*) subnational governments is published at least annually within four months of the end of the fiscal year.**

200. **Therefore, based on the analysis and supporting evidence the score for this dimension is C as they do not meet the audit requirement for a higher score.**

Performance change since the previous assessment

201. **The score for this dimension has deteriorated from A to C.** This is due to low coverage of audit of the annual financial statements from SAS, which accounts for 28 percent of the SNG expenditure (less than 75 or more by value required for a B score).

control, each of the above-listed bodies executes functions within the sphere of its authorities specified by the legislation. According to the part 1 of the Clause 1 of the Law of Ukraine "On Accounting Chamber", the Accounting Chamber on behalf of the Parliament of Ukraine executes control over the revenues to the State Budget and their use. Thus, as per this Law, the Accounting Chamber is not authorized to conduct financial control and audit of local budgets' funds. On the other hand, SAS as set forth in the Clause 2 of the Law of Ukraine "On basic principles for conducting state financial control in Ukraine" is authorized to control over the use of the local budget funds. Such control is executed, in particular, via revisions of local budgets and budget institutions, that are maintained on the account of the local budget funds, audits of local budgets, of execution of budget programs and regional target programs.

⁴⁰ The total SNG expenditure for the fiscal year 2018 was UAH 570.6 bl

⁴¹ at the SAS's website at <http://www.dkrs.gov.ua/kru/uk/publish/article/136382>.

⁴² It covers the local budgets by Revenues types, Expenditures by Functions and Economic Classification, Crediting by Functions and Classification of Crediting, Financing, Intergovernmental Transfers, Local Debt, Local Guaranteed Debt and Local Guarantees.

10.3. Contingent liabilities and other fiscal risks

Performance level and evidence for scoring the dimension

202. **This dimension assesses monitoring and reporting of the CG explicit contingent liabilities from its own projects and programs, including those of extrabudgetary units.** The calibration of this dimension is based on the extent to which CG entities quantify significant contingent liabilities in their financial reports. As stated in the PEFA 2016 Framework (p. 34) significant contingent liabilities are defined as those with a potential cost in excess of 0.5 percent of total BCG expenditure and for which an additional appropriation by the legislature will be required. Furthermore (p. 35), this dimension does not assess explicit contingent liabilities arising from public corporations or subnational governments as they are assessed under 10.1 and 10.2, respectively.

203. **In 2018, the GoU made progress in establishing the methodology for the assessment of the fiscal risks and their potential impact on the State Budget.** Cabinet Resolution #7 dated January 11, 2018 “On the approval of the methodology for the assessment of fiscal risks” stipulates different methodologies to be used for the assessment of the fiscal risks. In addition, Article 38, paragraph 13 of the Budget Code “Information on fiscal risks and their potential impact on the State Budget in 2018” identifies and quantifies the fiscal risks and their potential impact in the budget, including: macroeconomic; public debt; severing guarantees; explicit contingent liabilities on state guarantees granted to state-owned enterprises; and potential losses of the financial sector.

204. **The GoU does not have significant contingent liabilities as defined by the PEFA framework.** It does not use special financing instruments such as Public-Private Partnerships, or umbrella state guarantees for various types of loans, or state insurance schemes. With respect to sovereign guarantees, the budget code specifies the amount of guarantees to be granted, and the Cabinet defines the procedures for granting such guarantees.

205. **While the GoU identifies the fiscal risks and quantifies the potential impact in the budget, including those from the explicit contingent liabilities on state guarantees granted to state-owned enterprises, the latter do not qualify as significant contingent liabilities as per PEFA framework.**

206. **This dimension is Not Applicable given the PEFA methodology.**

Performance change since the previous assessment, where applicable

207. **This dimension scored D in the previous 2015 PEFA assessment, and it is not applicable in the current one.** This difference is due to the absence of significant contingent liabilities as defined by the PEFA framework. The previous assessment states “there is no framework in place to quantify and monitor contingent liabilities from central government programs/projects including PPPs beyond sovereign guarantees.” There is no reference to the significant contingent liabilities considered for the assessment. As a result, the current score and the score of the previous assessment cannot be compared without knowing the coverage of the previous assessment. This rationale is also in compliance with the guidance prepared by the PEFA Secretariat on “Tracking PFM Performance changes over time”, which outlines as a good practice for assessors to avoid re-rating the previous assessments but rather explain why the current and previous score are not comparable.

PI-11. Public investment management

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

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

Summary of scores and performance table

Indicator/ Dimension	Scoring Method M2 AV			
	Current assessment		Previous assessment <i>(applying PEFA 2016 framework)</i>	
	2019 Score	Brief justification for score	2015 Score	Explanation of change <i>(including comparability issues)</i>
PI-11: Public investment management	C+		D+	The previous score was aggregated as an M1 and should have been scored D
11.1 Economic analysis of investment proposals	C	The economic analysis of the major investment project defined as per PEFA framework was carried out, but the results were not published. The analysis was reviewed by an independent body.	D	Due to the implementation of changes to the Budget Code and the new procedure for evaluation and selection of public investment projects.
11.2 Investment project selection	A	Selection of the major investment project was carried out according to the published standard criteria.	D	Due to the implementation of changes to the Budget Code and the new procedure for evaluation and selection of public investment projects.
11.3 Investment project costing	D	The MoE shared the projection of the total capital cost of the major investment project sent to the Budget Committee of the Parliament as part of the selection process. However, this cost was not included into the budget documentation. Expenditures for implementing the major project are calculated for three years, but the budget documentation contained the information for a forthcoming year only.	C	There are no significant changes.
11.4 Investment project monitoring	C	Monitoring of implementation of the major public investment project was carried out in accordance with established procedures; however, results were not published.	D	Due to the implementation of changes to the Budget Code and the new procedure for the monitoring of public investment projects.

209. **The Parliament adopted amendments to the Budget Code in 2015 with the aim of improving the system of public investment management.** Those changes require:

- Conducting a selection of public investment projects (PIP) by the Interagency Commission under the Cabinet, which consists of members of the Cabinet and the Budget Committee of the Parliament;
- Ensuring the precedence of financing of PIPs (at least 70 percent of the total amount of public investments should be spent on those PIPs whose implementation has already commenced);
- Publishing by the main budget spending units of information on the progress of PIPs implementation.

210. **The new system was introduced with the State Budget for 2016.** In order to implement those amendments to the Budget Code, the Government established new procedures, which, inter alia, provide for the preliminary selection and mandatory appraisal of all PIPs. Special regulatory documents have established new procedures for investment projects secured by sovereign guarantees and financed through loans from the International Financial Institutions.

211. **In Ukraine, public investment projects can be selected and financed from the State Budget through several approaches.** The information about such approaches is presented in Table 11.1. Such a differentiation of approaches is significant at all stages of project life-cycle. It illustrated by the information about the largest projects in Table 11.2.

Table 11.1. Approaches to include the expenditures for implementation of public investment projects into the State Budget

Types of investment expenditures	Approaches to including into (financing from) the State Budget	Approved expenditures, UAH billion	Expenditure structure, %	Cost of the largest investment projects, UAH billion	Share of the largest investment projects, %
1. Public investment projects	Included into the State Budget on a competitive basis in accordance with the requirements of the Budget Code.	4.8	26.1	55.3	79.6
2. State Fund for Regional Development	Included into the State Budget without specifying the projects, and then the projects are selected on a competitive basis after approval of the State Budget.	6.0	32.7	0.9	1.3
3. State Energy Efficiency Fund	Included into the State Budget without specifying the projects, and then the projects are selected on a competitive basis after approval of the State Budget.	1.5	8.2	-	-
Total expenditures that are more in line with the assessment criteria		12.3	67.0	56.2	80.9
4. Other expenditures of investment nature	Included into the State Budget without a competition.	6.1	33.0	13.3	19.1
Total		23.4	100.0	69.5	100.0

212. **The Budget Code does not contain the term “major investment project”.** Therefore the PEFA methodology was applied for the purpose of assessing this dimension. According to the methodology, “major investment projects” are defined as projects meeting the following two criteria: (i) the total investment cost of the project amounts to 1 percent or more of the total annual budget expenditure; and (ii) the project is among the largest 10 projects (by total investment cost) for each of the 5 largest CG units, measured by the units’ investment project expenditure. In 2018 only one project met the PEFA definition of major investment project: Development of highway N-31 Dnipro – Tsarichanka – Kobelyaki – Reshetilivka (UAH 17.8 billion), implemented by State Road Agency of Ukraine.

11.1. Economic analysis of investment proposals

Performance level and evidence for scoring the dimension

213. **The main investment project prepared following procedure for preparing public investment projects⁴³, which is determined by Resolution of the Cabinet dated July 22, 2015, # 571 “Some Issues of Managing Public Investments”.**

214. **There is a template to document public investment projects which requires an economic analysis to be conducted and no requirements for publishing results of this analysis.** The template contains, among other things, the section “Analysis of the project performance”. This provides information on: (i) calculation of the cost of the final product; (ii) calculation of economic performance indicators (for financially sustainable projects); (iii) assessment of social and environmental impacts; (iv) analysis and assessment of benefits from implementing the project (for projects valued over UAH 30 million), including potential beneficiaries and their benefits from the project implementation; (v) economic impact assessment; (vi) projection of State Budget revenues; (vii) analysis of risks and possible ways to mitigate them; (viii) costs of the project development and implementation, and (ix) operating costs (maintenance) (operations phase).

215. **In order to help PIP developers, the Ministry for Development of Economy, Trade and Agriculture has posted methodological recommendations and explanations⁴⁴ on its website.** The recommendations and explanations include: international practices on conducting the economic analysis of investment projects and useful links on this topic; supporting training materials containing, in particular, a table with formulas for calculations and an example of calculation of indicators of the project’s economic performance; and key assumptions for making calculations in relation to PIPs.

216. **The key spending units managing the asset to be invested in must conduct a state appraisal (state expert examination) and make its opinion available to the project’s initiator.** To participate in the competitive selection, the key spending units submit a list of investment projects in priority order, as well as investment projects and opinions based on the results of state expert examination. The MoE reviews, within ten working days, the submitted documents and accepts public investment projects for participation in the competitive selection or informs about the reasons for rejecting it.

217. **An economic analysis of the major investment project financed from the State Budget was carried out, but the results were not published.** The analysis was reviewed by an independent body.

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

11.2. Investment project selection

Performance level and evidence for scoring the dimension

219. **The State Budget expenditures for implementing PIPs shall be planned on the basis of results of PIPs selection in accordance with the procedure established by the Cabinet⁴⁵.** The MoF includes public investment projects into the draft Law on the State Budget based on the results of competitive selection provided by the Inter Agency Committee on PIM led by the Government. At least 50 percent of participants in the Commission are members of the Budget Committee of the Parliament. The relevant Procedure is established by Resolution of the Cabinet dated July 22, 2015 # 571 “Some Issues of Public Investment Management”. When selecting PIPs, the Commission has the total amount of State Budget expenditures available for development (implementation) of the PIP, which has to be provided by MoF according to the Budget Code. The MoE serves as a Secretariat of that Committee and provides all technical support, including preliminary analysis of received

⁴³ An investment project implemented through public investment into state-owned assets.

⁴⁴ <http://me.gov.ua/Documents/MoreDetails?lang=uk-UA&id=17a1c8d2-b9d0-47a0-94af-77b07786e652&title=MetodichniRekomendatsii-TaRoz-iasnennia>

⁴⁵ by the Interagency Commission on Public Investment Projects (the Commission) according to Article 33-1 of the Budget Code

project proposals. Projects and results of the selection shall be documented in accordance with a template given in the mentioned resolution.

220. **These procedures establish the following criteria for selection of PIPs.**

- percentage of project implementation (for projects in progress);
- economic impact;
- economic performance (for financially sustainable projects);
- social impact;
- environmental impact;
- substantiation of the choice of sources of funds necessary for operating (maintaining) the state asset;
- savings in the course of operation (maintenance) of the asset as compared with similar costs prior to the project implementation.

221. **Project selection is carried out in the following domains:** (i) socio-cultural and public health spheres; (ii) fuel and energy sphere, mining and manufacturing industry, mineral resource base; (iii) sphere of environmental protection; (iv) transportation sphere; (v) functioning of the authorities and services provided by them. The Ministry of Finance announces in advance the projected total expenditures on public investment projects. The Commission distributes them among those domains, after which, within determined limits, the selection of PIPs is carried out individually for each domain, taking into account the above-mentioned criteria and additional criteria that may be proposed by the MoE.

222. **The selection of the main public investment project was carried out by the Interagency Commission on Public Investment Projects following the established published standard criteria for project selection.**

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

11.3. Investment project costing

Performance level and evidence for scoring the dimension

224. **Projections of the total life-cycle cost of major investment project, together with a year-by-year breakdown of the capital costs and estimates of the recurrent costs for the next three years are prepared.** Legislative provisions require the state public investment project contain calculation of all the costs including operational costs. The calculation contains both calculation of expenditures required for completing the project's investment stage, and calculation of the annual amount of expenditures necessary to maintain the asset after completion of the investment stage.

225. **The draft budget submitted by CMU to the Parliament contained the capital cost of the main public investment project for the forthcoming budget year only and did not include projections of its total capital cost.**

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

11.4. Investment project monitoring

Performance level and evidence for scoring the dimension

227. **Monitoring implementation of the major investment project was carried out in accordance with the established procedures; however, results were not published.** The MoE has approved the procedure for monitoring the state of development (implementation) of public investment projects (Order # 1785 of October 25, 2016). This procedure defines the process for conducting internal and external monitoring at the investment and operation stages, including both physical progress and cost.

228. **The implementing entity/owner submits information once a month about the results to the key spending unit, which conducts internal monitoring.** For each public investment project, the key spending

unit provides the MoE with information on monitoring the results on a six-month basis. The key spending unit must publish the results of monitoring on its official website within the specified timeframe. However, annual monitoring report on major public investment project for 2018 was not published.

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

Performance change since the previous evaluation

230. **The assessment based on three parameters of this indicator has improved.** This is due to the implementation of changes to the Budget Code and the new procedure for evaluation and selection of investment projects. Nevertheless, given the PEFA methodology on materiality for investment that has been followed, many important investment projects have fallen under the radar of the assessment of the investment process. In this situation, it is deemed prudent to broaden the coverage to include all largest investment projects implemented in 2018 in terms of compliance with the best practices at the main stages of the project life-cycle. The approaches followed for these projects are presented in Annex 8.

PI-12. Public asset management

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

231. **This indicator assesses the management and monitoring of government assets and transparency of asset disposal.** The assessment is based on the last completed fiscal year 2018. Coverage for dimension 12.1 is CG, for dimension 12.2 is Budgetary Central Government, and dimension 12.3 is CG for financial assets and Budgetary Central Government for nonfinancial assets.

Summary of scores and performance table

Indicator/ Dimension	Scoring Method M2 AV			
	Current assessment		Previous assessment <i>(applying PEFA 2016 framework)</i>	
	2019 Score	Brief justification for score	2015 Score	Explanation of change <i>(including comparability issues)</i>
PI-12: Public asset management	B		C+	
12.1 Financial asset monitoring	B	GoU maintains a record of its holdings in all categories of financial assets, which are recognized at fair value. However, information on the performance is published annually only for the major categories of the financial assets.	C	There is an improvement in recording.
12.2 Non-financial asset monitoring	C	GoU maintains a register of its holdings in fixed assets and collects partial information on their age, and usage.	C	There are no significant changes.
12.3 Transparency of asset disposal	B	Procedures and rules for the transfer and disposal of nonfinancial assets are established. Information on transfer and disposal is included in the budget documents and other reports.	B	There are no significant changes.

12.1. Financial asset monitoring

Performance level and evidence for scoring the dimension

232. **The GoU has a recording of its major categories of the financial assets held by the CG.** GoU has the following types of financial assets: cash, securities, loans and receivables owned by the government, foreign reserves, equity in state owned and private sector institutions. The following institutions manage and report on financial assets: (i) the Treasury manages cash balances, loans, receivables, and long-term financial investments and reports on quarterly basis according to the national accounting standards⁴⁶; (ii) the National Bank monitors and manages the foreign reserves; and (iii) the State Property Fund and different government agencies monitor equities in state owned and private sector institutions.

233. **Unitary SOEs, which represent a considerable share of equities of the government, are monitored by different government agencies.** As mentioned above in PI-10.1, the Consolidated Registry of the State Property maintained by the State Property Fund of Ukraine (SPFU) includes information on the legal entities registered as exclusive state property (state enterprises, amalgamated state enterprises, institutions and organizations) and commercial enterprises with corporate stock held by the state (stock companies, limited liabilities companies). The vast majority of Ukrainian SOEs, which have been established as unitary enterprises are monitored and overseen by different government agencies responsible for management of state properties.

234. **In 2018, Treasury prepared the consolidated annual financial reports of the public sector entities for the first time.** According to the guidelines (Guidelines No. 204) and in the forms of NPSAS No. 102, the State Treasury Services prepared for the first time in 2018 the consolidated annual financial report of the public sector in Ukraine which covers the following: (i) financial reports on the execution of the State Budget; (ii) summarized indicators of the consolidated financial statements on the implementation of the local budgets; (iii) summarized indicators of the consolidated financial statements of key spending units of state and local budgets; and (iv) summarized indicators of the consolidated financial statements of the budgets of the compulsory state social and pension insurance funds (i.e. the Pension Fund, Ukraine Social Insurance Fund, and Unemployment Social Insurance Fund). The consolidated financial statements of the public sector entities provide information on the general status of the properties and the activities of the public sector entities by including the consolidated balance, the consolidated statements of the financial results, the consolidated statements of the cash flows, and the consolidated statement of the equity capital. Thus, these statements provide comprehensive information on the public sector entities nonfinancial assets, financial assets, equity capital and obligations. The consolidated financial statements of the public sector entities will continue to be prepared by the Treasury on an annual basis.

235. **All financial assets are listed at fair value.** The MoF is responsible for monitoring and reporting annually on the performance of financial assets, although such information is published annually only for the major categories of financial assets. The MoF publishes on its website information regarding the status of borrowers' indebtedness- the status of loans issued by the state or under state guarantees. Treasury, as coordinated CMU through the MoF, publishes on its website information on the status of borrowers' indebtedness the status of loans issued by the state or under state guarantees, on receivables and flow of funds.

236. **As a result, the government maintains a record of its holdings in all (materiality by value as defined in the PEFA 2016 framework) categories of financial assets, which are recognized at fair value.** However, information on the performance is published annually only for the major categories of the financial assets.

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

Performance change since the previous assessment

238. **The score for this dimension has improved from C to B.** This is due to the preparation by the Treasury of the consolidated financial reports of the public sector entities, which among others, provide comprehensive information on the public sector entities nonfinancial assets, financial assets, equity capital and obligations.

⁴⁶ As assessed in PI.28 (Treasury uses the cash-based accounting while the key spending units use the accrual-based one).

12.2. Non-financial asset monitoring

Performance level and evidence for scoring the dimension

239. **The State Property Fund maintains the Consolidated Register of State Property.** This is produced with the participation of the authorized government management entities following the standardized methodology developed by the fund for the collection of information about the fixed assets. The consolidated register contains information about the main state assets⁴⁷, (e.g. buildings, constructions, equipment, pipelines, gas pipelines, autobahns, electric grids, main heating systems, communications network, railway, etc.) in the ownership of both central and local administration bodies. It is the only register that holds information on the state assets and legal entities that administer them. Information about the legal entities that administer the assets as well as changes in name, location, establishment and operating status (cease functioning) is obtained from the Unified Register of the Ukrainian Enterprises and Organizations. Data from the Consolidated Register are used for registration of ownership rights of the state property in the National Register of Fixed Asset Ownership⁴⁸, while empty land plots are registered in the land cadastral. SPFU also cooperates with various public authorities through agreements and memoranda aiming at enhancing the exchange and cross-checking of information.

240. **The consolidated register is a public automated system installed in each authorized government management entity.** It includes information on an asset's location, property rights, entity that manages the assets, value and its type (construction, building, etc.) according to the purpose and utilization of the assets, including lease, concession and other characteristic. All Government management entities administer and manage their assets, conduct the inventory and submit assets related information to the SPFU (in electronic and paper form) on a quarterly basis (in defined timeline) and as per the format established. The SPFU checks the validity of the register by comparing and ensuring consistency with the reports submitted from the government management agencies from previous reporting periods. The SPFU consolidates the data and controls change in ownership, transfers, and sales, etc.

241. **In addition, as stated above in PI-12.1, the consolidated financial statements of the public sector entities provide information on the general status of the properties and the activities of the public sector entities.** This is done by including the consolidated balance, the consolidated statements of the financial results, the consolidated statements of the cash flows, and the consolidated statement of the equity capital. Thus, these statements provide comprehensive information on the public sector entities nonfinancial assets, financial assets, equity capital and obligations.

242. **Overall, the GoU maintains a register of its holdings in fixed assets.** The Consolidated Register of State Property holds information on the entity that administer the assets (owner), age, location of asset, value, type, purpose, usage and other characteristics. However, information on the usage and age is only partial.

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

Performance change since the previous assessment

244. **There is no change in performance.**

Recent or ongoing reform activities

245. **Development of the national system to make it more interactive is a top priority.** Within the framework of e-government reform, consolidation of state registers will be undertaken in order to avoid **duplication** of data from different public registers. This consolidation of data from different national registers has been initiated.

⁴⁷ The Consolidated Register of Property Objects contains information about more than 1 million state property objects.

⁴⁸ Clause 44 – Procedures for State Registration of Fixed Assets and Related Liabilities, stipulated in resolution of the Cabinet of Ukraine of Dec.25, 2015, No. 1127 (with amendments of Aug. 23, 2016, No. 553).

12.3. Transparency of asset disposal

Performance level and evidence for scoring the dimension

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

247. **In addition, the Government has introduced amendments to several regulations dealing with privatization issues.** These amendments bring the regulations into line with the Law of Ukraine “On Privatization of State and Municipal Property”. The SPFU approved lists of small-scale privatization objects that were scheduled for privatization in 2018 by its Order No. 447 (as amended) dated March 27, 2018. In addition, the list of state-owned enterprises prohibited for privatization, which was approved by the Law of Ukraine dated July 7, 1999 No. 847-XIV “On the List of Objects of State-Owned Enterprises Not Subject to Privatization” (as amended), is subject to revision and modification in connection with the adoption of the new Law of Ukraine “On Privatization of State and Municipal Property”. A separate law exists on lease “On Lease of State and Municipal Properties” No. 2269-XII dated April 10, 1992; and disposal of properties “Law on the transfer of the objects of the right of state and communal property” No. 147/98-VR dated March 3, 1998.

248. **The SPFU is the main authority responsible for the implementation of the privatization policy in Ukraine.** It has a broad set of functions, including the development of proposals on privatization programs, approval of the list of SOEs for “small” privatizations, and pre-privatization preparation of SOEs and their governance while they are undergoing the process. It prepares draft regulation for the implementation of the country’s privatization policy and conducts the actual privatization using the available and appropriate methods. The SPFU also serves as the entity that leases state properties and completes all procedures for paid and direct disposal. It carries its function through a central office, as well as regional offices in all oblasts.

249. **While some means of informing the legislature exist, there are no rules and procedures on information to be submitted to legislature.** As outlined in the Law “On the SPFU”, dated December 9, 2011, No. 4107-VI, the SPFU is required to inform the public about any action and activities undertaken. The Parliament has a special Commission for Privatization, to which the SPFU reports on and informs on regular basis for privatization issues. In addition, the fund prepares a newsletter, which is publicly available in its website⁴⁹.

250. **Information on the transfer and disposal of assets is included in the State Budget documentation and other reports.** Upon completion of the fiscal year, the SPFU prepares and publish a report reporting on the completed year. In addition, the Fund reports to the MoF and the MoE on the achievement of the targets as well as the financial performance indicators of the SOEs.

251. **Overall, there are established procedures and rules for the transfer and disposal of nonfinancial assets.** Information on transfer and disposal is included in the budget documents and other reports.

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

⁴⁹ <http://www.spfu.gov.ua/en/documents/docs-list/press-publications-newspaper.html>

Performance change since the previous assessment

253. There is no change in performance.

PI-13. Debt management

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

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

Summary of scores and performance table

Indicator/ Dimension	Scoring Method M2 (AV)			
	Current assessment		Previous assessment <i>(applying PEFA 2016 framework)</i>	
	2019 Score	Brief justification for score	2015 Score	Explanation of change <i>(including comparability issues)</i>
PI-13: Debt management	A		B+	
13.1 Recording and reporting of debt and guarantees	A	The recording of internal and external debt obligations is complete, accurate, and relevant; monthly reconciliations are in place to ensure the reliability and adequacy of the data. The Ministry of Finance at least once a month and the State Treasury Service at least once a quarter draw up management and statistical reports (covering debt servicing, existing debt obligations and transactions).	A	There are no significant changes.
13.2 Approval of debt and guarantees	A	According to the Budget Code, the Government's borrows and provides state guarantees within the limits of the total amount of debt obligations and the total amount of guarantees allowed as part of the State Budget law and are always approved by the sole government body responsible for this.	A	There are no significant changes.
13.3 Debt management strategy	B	The medium-term strategy has been developed and approved by the Government and published but does not determine targets for borrowing indicators. Reporting to the legislature on actual results in comparison with the debt management objectives defined by the strategy is not legally stipulated and does not take place.	C	The last strategy determines the targets ranges for interest rates, refinancing and currency risks based on a thorough analysis of debt acceptability.

13.1. Recording and reporting of debt and guarantees

Performance level and evidence for scoring the dimension

255. **The quality of records on debt obligations and reporting frameworks is high.** Ukraine is a permanent member of the IMF General Data Dissemination System. Therefore, it adheres to the reporting standards for key fiscal data. The Government Debt Department of the Ministry of Finance maintains a database containing data on the total government debt and all state guarantees. The Treasury's information system records all debt-related transactions. Data on domestic borrowings is entered on the basis of information on debt placement from the National Bank. Data on external borrowings is obtained from agreements signed and information on the funds received from accounts opened with the Treasury. The Ministry of Finance's unit responsible for cooperation with international financial institutions provides data on loans from IFIs that is once again reconciled with it.

256. **The debt information that is made public is satisfactory and includes data on servicing, current debt obligations and transactions.** Reports are published monthly on the Ministry of Finance's website (<https://www.minfin.gov.ua/news/borg/derzhavnyi-borh-ta-harantovanyi-derzhavoiu-borh>) and quarterly on the Treasury's website (<https://www.treasury.gov.ua/ua/file-storage/vikonannya-derzhavnogo-byudzhetu>). Comprehensive verification of debt is conducted quarterly. The Treasury and the Ministry of Finance reconcile the debt online.

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

13.2. Approval of debt and guarantees

Performance level and evidence for scoring the dimension

258. **The Budget Code contains general principles for the execution of government borrowings and government debt management (Article 16) and the provision of state guarantees (Article 17).** Article 16 of the Budget Code stipulates that state borrowings are made within the limits established by the law on the State Budget. The exception may be the lack of funds from other sources of funding during the fiscal year. In this case, borrowings can be increased to ensure the financing of deficit at the level approved by the State Budget law.

259. **Under the same article of the Budget Code, the Cabinet determines the main conditions of public borrowings including the main terms and conditions for loan agreements and issues as well as the procedure for placing government securities.** Such terms and conditions for government bonds are approved with the Resolutions of the Cabinet No. 80 dated 31 January 2001 "On Issue of **Domestic** Government Loan Bonds" and No. 186 dated 14 March 2018 "On Issue of Foreign Government Loan Bonds".

260. **In accordance with Article 17 of the Budget Code, state guarantees may be granted on the basis of a relevant decision of the Cabinet.** This process shall be exclusively within the scope and in the areas⁵⁰ defined by the law on the State Budget, or based on international treaties of Ukraine. The same article **sets** out that according to the instructions of the Cabinet, the relevant documents for the provision of state guarantees are signed by the Minister of Finance.

261. **On the basis of the Budget Code, resolutions and decisions of the Cabinet, the Ministry of Finance, which is the single-debt management entity as established by Article 16 of the Budget Code, annually approves all borrowings⁵¹ and guarantees⁵².** The restrictions for both government debt and government-backed debt are established annually in the Law on the State Budget.

⁵⁰ For example, according to Article 6 of the State Budget law, the Government could decide on granting guarantees in the following areas in 2018: for credits (loans) raised to finance investment projects; financing of programs related to the improvement of defense capacity and state security; establishment of production capacities for the manufacture of defense products; financing of housing construction for servicemen under projects of the State Mortgage Institution.

⁵¹ on behalf of the Cabinet of Ukraine.

⁵² by decision of the Cabinet of Ukraine or on the basis of international treaties.

262. **The Ministry of Finance is also authorized for the management of debt, as defined by the Charter of the Ministry of Finance**⁵³. The MoF's Department of the Debt Policy is responsible for the state debt and state guaranteed debt accounting and monitoring and issues regulations on state debt and state guaranteed debt management. The Department carries out domestic and external borrowing based on annual State Budget Laws and the Government Mid-Term State Debt Management Strategy, and keeps registry of public debt and the state guarantees.

263. **The Budget Code establishes the provisions for the monitoring of state debt and state guarantees.** Report on state debt and state guaranteed debt is a part of quarterly (Article 60 of BCU) and annual (Article 61 of BCU) budget reporting of the government. In addition, the same articles of the BCU also requires the information on public debt management operations performed and on state guarantees issued to be included in the quarterly and annual budget reporting, as well as in the monthly reports (Article 59).

264. **In accordance with part four of Article 74 of the Budget Code, the state is not liable for local government debt obligations.** Nevertheless, in accordance with part 2 of this article, the Ministry of Finance approves the amount, terms and conditions of local borrowings and provision of local guarantees (assessed as part of PI-10). The Budget Code also defines clear limits for the amount of local and local council-backed debt: no more than 200 percent (for Kyiv – 400%) of the average annual forecast of revenues to the development budget (part three of Article 18) and its servicing in an amount not exceeding 10 percent of general fund expenditures (part 6 of Article 74).

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

13.3. Debt management strategy

Performance level and evidence for scoring the dimension

266. **Ukraine has had medium-term Government debt management strategies (DMS) since 2011.** Due to large political, social and economic instability associated with the Russian Federation's aggression in the east of Ukraine and the temporarily occupation of the Autonomous Republic of Crimea, in 2016 the DMS was not approved (as in 2014 and 2015). The 2017-2019 DMS was approved by the Government on December 1, 2017 and 2018-2020 DMS – on August 22, 2018. The most recent DMS (as of June 2019) concerns the period 2019-2022 and was approved by the Cabinet on June 5, 2019 with the Resolution No. 473 and published at the websites of the MoF (<https://mof.gov.ua/uk/osnovna-informacija>), Cabinet (<https://www.kmu.gov.ua/npas/pro-zatverdzhennya-serednostrokovoyi-strategiyi-upravlinnya-derzhavnim-borgom-na-20192022-roki>) and Parliament (<https://zakon.rada.gov.ua/laws/main/473-2019-%D0%BF>). The strategy determines the targets ranges for interest rates, refinancing and currency risks based on a thorough analysis of debt acceptability. The strategy takes into consideration indicators of the budget for 3 forthcoming years, defines government debt management objectives (without indicators of measuring these objectives or quantitative targets for the major indicators of risk) and activities to achieve them as well as contains the analysis of the status and structure of government debt, repayment schedules for government debt, indicates, among other things, the expected maturity, the ratio of state debt and deficit of the state budget to GDP and the share of debt with a fixed interest rate. The strategy does not set target levels of borrowing and guarantees indicators.

267. **The Ministry of Finance drew up and published on its website on November 4, 2018 a report on the 2017 implementation of the Medium-Term State Debt Management Strategy for 2017-2019**⁵⁴. This was approved in the Resolution of the Cabinet No. 905 dated December 1, 2017. The most recent DMS includes analytical information on the achievement of the strategy objectives (without indicators of measuring these objectives) and the strategy is publicly available. Legislation does not stipulate that the Cabinet or the Ministry of Finance must report to the Parliament on the implementation of that strategy.

⁵³ Decree of the Cabinet No 375 dated August 20, 2014.

⁵⁴ <https://mof.gov.ua/storage/files/%D0%97%D0%B2%D1%96%D1%82%20%D0%BF%D0%BE%20%D0%A1%D1%82%D1%80%D0%B0%D1%82%D0%B5%D0%B3%D1%96%D1%97%20%D0%B7%D0%B0%202017.pdf>

268. **The strategy does not set target levels for borrowing and guarantees indicators.**

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

Performance change since the previous assessment

270. **There are no significant changes.**

Recent or ongoing reform activities

271. **In accordance with the amendments recently made to the Budget Code (2646-VIII of 6 December 2018), the Cabinet shall, on annual basis, no later than June 1 of the year preceding the planned one, approve the Budget Declaration.** The budget declaration will, among other things, establish provisions on the deficit (surplus) of the State Budget, indicators for the main sources of State Budget financing as well as government debt guaranteed, government-backed debt and the provision of state guarantees (part nine of Article 33 of the Budget Code). The amended Article 14 of the Budget Code sets out that the State Budget deficit, as defined by the Budget Declaration, may not exceed 3 percent of the nominal GDP, and its limit amount in the law on the State Budget may not exceed the corresponding figure specified by the Budget Declaration.

272. **Limits on the maximum amount of state guarantees are set at 3 percent of the planned revenues of the State Budget General Fund⁵⁵.**

273. **The Ministry of Finance shall develop and the Cabinet shall approve the Medium-Term Government Debt Management Strategy before June 1 of the year preceding the planned⁵⁶.** Such a strategy should take into account the indicators defined by the Budget Declaration and the Law on the State Budget. The above changes will promote further improvement of government debt management.

⁵⁵ Part one of Article 18 of the Budget Code (including amendments)

⁵⁶ In accordance with part 10 of Article 16 of the revised Budget Code,

PILLAR FOUR: Policy Based Fiscal Strategy and Budgeting

PI-14. Macroeconomic and fiscal forecasting

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

274. This indicator measures the ability of a country to develop robust macroeconomic and fiscal forecasts, which are crucial to developing a sustainable fiscal strategy and ensuring greater predictability of budget allocations. It also assesses the government's capacity to estimate the fiscal impact of potential changes in economic circumstances. Macroeconomic and fiscal forecasting should support the achievement of the government's fiscal policy objectives including achievement of planned CG fiscal balances. Comprehensive, stable, and transparent medium-term fiscal objectives, against which the government can be held accountable, provide a stable anchor for present and future policy decisions and raise the costs of deviating from the consolidation path. The time period is the last three completed fiscal years. The coverage is for dimension 14.1: Whole Economy and for dimensions 14.2 and 14.3: CG.

Summary of scores and performance table

Indicator/ Dimension	Scoring Method M2 AV			
	Current assessment		Previous assessment <i>(applying PEFA 2016 framework)</i>	
	2019 Score	Brief justification for score	2015 Score	Explanation of change <i>(including comparability issues)</i>
PI-14: Macroeconomic and fiscal forecasting	A		B+	
14.1: Macroeconomic forecasts	A	Indicative major macro-economic indicators are used to project the two budget periods following the planned one. The forecast is discussed in the explanatory note to the budget including underlying assumptions and scenarios. The projections are prepared by the MoE and reviewed and approved by the full Cabinet.	B	The details provided to the Parliament as part of the budget submission improved and include explanation of assumptions underlying the macroeconomic forecast as well as three scenarios.
14.2 Fiscal forecasts	B	The government prepares forecasts of the main fiscal indicators, including revenues (by type), aggregate expenditure, and the budget balance, for the budget year and two following fiscal years. Forecasts and underlying assumptions are included in budget submission.	B	The comprehensive process for medium-term fiscal forecasting, including revenues, for the State budget for the two years following the upcoming budget year has been fully implemented, which was not the case during 2015 assessment.
14.3 Macrofiscal sensitivity analysis	A	The government prepares a range of fiscal forecast scenarios based on alternative macroeconomic assumptions, and these scenarios are published, together with its central forecast.	A	There are no significant changes.

14.1. Macroeconomic forecasts

Performance level and evidence for scoring the dimension

275. **The State Budget should include indicative major macro-indicators of economic and social development for the two budget periods following the planned one**⁵⁷. These indicators include nominal and real GDP, consumer price indices and producer price indices, exchange-rate policy indicators supplied by the National Bank, as well as other indicators used during preparation of the budget. Key spending units draw up plans of their activities for the medium term based on these indicators.

276. **Throughout the reporting period, macro-economic projections were developed to support the budgeting process.** The Ministry of Economy prepared projections that include GDP, consumer price index (CPI), producer's price index, profit of all commercial entities, wage bill, employment, labor productivity, and trade balance. They include underlying assumptions about key variables. These macro-economic forecasts are provided to the Ministry of Finance, which in turn are reviewed and approved by the Cabinet for budget planning before June 15⁵⁸. In practice, forecasts have been prepared somewhat late (in 2018 the forecast for 2019-2021 was approved on July 11, 2018) and sometimes were revised later in the year (in 2017, the forecast 2018-2020 has been approved in May, but then revised in December 2017)⁵⁹.

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

14.2. Fiscal forecasts

Performance level and evidence for scoring the dimension

278. **The existing system of fiscal forecasts is defined by Article 33 of the Budget Code, which establishes coordination procedures between MoF and MoE and their respective functions.** The State Budget Planning Office of the MoF is in charge of medium-term budget forecasting, making use of the macro-economic forecasts of the MoE.⁶⁰ In accordance with these Procedure, approved by the CMU's Resolution as of 26.03.2003 №621 (with amendments as of April 17, 2019 №335), the MoE submits to the MoF the preliminary macro-forecasts of economic and social development of Ukraine for the next three years before March 1. By April 15, the preliminary macroeconomic forecasts of economic and social developments for the forthcoming budget year are completed, typically resulting in a one-page document listing key parameters. It is developed by the MoE jointly with the MoF, with input from the National Bank, Central Public Authorities, and other relevant ministries. MoE develops these forecasts using data from other central executive bodies, namely, MoF and Ministry of Social Policy, the National Bank and other relevant ministries. In turn, the MoE prepares the Forecast of economic and social development for the forthcoming and two following years and submits it for Cabinet review by May 15 (item 31 of the Procedure). The Revenue Department calculates tax and fee revenue forecasts using the preliminary macroeconomic forecasts, the prevailing tax legislation and the data from other relevant ministries or agencies. By April 15, the Revenue Department and other responsible MoF divisions prepare and submit to the State Budget Department of the MoF the following estimations for the upcoming budget year and two outer years: revenue forecast of the State and local budgets by type of revenue; aggregate expenditure, debt interest payments and repayments from the budget; reimbursement of

⁵⁷ According to Article 21 of the Budget Code,

⁵⁸ Data of the Cabinet of Minister's decision on macroeconomic forecast is indicated before approval of the Cabinet of Minister's Resolution as of 17.04.2019 №335 «On amendments to the Cabinet of Minister's resolution as of April 26, 2003 № 621», in which the deadline for this stage of forecast preparation is set for June 1.

⁵⁹ The Decree of the Cabinet of July 1, 2016 approved macro forest for 2017. The Decree of the Cabinet of Ukraine of May 31, 2017 #411 approved macro forecast for 2018-2020, the Decree of December 1, 2017 #906 amended the forecast of economic and social development of Ukraine for 2018-2020. In 2015 — for the four years (2016–2019) (Decree of the Cabinet of Ukraine of 05 August 2015 No. 558). Finally, the Decree of the Cabinet of July 11, 2018 #546 approved the forecast for 2019-2021.

⁶⁰ In Ukraine, the Ministry for Development of Economy, Trade and Agriculture plays a key role in preparing and coordinating of macroeconomic forecasts underling the budget. Forecasting procedures are established in the Decree No. 621 of the Cabinet on Drawing Forecast and Program Documents of Economic and Social Development of 26 April 2003.

loans; and forecasts of budget balance, deficit financing and interest. By September 1, final revenue forecasts are submitted to the State Budget Department.

279. **The Ministry for Development of Economy, Trade and Agriculture may update its macroeconomic forecasts up to three times between March and the end of the year, even after the submission of the budget to the Parliament.** Consequently, macroeconomic forecasts may be updated between the first and the second readings of the budget bill in Parliament, as well as during budget execution. If the macroeconomic situation changes substantially during the budget year, the macroeconomic estimations for the budget year are adjusted by a resolution of the Cabinet. If it has impact on the revenues and expenditures, the budget law is subsequently amended.⁶¹

280. **The two outer-year estimates for the State Budget are submitted to the Parliament as part of the budget bill.** The explanatory note, which is part of the budget submission, provides underlying assumptions. These estimates are adjusted to align with the adopted version of the State Budget and approved by the Cabinet (Draft Resolution) within one month after the Law on the State Budget is published. This sets a target indicator for line-ministries over the medium-term. The following table outlines medium-term revenue forecasts for the reporting period for the State Budget.

Table 14.2. Revenue forecast, 2016-2018 (in UAH billion)

Forecasted revenue	FY 2016	FY 2017	FY 2018
Adopted Law on the Budget	731.0	917.9	1,026.1
Adopted Law on the Budget <i>for General Fund</i>	673.7	842.9	928.5
Medium-term Forecast (2017-2019)	706.3	758.0	819.7
Variance, %	3.5	21.1	25.2
Medium-term Forecast (2018-2020)	N/A	877.0	1,008.4
Medium-term Forecast (2018-2020) <i>for General Fund</i>	N/A	790.2	839.6
Variance, %	N/A	4.7	10.6

N/A – not applicable.

Source: *Medium-term budget forecasts of the Government, annual budget laws, World Bank staff estimates.*

Note: starting from 2018-2020 forecast the outer year revenue forecasts are done for the general fund only (leaving out earmarked revenues).

281. **The quality of revenue forecasts has improved with deviations for the second year after the budget plan from over 20 percent to around 10 percent.**

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

14.3. Macro-fiscal sensitivity analysis

Performance level and evidence for scoring the dimension

283. **The government prepares a range of fiscal forecast scenarios based on alternative macroeconomic assumptions for internal use.** The budget documents include discussion of forecast sensitivities. The macroeconomic forecast includes at least two scenarios which are published on the MoE, and on the Cabinet websites. In 2016, macroeconomic forecasts were based on optimistic and base-line scenarios. In 2017 and 2018 three scenarios were worked out. All macroeconomic forecasts include risks analysis of several risks including world commodity prices, development of threats from Russia, different scenarios of major policy changes and other macroeconomic shocks. In addition, materials of consensus forecast are also available online (www.me.gov.ua).

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

⁶¹ Article 52, Budget Code of Ukraine (2011).

Performance change since the previous assessment

285. **The details provided to the Parliament as part of the budget submission have been improved.** These details now include an explanation of assumptions underlying the macroeconomic forecast as well as three scenarios (an increase from two). The comprehensive process for medium-term fiscal forecasting, including revenues, for the State Budget for the two years following the upcoming budget year has been fully implemented, which was not the case during the 2015 assessment.

PI-15. Fiscal strategy

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

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

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

Summary of scores and performance table

Indicator/ Dimension	Scoring Method M2 AV			
	Current assessment		Previous assessment <i>(applying PEFA 2016 framework)</i>	
	2019 Score	Brief justification for score	2015 Score	Explanation of change <i>(including comparability issues)</i>
PI-15: Fiscal Strategy	D+		D+	
15.1. Fiscal impact of policy proposals	C	The MoF undertakes assessment of impact of draft laws on budget, however impact on the budget is only assessed for one budget year.	C	There are no significant changes.
15.2. Fiscal strategy adoption	C	Fiscal rules provide for quantitative fiscal objectives on debt and budget balance.	D	The score has improved due to improvement in the fiscal impact assessment methodology implemented mid-2018.
15.3. Reporting of fiscal outcomes	D	There was no reporting on fiscal outcomes outside of the budget execution reports.	N/A	There is no change from the previous PEFA as the circumstances are the same

15.1 Fiscal Impact of policy proposals

Performance level and evidence for scoring the dimension

288. **Every draft law is supported by financial-economic justification in case there is an impact on the budget, including revenues⁶².** If revenues are expected to change, a draft law should suggest possible expenditure cuts or revenue increase measures to ensure balanced impact on budget. The Parliament should

⁶² Budget Code (Article 27) and Law on Procedures of the Verkhovna Rada #1861 of February 10, 2010

submit to the Cabinet every registered draft law for assessment of impact on the budget within five days from its registration. The Cabinet submits an expert opinion prepared by the Ministry of Finance back to the Parliament within two weeks. When draft laws are prepared by the Executive, the line ministry of agency must prepare the financial analysis as detailed in the Ministry of Finance Order #428 dated March 21, 2008 with amendments of 2018. These estimates should be for three years.

289. **In practice, the proposed policy changes are supported by forecasts of the fiscal impact.** However, the maintenance cost, as well as indirect revenue losses, is not always incorporated into the analysis in practice.

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

15.2. Fiscal strategy adoption

Performance level and evidence for scoring the dimension

291. **The Budget Resolution⁶³ is the fiscal strategy document that contains mid-term fiscal objectives, data on budget deficit, debt level and estimated GDP growth and other economic indicators.** During 2016-2018 the Government did not consistently issue or implement a fiscal strategy document or describe the medium-term fiscal objectives for the CG.

292. **At the same time clear quantitative fiscal objectives are established in the Budget Code through fiscal rules specifying the debt and guarantees to GDP ratios, and the local debt to development budget ratio.** The new amendments passed in December 2018 also introduced a limit on budget balance of 3 percent of forecasted nominal GDP. There is a lack of medium-term perspective except for the debt rules in the fiscal planning process. The fiscal forecast does provide outer year estimates, but they are not set forth as fiscal objectives.

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

15.3. Reporting of fiscal results

Performance level and evidence for scoring the dimension

294. **Budget execution reports provide reporting against the debt and budget balance objectives set as fiscal rules.** However, there is limited discussion and explanation of medium-term deviations and reasons behind these deviations. There was no reporting on fiscal outcomes outside of the budget execution reports.

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

Performance change since the previous assessment

296. **The dimension 15.2 score has improved.** This is due to the introduction of an enhanced fiscal impact assessment methodology implemented mid-2018, which requires fiscal impact assessment for 3 years of all policy initiatives.

Recent or ongoing reform activities

297. **The amendments to the Budget Code (law #8044) became effective on January 8, 2019.** Their implementation should substantially change the scope of the budget resolution going forward. It will include three-year targets for expenditures, policy objectives in each major area, and resource envelopes by main spending agency. Combined with existing information on the fiscal deficit and debt ceiling, this reform will substantially strengthen fiscal strategic planning in Ukraine in the future.

⁶³ The 2019-2021 Budget Resolution was adopted by the Government on April 18, 2018.

PI-16. Medium-term perspective in expenditure budgeting

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

298. This indicator examines the extent to which expenditure budgets are developed for the medium-term within explicit medium-term budget expenditure ceilings. It also examines the extent to which annual budgets are derived from medium-term estimates and the degree of alignment between medium-term budget estimates and strategic plans. For dimensions 16.1, 16.2 and 16.3 the assessment is based on the last budget submitted to the legislature, 2018. For dimension 16.4, it is based on the last budget submitted to the legislature 2018, and the current budget 2019. The coverage is Budgetary Central Government.

Summary of scores and performance table

Indicator/ Dimension	Scoring Method M2 AV			
	Current assessment		Previous assessment <i>(applying PEFA 2016 framework)</i>	
	2019 Score	Brief justification for score	2015 Score	Explanation of change <i>(including comparability issues)</i>
PI-16: Medium-term perspective in expenditure budgeting	D+		D	
16.1 Medium-term expenditure estimates	D	Key spending units compile detailed calculations of mid-term expenditure for all budget classifications and submit them to the Ministry of Finance as part of budget requests. Estimates for the outer years are not presented in the annual budget.	D	There are no changes.
16.2 Medium-term expenditure ceilings	D	The Ministry of Finance has calculated both preliminary expenditure ceilings for key spending units and final ones for compiling budget requests. However, the Government has not approved them.	D	There are no changes.
16.3 Alignment of strategic plans and medium-term budgets	C	17 out of 58 ministries, national agencies, academies, other CG authorities (29.3%) in 2018 had approved strategic plans of their activities. Plans of 15 of them (25.9%) contained the amounts of expenditure needed to achieve the goals and planned performance indicators. In addition, the State Debt Management Strategy for 2018-2020 covered expenditures for the debt service. Some expenditure policy proposals in the annual budget (more than 25% of total expenditures) aligned with the strategic plans.	D	Due to the above, the situation with discipline regarding the approval by key spending units of strategic plans also improved, which influenced the change in the score of indicator 16.3 from D to C.
16.4 Consistency of budgets with previous year's estimates	N/A	No medium-term budget has been adopted during the assessed period.	D	This dimension is not applicable. There is no change from the previous PEFA as the circumstances are the same.

16.1. Medium-term expenditure estimates

Performance level and evidence for scoring the dimension

299. **In drafting the State Budget the key spending units make detailed medium-term estimates of expenditures.** These are for all budget classifications: departmental, programmatic (showing the relationship with the functional one) and the economic classification at the level of the third digit. Such a requirement is in place following the Order of the Ministry of Finance dated No. 687 dated June 6, 2012 “On Approval of the Instruction for Preparing Budget Requests”. According to that order, medium-term estimates of expenditure are part of the budget request, which each key spending unit submits to the Ministry of Finance when drafting the budget. Estimates for the outer years are not presented in the annual budget.

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

16.2. Medium-term expenditure ceilings

Performance level and evidence for scoring the dimension

301. **While drafting the State Budget for 2019 the Ministry of Finance sent key spending units both preliminary and final ceiling amounts of expenditure.** Based on these ceilings, the key spending units determined their budget requests. However, ceilings were not approved by the Government. Such ceiling limits are based on the medium-term forecast of revenue, financing, expenditure, lending, debt obligations, and inter-budgetary transfers, but they are indicative and not hard.

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

16.3. Alignment of strategic plans and medium-term budgets

Performance level and evidence for scoring the dimension

303. **All key spending units shall develop strategic plans of their activities for three years⁶⁴.** These plans are prepared on the basis of forecast amounts of expenditure and provision of loans from the budget for the two budget periods following the planned one, as communicated by the Ministry of Finance along with guidelines on compiling budget requests. Key spending units shall annually align such plans of activities with the State Budget indicators for the planned budget period and a forecast of the State Budget for the next two budget periods following the planned one, which in fact was approved only once in 2012 for 2013-2014.

304. **The Ministry for Development of Economy, Trade and Agriculture⁶⁵ approved the guidelines for development of key spending units’ plans of activities.** This was according to budget assignments determined by the law on the State Budget for a relevant budget period for the planned and two budget periods following it.

305. **In 2015, the Ministry of Finance adopted orders that provided for changing an approach to compiling a budget request and a budget program passport.** These orders stipulated the consistency of the distribution of expenditures for the medium-term perspective with the ministries’ strategic plans of activities (Orders of the Ministry of Finance No. 553 dated 15 June 2015, “On Approval of Amendments to the Order of the Ministry of Finance No. 1536 dated 10 December 2010” and No. 554 dated 15 June 2015 “On Amending the Instruction on Preparing Budget Requests”).

306. **Despite the lack of a forecast of the State Budget, which is required by the Budget Code, only 17 out of 58 ministries, national agencies, academies, other CG authorities (29.3%) had approved strategic plans of their activities in 2018.** Fifteen (25.9%) contained the amounts of expenditure needed to achieve the goals and planned performance indicators. Expenditures of the draft State Budget for 2019 correlated with the

⁶⁴ According to part two of Article 21 of the Budget Code of Ukraine.

⁶⁵ Order No. 869 of 25 July 2012.

15 strategies. The strategies are used in the preparation of annual performance plans (PI.8.1) for service delivery by KSUs after annual budget approved. According to the MoF's order No. 1098 dated December 29, 2002 "On budget program passports" the budget program passport should be prepared using the information provided in the budget request and be consistent with the strategy of the KSU. In addition, the State Debt Management Strategy for 2018-2020, approved by the Cabinet No. 883 dated August 22, 2017, covered expenditures for debt service.

307. **Some expenditure policy proposals in the annual budget (more than 25% but less than 50% of total expenditures) aligned with the strategic plans.**

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

16.4. Consistency of budgets with previous year's estimates

Performance level and evidence for scoring the dimension

309. **A medium-term budget has not been adopted during the assessed period as only the budget year is presented.**

310. **Thus, this dimension is not applicable.**

Performance change since the previous assessment

311. **The Ministry of Finance had issued in 2015 orders requiring the consistency of the mid-term allocation of expenditures with the strategic plans of the ministries' activities.** As a result, the situation with discipline regarding the approval by key spending units of strategic plans improved. This has influenced the change in the score of indicator 16.3 from D to C.

Recent or ongoing reform activities

312. **The recently adopted amendments to the Budget Code⁶⁶ have established a legal basis for the introduction of MTBF.** This is both at the level of the State Budget and at the level of local budgets. In accordance with the amended part three of Article 20, key spending units will now form budget programs while formulating proposals for the Budget Declaration and drawing up a budget request, taking into account medium-term plans of activities, forecast and programmatic documents on economic and social development. The observance of this norm should help improve the score under both indicator 16.1 and indicator 16.3 to A.

313. **The Government will in future approve the maximum amount of expenditure for the planned and the two budget periods following it for key spending units (part 9 of Article 33 of the Budget Code) as part of the Budget Declaration, which is going to be passed.** This replaces the Key Areas of Budget Policy for the Planned Year and the State Budget Forecast for the Two Budget Periods following the Planned One (now repealed). This may allow for a further improvement of the score under indicator 16.2 up to A.

314. **Part 2 of the amended Article 33 will ensure consistency of medium-term indicators by defining indicators in the Budget Declaration.** This will take into account relevant indicators for previous years, as stipulated in the last year's Budget Declaration. The same rule establishes a list of cases when the said indicators may differ, namely: (1) deviation of the estimated main forecasting macroeconomic indicators of Ukraine's economic and social development from the forecast, which was factored in as part of the Budget Declaration and approved in the previous budget period; (2) deviation of the budget indicators determined by the law on the State Budget from those specified in the Budget Declaration approved in the previous budget period; and (3) adoption of new legislative and other regulatory acts influencing State Budget indicators in the medium-term.

⁶⁶ 2646-VIII of 6 December 2018

PI-17. Budget preparation process

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

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

Summary of scores and performance table

Indicator/ Dimension	Scoring Method M2 AV			
	Current assessment		Previous assessment <i>(applying PEFA 2016 framework)</i>	
	2019 Score	Brief justification for score	2015 Score	Explanation of change <i>(including comparability issues)</i>
PI-17: Budget Preparation Process	B		B	
17.1 Budget calendar	C	A clear annual budget calendar exists and is largely observed. In 2018, key spending units had less than four weeks to draw up budget requests.	B	The score deteriorated compared to the previous assessment, since the time provided to the key spending units to fill out budget requests decreased and was less than four weeks.
17.2 Guidance on budget preparation	C	The Ministry of Finance develops and sends to key spending units the guidelines for compiling budget requests that define approaches to the calculation of expenditure for the planned budget period and the two years following it, and the limits of expenditure for the same periods. However, the Government does not approve such limits.	C	There are no changes.
17.3 Budget submission to the legislature	A	The Government duly submitted a draft annual budget according to the budget calendar to the Parliament.	A	There are no changes.

17.1. Budget calendar

Performance level and evidence for scoring the dimension

316. The budget calendar exists and is largely observed with regard to the timing set forth in the Budget Code. Such timing is as follows:

- **March 1** – the Ministry of Economy submits to the Ministry of Finance the indicative values of the most important macroeconomic indicators of Ukraine’s economic and social development, which are necessary to elaborate the draft Key Areas of Budget Policy for the Next Budget Year (Article 33 of the Budget Code). The Higher Council of Justice submits proposals to the Cabinet for the priority tasks of financial support of judiciary and its independence.

- **March 15** – the National Bank submits to the Parliament and the Cabinet projected monetary indicators for the next year and the two budget periods following the planned one including the average annual exchange rate of Ukrainian hryvnia and the one as of the end of the year.
- **March 20** – the Ministry of Finance drafts the Key Areas of Budget Policy for the Next Budget Year and submits them to the Cabinet for consideration.
- **April 1** – the Cabinet considers and approves the Key Areas of Budget Policy and submits them to the Parliament within three days. The National Bank submits to the Parliament and the Cabinet information on the calculation of part of the projected profit before distribution of the current year, which will be transferred to the State Budget.
- **Before May 15** – the Ministry of Finance informs the central executive authority, which ensures the formulation of state policy in the field of economic and social development, about the total amount of public capital investments for the development and implementation of public investment projects for the planned budget period and the two budget periods following the planned one (except for those conducted through the state’s raising of credits (loans) from foreign states, banks and international financial institutions as well as from the state regional development funds).
- **Before June 1** – the Cabinet should approve the forecast of Ukraine’s economic and social development and the most important macroeconomic indicators of Ukraine’s economic and social development for the planned year and the next two budget periods (according to paragraph 33 of the procedure for drafting forecast and programmatic documents for economic and social development, the Budget declaration, and the State Budget approved with the Resolution of the Cabinet No. 621 dated April 26, 2003). A real situation is that the term of approval of a macro forecast may differ. In 2018, it was approved in July (Resolution of the Cabinet No. 546 dated July 11, 2018).
- **September 1** – the National Bank submits to the Parliament and the Cabinet information on the calculation of part of the projected profit before distribution of the next year, which will be transferred to the State Budget.
- **September 15** – the Cabinet approves the draft law on the budget and submits it together with the relevant materials to the Parliament and the President.⁶⁷
- October to December – the Parliament approves the budget in the first reading, discusses it, and makes amendments upon recommendation of the Cabinet.
- **December 1** – the Parliament approves the State Budget law as a whole.

317. **The Ministry of Finance annually approves a detailed budget calendar with its order, which also provides for other actions of participants to the budget process.** This ensures the timing of the budget process established by the Budget Code is observed. The key tasks and dates for the budget calendar for 2019-2021 are given in Table 17.1.

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

Activity	Planned date	Actual date
The Ministry of Finance sends a letter to key spending units concerning the preparation of structural changes for the next three years compared with the current year	before April 7, 2018	January 31, 2018
The Ministry of Finance submits the draft Key Areas of Budget Policy for 2019-2021 to the Cabinet for consideration	before March 20, 2018	March 19, 2018
The Ministry of Finance submits proposals on structural changes for the next years compared with the current year by the key spending units	before April 14, 2018	March 14, 2018 to 14 April 2018

⁶⁷ Budget Code of Ukraine.

Activity	Planned date	Actual date
The Ministry of Finance communicates to the Ministry for Development of Economy, Trade and Agriculture total amounts of public capital investment for the development and implementation of public investment projects	before May 15, 2018	September 19, 2018
The Ministry of Finance receives from the Ministry for Development of Economy, Trade and Agriculture the distribution of public capital investments between the key spending units	before June 6, 2018	September 19, 2018
The Ministry of Finance communicates to key spending units the maximum amount of expenditure for 2019 and the indicative forecast indicators of expenditure and provision of loans for 2020 and 2021 together with guidelines	before June 30, 2018	July 27, 2018
The Ministry of Finance receives filled out budget requests for 2019-2021 from key spending units	before July 14, 2018	before August 16, 2018
Coordination meetings are conducted with key spending units for coordinating the indicators of the draft State Budget for 2019 and the forecast for 2020 and 2021	July 24, 2018 to August 9, 2018	August 13, 2018 to August 22, 2018
The Ministry of Finance submits the draft Law of Ukraine "On the State Budget for 2019" for consideration by the Cabinet	before September 7, 2018	-
The Law of Ukraine "On the State Budget of Ukraine for 2019" is drafted with necessary materials to be submitted to the Prime Minister for signature	before September 15, 2018	September 14, 2018

318. **Key spending units had less than four weeks to prepare their budget requests and not all of them were able to timely submit in view of the deadline.**

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

17.2. Guidance on budget preparation

Performance level and evidence for scoring the dimension

320. **The Cabinet shall annually approve the Main directions of the budget policy for the planned year, which the Parliament shall then approve by adopting a relevant resolution⁶⁸.** This document defines broad areas of budget policy that must be observed in the budget process as well as the total budget expenditure which cover for the full fiscal year, revenue, and deficit of the budget. It does not indicate the ceiling amount of expenditure for key spending units, since it is a political, not an instructional document.

321. **The Ministry of Finance shall determine and communicate to key spending units the guidelines for compiling budget requests, including the ceilings of expenditure for the key spending units⁶⁹.** The Cabinet does not approve them. The Ministry of Finance receives budget requests from the key spending units, conducts coordination meetings with them, and then draws up and submits a draft budget to the Cabinet for consideration. The Cabinet at its meeting considers the draft budget and approves it, including the amount of expenditure for the key spending units.

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

⁶⁸ In accordance with Article 33 of the Budget Code of Ukraine.

⁶⁹ Budget Code Article 34.

17.3. Budget submission to the legislature

Performance level and evidence for scoring the dimension

323. **The Cabinet submitted annually to the Parliament a draft State Budget with observance of the budget calendar and, therefore, at least three and a half months before the fiscal year.** This is required by part 3 of Article 37 of the Budget Code. Actual dates of the budget submission to the legislature for last three completed fiscal years are shown in the table 17.3.

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

Fiscal year	Actual date of submission
2016	September 15, 2016
2017	September 15, 2017
2018	September 15, 2018

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

Performance change since the previous assessment

325. **The score of dimension 17.1 deteriorated compared to the previous assessment from B to C.** The time provided to the key spending units to fill out budget requests decreased and was less than four weeks.

Recent or ongoing reform activities

326. **The Cabinet shall, no later than June 1 of the year preceding the planned year, approve the Budget Declaration⁷⁰.** Such a declaration will, among other things, contain: 1) a limit on the expenditure of key spending units; 2) consumer price index; 3) the amount of the minimum wage, subsistence minimum and the level of its provision; 4) priority tasks of financial support for the implementation of state policy in various sectors. In the event that this rule is observed, provided that key spending units have six weeks to develop budget requests, the score of indicator 17.1 may improve from C to A.

PI-18. Legislative scrutiny of budgets

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

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

328. **The Budget Code defines the duties of the Parliament and the Budget Committee.** The Rules of Procedure of the Parliament⁷¹ sets out detailed procedures and timing for consideration and approval of the draft State Budget law. The composition of the Budget Committee presents the overall composition of the Parliament in terms of the ratio between parties and factions. The work of the Budget Committee is supported by its Secretariat consisting of civil servants.

⁷⁰ In accordance with the amendments recently made to the Budget Code (# 2646-VIII of 6 December 2018).

⁷¹ Law of Ukraine No. 1861-VI dated 10 February 2010.

Summary of scores and performance table

Indicator/ Dimension	Scoring Method M1 WL			
	Current assessment		Previous assessment <i>(applying PEFA 2016 framework)</i>	
	2019 Score	Brief justification for score	2015 Score	Explanation of change <i>(including comparability issues)</i>
PI-18: Legislative scrutiny of budgets	D+		D+	
18.1 Scope of budget scrutiny	B	The Parliament thoroughly reviews the budget law. However, mid-term budget forecasts and mid-term priorities are not considered in this process.	B	There are no changes.
18.2 Legislative procedures for budget scrutiny	D	The timetable for consideration of the draft Law on the State Budget of Ukraine for 2019 was approved by the Budget Committee of the Parliament before the Parliament received the draft State Budget law. However, it was not adhered to, which significantly reduced the time for the Budget Committee to consider the draft law prepared for the second reading and to formulate a corresponding opinion. Procedures do not stipulate mechanisms for public consultations.	D	There are no changes.
18.3 Timing of budget approval	A	The State Budget law in each of the previous three years was approved before the beginning of the fiscal year.	A	There are no changes.
18.4 Rules for budget adjustments by the executive	B	In some cases, the Budget Code allows redistributing the expenditure without amending the State Budget law during a year. There are clear limits to this redistribution that are always respected. At the same time, clear limits on extent of amendments are not set. Extensive administrative reallocations may be permitted.	B	There are no changes.

18.1. Scope of budget scrutiny

Performance level and evidence for scoring the dimension

329. **Consideration of the draft State Budget law, including forecasts of its revenue and expenditure, was thorough in 2018.** The legislature covered fiscal policy and aggregate figures for the next year, detailed calculations of expenditure and revenue as well as macroeconomic indicators developed by the Ministry for Development of Economy, Trade and Agriculture and presented by the Government in an explanatory note attached to the draft budget. However, in this process, as in previous years, mid-term budget forecasts and mid-term priorities were not considered.

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

18.2. Legislative procedures for budget scrutiny

Performance level and evidence for scoring the dimension

331. **The timing and requirements for special procedures for consideration and adoption of the draft State Budget law are established**⁷². In view of these and also given the calendar plan of the ninth session of the 8th convocation of the Parliament (approved with the Resolution of the Parliament No. 2493-VIII dated 5 July 2018), the Budget Committee developed an indicative timetable for Consideration of the Draft Law on the State Budget for 2019. It was approved by the Committee on September 5, 2018 and disseminated in the Parliament (on behalf of the Chairman of the Parliament), sent to the Government and published on the website of the Parliament (<https://portal.rada.gov.ua/news/Novyny/162140.html>).

332. **In accordance with the Rules of Procedure of the Parliament, the Budget Committee is responsible for the detailed consideration of the draft budget.** All minutes of the committee meetings are in the public domain (http://budget.rada.gov.ua/news/Diyalnist_Komit/Protokoly/) but the procedures are exclusive of public consultation mechanisms. Sectoral committees may submit their proposals to the relevant sections of the budget and communicate them to the Budget Committee. According to the budget calendar, the Parliament has about two months to consider the budget bill. The Government should submit an annual budget to the Parliament by September 15. No later than five days after submission of the draft law by the Cabinet, the Minister of Finance should present the bill at the Parliament before 20 September. The first reading is conducted before October 20. Following its results, the Parliament submits proposals for further action to the Government. By November 3, the Government should submit a revised budget, which the Parliament should consider and approve before December 1 of the year preceding the planned one.

333. **The Parliament considers and approves the draft law on the annual State Budget in three readings.** The procedure for submitting and considering a draft State Budget law does not include mechanisms for conducting public consultations and should be as follows:

- MPs and committees formulate their proposals for the draft Law on the State Budget and submit them to the Budget Committee no later than 1 October;
- The Accounting Chamber conducts an expert review of the draft Law on the State Budget and reports on its opinion to the Parliament by October 1;
- No later than October 17, the Budget Committee prepares opinions and proposals for the draft State Budget;
- No later than October 18 (19), the Parliament considers the draft law on the State Budget for the next year in the first reading;
- The Cabinet, with the participation of duly authorized representatives of the Budget Committee, prepares and, within 14 days but no later than November 3, submits to the Parliament a draft Law on the State Budget formulated in accordance with the budget opinions of the Parliament;
- Consideration of the draft Law on the State Budget in the second reading should end by November 20;
- No later than November 25, the Budget Committee prepares a draft law for the third reading; and
- By December 1 of the year preceding the planned one, the Parliament adopts the Law on the State Budget.

334. **In 2018, the deadlines for budget approval were not adhered to (see Table 18.2).** This resulted in the Budget Committee having only one week to review the draft budget submitted for the second reading and formulate a relevant opinion.

⁷² Chapter 27 of the Rules of Procedure of the Verkhovna Rada of Ukraine.

Table 18.2. The timing for submission and consideration of the State Budget law for 2019

Submitted by the Cabinet to the Parliament and the President	Adopted in the first reading	Submitted by the Cabinet to the Parliament (draft budget revised)	The Budget Committee's opinion is prepared for the second reading
September 15, 2018	October 18, 2018	November 16, 2018	November 22, 2018

335. **Deadlines for the consideration of the draft State Budget law were not observed in 2018.** This significantly reduced the stipulated statutory time for the Budget Committee to consider the draft law prepared for the second reading and formulate a relevant opinion.

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

18.3. Timing of budget approval

Performance level and evidence for scoring the dimension

337. **Budget laws in each of the three assessed periods were adopted by the Parliament before the commencement of the fiscal year.** The timing of budget approval: actual dates of approval for last three completed fiscal years, is provided in the Table 18.3.

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

Fiscal year	Actual date of approval
2017	December 21, 2016
2018	December 7, 2017
2019	November 23, 2018

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

18.4. Rules for budget adjustments by the executive

Performance level and evidence for scoring the dimension

339. **The Budget Code allows the Ministry of Finance to redistribute budget allocations throughout a year without amending the Budget Law using the virement provisions.** Some of these amendments should be approved by the Budget Committee of the Parliament. The Ministry of Finance may amend the budget expenditure without amending the law if, as a result, the budget allocations for remuneration and budget programs related to the functioning of governmental authorities are not increased in the following circumstances:

- Underperformance of budget revenue – the Ministry of Finance has the right to reduce expenditure (with the exception of protected items) for balancing the budget within the limit deficit (surplus) (Article 54 of the Budget Code);
- Powers to make expenditures are transferred from one key spending unit to another one in accordance with the law (transfer is conducted by decision of the Cabinet coordinated with the Budget Committee of the Parliament);
- Redistribution of budget allocations approved in the budget breakdown and estimated by economic classification of budget expenditure (by lending classification for granting loans from the budget) within the total budget allocations for the key spending units under the budget program (conducted by the Ministry of Finance upon the reasoned recommendation of key spending units);

- Redistribution of budget expenditures and issuance of loans from the budget under budget programs within a total amount of budget allocations of key spending units (conducted by decision of the Cabinet coordinated with the Budget Committee of the Parliament);
- Distribution of expenditures of the budget's reserve fund (other undistributed budget allocations), additional subsidies and subventions as well as an increase in development expenditures by reducing other expenditures (conducted with a decision of the Cabinet coordinated with the Budget Committee of the Parliament); and
- Redistribution of expenditures of the State Budget to centralized measures between administrative and territorial units (conducted with a decision of the Cabinet coordinated with the Budget Committee of the Parliament).

340. **In other cases, changes to the Budget Law, which are made during the year, require amending the State Budget law by the Parliament** (See PI-21.4).

341. **The Ministry of Finance cannot increase budget allocations for salary by reducing other expenditures; and expenditures on budget programs, related to the functioning of state authorities, by reducing expenditures of other budget programs.**

342. **The virement rules are always observed.** At the same time, clear limits on the extent of amendments are not set. Extensive administrative reallocations may be permitted.

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

Performance change since the previous assessment

344. **No significant changes were observed.**

PILLAR FIVE: Predictability and Control in Budget Execution

PI-19. Revenue administration

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

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

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

347. **The vast majority of government revenues in Ukraine were administered by a single entity, the State Fiscal Service (SFS), which combined both tax and customs administration and also collected social security payment financing Pension Fund and other social security funds.** In January 2019, the Cabinet approved reorganization of the SFS into separate State Tax Service (STS) and State Customs Service (SCS), however as of April 2019 the reorganization had not been implemented.

348. **The share of revenues administered by the SFS was over 82 percent of the total central budget revenues; the remaining 18 percent included grants from foreign government, income from renting property and grants from international organizations.** Out of revenues collected by the SFS, about 30 percent (24.6 percent of the total central budget) come from the customs administration side and the remaining 45 percent (36.9 percent of the total central budget) come from tax administration side and 25 percent (20.5 percent of the total central budget) are social security contributions, which are also collected by SFS. Recent years have seen notable improvements in perception of tax administration, the Doing Business ranking of Ukraine improved from 108th place in 2015 to 54th place in 2018 Doing Business report, as well as trading across the borders, which was ranked 78th in 2018 as opposed to 154th in 2015.

Summary of scores and performance table

Indicator/ Dimension	Scoring Method M2 AV			
	Current assessment		Previous assessment <i>(applying PEFA 2016 framework)</i>	
	2019 Score	Brief justification for score	2015 Score	Explanation of change <i>(including comparability issues)</i>
PI-19: Revenue administration	B		B	
19.1 Rights and obligations for revenue measures	A	There is sufficient information provided on all procedures, obligations and rights.	A	There are improvements in communication with taxpayers that took place since 2015.

Indicator/ Dimension	Scoring Method M2 AV			
	Current assessment		Previous assessment <i>(applying PEFA 2016 framework)</i>	
	2019 Score	Brief justification for score	2015 Score	Explanation of change <i>(including comparability issues)</i>
19.2 Revenue risk management	C	There is no comprehensive risk management system utilized by SFS, however audits and inspections are planned and carried out based on risks, tax refunds are also done based on the risk profiling. The risks are used for all taxpayer segments and all types of revenues. The approach is partly systematic as it does not cover all revenue administration processes.	C	There is also ongoing work on compliance management. The SFS has approved the Concept on risk management in tax in July 2018, which lays out risks in both tax compliance and organizational risks of SFS. This work is currently at the early stage, but going forward can provide an important umbrella to comprehensive risk management.
19.3 Revenue audit and investigation	C	Ukraine utilizes a target driven approach to revenue collection, however audit and investigation activities are performed, and plans exist and are followed.	C	There is no comprehensive compliance improvement plan. Majority of audits are carried out according to the documented audit plan.
19.4 Revenue arrears monitoring	B	The stock of revenue arrears at the end of the last completed fiscal year is below 10 percent of the total revenue collection of the year and the revenue arrears older than 12 months are less than 50 percent of the total revenue arrears.	B	There are no changes.

19.1. Rights and obligations for revenue measures

Performance level and evidence for scoring the dimension

349. **Ukraine unified its tax legislation into a single tax code in 2010.** The Tax Code replaced numerous tax laws with comprehensive and coherent tax legislation and was amended in course of the years after approval. The Customs Code of Ukraine was approved in 2012 and came into force on June 1, 2012.

350. **The SFS provides information to taxpayers and traders on a wide range of topics and customizes information for different taxpayer segments and groups.** There is comprehensive information on the SFS website (<http://sfs.gov.ua/>). This information covers all relevant customs procedures as well as all main taxes and taxpayer rights and obligations, as well as social security single contribution payments. The SFS also uses social media such as Facebook, Twitter and YouTube. The SFS has printed several thousand different brochures on a wide range of topics. Also, there are 475 service centers that provide information to taxpayers who do not have internet access. The SFS puts an effort into keeping all information up-to-date and ensures awareness of taxpayers and traders of any changes through website, media campaigns and workshops. There is also a modern Call Center that is functional and widely used.

351. **There is a separate Department of Administrative Appeals and Litigation Support in the SFS, which maintains an administrative review process.** If a taxpayer is dissatisfied with the outcome of an administrative review, independent external administrative tribunals with specialized tax benches are available for dispute resolution. Taxpayers also have an additional level of dispute review by higher courts to resolve factual issues and legal interpretations⁷³. The social security contributions payers use the same appeals mechanism. Taxpayers have unrestricted access to the appeals mechanism.

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

⁷³ MoF Order #916 dated October 21, 2015, On Approving the Procedure on Formalizing and Submitting Complaints by Taxpayers and Their Review by Controlling Authorities.

19.2. Revenue risk management

Performance level and evidence for scoring the dimension

353. **SFS does not utilize a comprehensive risk management system.** Some elements of risk management such as risk-based selection of tax audits and customs inspections are in place but are not used systematically for all revenue administration processes. Audits are planned and carried out based on risks since 2009 and all planned audits are now selected using risk criteria. Risk factors are determined based on analysis of macro indicators, market intelligence and third-party information. The social security contributions administration utilizes the same risk-based audit selection process and most of the time is audited jointly with the personal income tax. The registration process is sound, based on the single tax identification number and links with major government databases such as business registry. Organizations wishing to participate in the public procurement system must show they are up to date with payment of tax liabilities.

354. **The customs administration utilizes the risk profiling system which is based on risk criteria and uses the ASYCUDA⁷⁴ style system of green, yellow and red corridors.** At the same time, it is focused on customs clearance. There is ongoing work on improving risk management in customs as reported in the SFS Annual Report 2018 (<http://sfs.gov.ua/data/files/240396.pdf>).

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

19.3. Revenue audit and investigation

Performance level and evidence for scoring the dimension

356. **A risk based audit selection has existed in Ukraine since 2008 with an annual audit plan formed according to risk criteria of tax payers.** These audits and tax evasion fraud investigations are carried out according to plan, which is published (<http://sfs.gov.ua/diyalnist-/plani-ta-zviti-roboti-/362017.html>). This plan also includes the social security contributions and customs audits. The risk-based system does not include random audits. The excessive number of tax audits results in high burden on taxpayers, lowers efficiency of tax administration, and creates opportunities for corruption. At the same time, there is a positive trend in relying more on planned audits based on risk profiling and less on unplanned audits. Around 90 percent of planned audits were completed in 2018.

357. **The physical inspection at the border is based on automatic selection based on risks with about 8 percent of imports subject to physical inspection in 2017-18 according to SFS data.**

Table 19.3. Tax Audits, 2017-2018

	Planned	Unplanned	Cross-checks (VAT)
2017	4,834	16,640	9,610
2018	5,299	15,689	6,375

358. **The score for the dimension is C based on no comprehensive compliance improvement plan in place.**

19.4. Revenue arrears monitoring

Performance level and evidence for scoring the dimension

359. **The stock of tax arrears in Ukraine as of January 1, 2019 stood at UAH 72.7 billion for the consolidated budget.** The tax collections in 2018 were at UAH 999.1 billion, which suggests that the stock of revenue arrears at the end of the last completed fiscal year is below 10 percent of the total revenue collection

⁷⁴ Automated System for Customs Data.

of the year. The revenue arrears older than 12 months according to the estimates provided by the SFS are lower than 75 percent but higher than 50 percent of the total revenue arrears.

360. **UAH 14 billion of arrears older than 12 months are from Crimea and Donbas regions, which are temporarily occupied, which puts the remaining arrears older than 12 months slightly below 50 percent.** Given that inability to collect arrears in those territories does not reflect weaknesses in tax administration performance, the adjusted data is used for scoring.

361. **The Tax Code of Ukraine identifies clear definition of revenue arrears.** The definitions include tax arrears as uncollectible tax receivables based on the limitation period. Tax arrears includes a late payment penalty. The State Tax Service issues regulations and procedures for revenue arrears monitoring and collection. The data on tax arrears is disaggregated by tax type and taxpayer.

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

Performance change since the previous assessment

363. **There are improvements in audit practices as well as communication with taxpayers that have taken place since 2015.** At the same time, a higher share of old arrears in total revenue arrears lowered the score on the last dimension. This is not necessarily reflection of the poor performance of the SFS given the inability to reach out to occupied areas.

364. **There is also ongoing work on compliance management.** The SFS has approved the concept on risk management in tax in July 2018, which lays out risks in both tax compliance and organizational risks of SFS. The SFS also prepared a registry of institutional and compliance risks in 2018. This work is currently at the early stage, but going forward can provide an important umbrella to comprehensive risk management.

365. **The customs administration part also works on improvement of risk management.** The strategy of risk management development in customs control until 2022 has been approved by the Resolution of the Cabinet #978 dated December 27, 2017.

PI-20. Accounting for revenue

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

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

Summary of scores and performance table

Indicator/ Dimension	Scoring Method M1 WL			
	Current assessment		Previous assessment <i>(applying PEFA 2016 framework)</i>	
	2019 Score	Brief justification for score	2015 Score	Explanation of change <i>(including comparability issues)</i>
PI-20: Accounting for revenue	A		A	
20.1 Information on revenue collections	A	Data on over 90 percent of revenue is available to the Ministry of Finance in real time.	A	There are no changes.

Indicator/ Dimension	Scoring Method M1 WL			
	Current assessment		Previous assessment <i>(applying PEFA 2016 framework)</i>	
	2019 Score	Brief justification for score	2015 Score	Explanation of change <i>(including comparability issues)</i>
20.2 Transfer of revenue collections	A	All tax and customs payments are paid to the account of the respective agency in the State Treasury and thus transfer is immediate.	A	There are no changes.
20.3 Revenue accounts reconciliation	A	The SFS reconciles revenue data with the Treasury. Reconciliation happens on the fourth day of the month following the reporting one.	A	The reconciliation process was changed to ensure more timely data reconciliation between the Treasury and SFS, however the 2015 reconciliation met the A score requirements, this no changes in score.

20.1. Information on revenue collections

Performance level and evidence for scoring the dimension

367. **The Treasury Service of Ukraine collects and consolidated revenue data on a monthly basis.** The Treasury prepares a consolidated monthly budget execution report. Revenues are available from Treasury by type of revenue. (<https://www.treasury.gov.ua/ua/file-storage/misyachnij-zvit-pro-vikonannya-derzhavnogo-byudzhetu-ukrayini-za-sichen-2019-roku>). The reports cover all the revenues and the data is complete. The reporting includes data disaggregated by type of revenue and period of collection and the data is consolidated into a single report.

368. **As most of the revenues other than grants from foreign governments and Central Bank transfers, this information is available to the Ministry of Finance in real time.** Consolidated tax and customs revenues, grants and Central Bank transfers constitute over 90 percent of overall budget revenues, satisfying the requirement for *all* CG revenue.

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

20.2. Transfer of revenue collections

Performance level and evidence for scoring the dimension

370. **All tax, social security and customs payments are paid into the account of the respective agency in the State Treasury and transfer is immediate.** The payments are transferred to the TSA and simultaneously reflected by territory and by the code of revenue classification. Information on payment is then submitted to the State Fiscal Service by the Treasury.

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

20.3. Revenue accounts reconciliation

Performance level and evidence for scoring the dimension

372. **The Treasury has shared the revenue receipts with the SFS on a daily basis⁷⁵.** The Treasury accounts for revenues on a cash basis and thus does not capture tax assessments. Reconciliation is done at the regional level and then consolidated at the center. On a monthly basis, not later than on the 4th day of the following

⁷⁵ Following Ministry of Finance Order# 621 dated July 18 2016.

month, the SFS conducts full reconciliation of the taxes by codes of budget classification based on the data from taxpayer accounts, which includes tax assessments. The reconciliation report is produced by the SFS and the Treasury. In case of any changes in taxpayer registration, the SFS submits the changes to the Treasury within two weeks. Other revenues are reconciled as part of the regular treasury reconciliation process.

Table 20.3. Revenue accounts reconciliation

Collecting entity	Category of revenue	Frequency	Timeline	Type of reconciled data (Y/N):			
				Assessments	Collections	Arrears	Transfers to Treasury
SFS	Taxes	Monthly	Within 5 days	Y	Y	Y	N/A
SFS	Social	Monthly	Within 5 days	Y	Y	Y	N/A
SFS	Customs	Monthly	Within 5 days	Y	Y	Y	N/A

N/A – Not Applicable

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

PI-21. Predictability of in-year resource allocation

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

374. **This indicator assesses the extent to which the central Ministry of Finance is able to forecast cash commitments and requirements and to provide reliable information on the availability of funds to budgetary units for service delivery.** Time period: at time of assessment for PI-21.1 and for PI-21.2 to 21.4 the last completed fiscal year (2018). Coverage: Budgetary Central Government.

Summary of scores and performance table

Indicator/ Dimension	Scoring Method M2 AV			
	Current assessment		Previous assessment <i>(applying PEFA 2016 framework)</i>	
	2019 Score	Brief justification for score	2015 Score	Explanation of change <i>(including comparability issues)</i>
PI-21: Predictability of in-year resource allocation	A		B+	
21.1 Consolidation of cash balances	A	Treasury consolidates all cash balances on a daily basis.	A	No changes in performance are observed.
21.2 Cash forecasting and monitoring	A	A comprehensive annual cash flow forecast is developed and updated monthly based on actual cash inflows and outflows.	A	No changes in performance are observed.

Indicator/ Dimension	Scoring Method M2 AV			
	Current assessment		Previous assessment <i>(applying PEFA 2016 framework)</i>	
	2019 Score	Brief justification for score	2015 Score	Explanation of change <i>(including comparability issues)</i>
21.3 Information on commitment ceilings	A	Spending units receive reliable information more than six months in advance by which they can commit funds within their annual budget allocations and make payments within monthly limits.	A	No changes in performance are observed.
21.4 Significance of in-year budget adjustments	A	Changes to the annual budget are made in a fairly transparent manner and are below the significance threshold.	C	A reduction in the number of changes to the annual budget as well as the significance of the value of those changes contributed to an improvement in the rating score for dimension 21.4 relative to the previous assessment.

21.1. Consolidation of cash balances

Performance level and evidence for scoring of the dimension

375. **State Treasury Service has established⁷⁶ a Treasury Single Account.** Under the TSA, the Treasury consolidates the funds of state and local budgets as well as extrabudgetary funds, and dictates preparation of daily reconciliations of the balance of accounts. The TSA is located at the National Bank of Ukraine and, for CG, approximately 99 percent of all expenditure and revenue transactions are executed through the TSA.

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

21.2. Cash forecasting and monitoring

Performance level and evidence for scoring of the dimension

377. **The Treasury monitors and manages funds in the TSA.** This is pursuant to Cabinet Resolution #215 of April 15, 2015. The Treasury forecasts the annual cash 8 broken down by month and updates the projections monthly and additionally as needed to reflect substantial changes in assumptions. Monthly forecasts with daily cash flow estimates are also developed, however the forecast is limited to the calendar month and never projects forward beyond that month. Both the annual and daily forecasts are based on Ministry of Finance budget allocations as well as revenue estimates from the State Fiscal Service and debt repayment schedules received from the MoF Debt Policy Department, as well as other relevant information. The forecasts incorporate actual cash inflows and outflows. However, a report from World Bank Implementation Support Mission⁷⁷ on Cash Management and Forecasting identified the strong linkages to the Budget Breakdown (“rospis”) control process as a significant limiting factor of the forecasting model. The model is strongly impacted by the plan of what should happen rather than forecasting what will happen.

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

⁷⁶ Treasury Order #122 of June 26, 2002.

⁷⁷ April 2019.

21.3. Information on commitment ceilings

Performance level and evidence for scoring of the dimension

379. **Following the approval of the State Budget, the Ministry of Finance apportions the approved budget month by month based on inputs from the line ministries.** Based on revenue projections, budget apportionments and historical treasury data, the Ministry of Finance estimates limits for each month of the current fiscal year on apportionments for expenditures and credits from the general fund for the main spending units. Based on these apportionments, main spending units prepare a monthly spending plan breakdown by program and economic classification, which is submitted to the MoF. The Spending units know their annual budget within one month of approval of the State Budget. The State Treasury controls spending according to the plans and apportionments. Spending units can commit funds up to the value of their annual budget allocations and make payments up to the value of their monthly apportionment limits. The commitment module of the Treasury system ensures that all commitments are controlled within budget allocations. Full monthly cash releases are made for protected budget categories (such as wages and utilities), which represent approximately eighty percent of the budget, at the beginning of the month; allocations for other expenditures are made based on proposals of the Treasury, approved by the MoF, taking into account current TSA cash fund flow information.

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

21.4. Significance of in-year budget adjustments

Performance level and evidence for scoring of the dimension

381. **Significant in-year adjustments to budget allocations are performed through the budget law changes by Parliament.** These adjustments are considered only if there is an expert conclusion from the MoF and additionally a decision of the Parliament Budget Committee, if needed. This procedure is defined by article 52 of the BCU.

382. **Two adjustments were made to the annual budget law in 2018.** These were in line with the rules for budget adjustments set in the Budget Code⁷⁸ The overall difference between the original budget and final amended budget was less than 0.05 percent and thus insignificant, based on the PI-2 rating criteria.

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

Performance change since the previous assessment

384. **A reduction in the number of changes to the annual budget as well as the significance of the value of those changes contributed to an improvement in the rating score for dimension 21.4 relative to the previous assessment.**

Recent or ongoing reform activities

385. **Improvement in cash flow forecasting and cash management is included in Ukraine's Public Finance Management Reform Strategy.** This is included in specific action plan items addressing the continued development of institutional capacity, increasing the horizon of the daily TSA cash flow projections, and improving coordination between the liquidity management and debt management processes.

⁷⁸ presented in dimension 18.4.

PI-22. Expenditure arrears

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

386. This indicator measures the extent to which there is a stock of arrears, and the extent to which a systemic problem in this regard is being addressed and brought under control. For 22.1 the time period: is the last three completed fiscal years (2016, 2017 and 2018) and for 22.2 – at the time of assessment. The coverage is Budgetary Central Government.

387. Spending units prepare reports on expenditure arrears in the form established by the order of the Ministry of Finance⁷⁹. This order also regulates the procedure and timing of submission of the above reporting.

388. The Ministry of Finance defines the concept of expenditure arrears and the procedure for their write-off in another order⁸⁰. In accordance with this order, overdue accounts payable are defined as the amount of accounts payable occurring on the 30th day after the expiration of the mandatory payment deadline in accordance with the agreements entered into. Accounts payable are deemed current before this period accordingly. Accounts payable whose limitation period has expired are defined as overdue accounts payable in respect of which the creditor has lost the right to go to court for the protection of its civil right or interest.

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

Summary of scores and performance table

Indicator/ Dimension	Scoring Method M1 WL			
	Current assessment		Previous assessment <i>(applying PEFA 2016 framework)</i>	
	2019 Score	Brief justification for score	2015 Score	Explanation of change <i>(including comparability issues)</i>
PI-22: Expenditure arrears	B+		B+	Scoring Method M1
22.1 Stock of expenditure arrears	A	Arrears ranged from 0.5% to 0.7% of total expenditures.	B	Arrears have decreased.
22.2 Expenditure arrears monitoring	B	Data on expenditure arrears are formed on a monthly and annual basis. The Treasury draws up and submits such monthly reports to the Parliament, President, Accounting Chamber, Cabinet and Ministry of Finance within a maximum term of eight weeks from the end of the reporting period (no later than the 1st day of the second month following the reporting period). SFS generates VAT refund reports, including such refund arrears, on a monthly basis.	B	No changes in performance are observed.

⁷⁹ Order of the Ministry of Finance of Ukraine No. 44 dated 24 January 2012 “On Approval of the Procedure for Preparing Budget Reporting by Spending Units and Recipients of Budget Funds, Reporting by Compulsory State Social and Pension Insurance Funds”.

⁸⁰ Order No. 372 dated 2 April 2014 “On Approval of the Procedure for Accounting of Certain Assets and Liabilities of Budget-Sustained Institutions and Amendment of Certain Regulatory Legal Acts on Bookkeeping of Budget-Sustained Institutions”.

22.1. Stock of expenditure arrears

Performance level and evidence for scoring the dimension

390. In 2016, expenditure arrears amounted to 0.7 percent of the State Budget expenditures; in 2017 and 2018 – 0.5 percent each, compared with 0.6 percent in 2014 (see Table 22.1). Arrears are accounted at the level of each spending unit, budget programs and economic classification of expenditure.

391. Data on expenditure arrears does not include VAT refund arrears that are accounted separately⁸¹. Given the above, the share of total arrears for the last three fiscal years was less than 1 percent.

Table 22.1. Stock of expenditure arrears (UAH million)

	2016 FY	2017 FY	2018 FY
i) Stock of expenditures arrears	4,867.1	4,469.8	4,933.4
ii) Total actual expenditure	684,883.7	839,453.0	985,851.8
Ratio (i)/(ii)	0.7%	0.5%	0.5%

392. Arrears ranged from 0.5 percent to 0.7 percent of total expenditures. The score for the dimension is A.

22.2. Expenditure arrears monitoring

Performance level and evidence for scoring the dimension

393. Accounts receivable on expenditures are calculated monthly, quarterly and annually⁸². The reporting presents the accounts payable as of the beginning of the reporting year, as of the end of the reporting period, in which the overdue arrears have been allocated, and the arrears, whose due date has not occurred. Thus, reporting allows tracking the age of arrears. Moreover, the reporting shows the arrears written off since the beginning of the reporting year.

394. Spending units generate and submit annually to the Treasury a statement on the reasons for the occurrence of overdue accounts payable of the general fund. The statement contains detailed information on the reasons for the occurrence of such arrears. They separately generate and submit to the Treasury a statement of accounts payable for operations that are not shown in the statement of arrears of budget funds. These, in particular, are arrears of payment of benefits and allowances to citizens; settlements for intra-department transfer of stocks; settlements for deposit operations; other arrears; other calculations as well as accounts payable for budget obligations not recorded by Treasury bodies⁸³.

395. In order to analyze the accounts payable, spending units quarterly and annually formulate and submit an explanatory note to the Treasury together with the reports. The explanatory note indicates and describes: (i) the reasons for the occurrence of overdue arrears; (ii) the dynamics of accounts payable, including overdue ones, and the reasons for their increase or decrease; (iii) the reasons for the existence of remuneration arrears and arrears of payment for utilities and energy sources; (iv) the reasons for the presence of accounts payable for budget obligations not recorded by Treasury bodies; (v) the reasons for the occurrence of overdue accounts payable and the grounds for their decrease (write-off due to expiry of the limitation period, by court order,

⁸¹ The stock of unprocessed VAT refunds is as below and is for information not scoring purposes.

	2016 FY	2017 FY	2018 FY
Stock of unprocessed VAT refunds (mln UAH)	12,172.2	15,267.1	28,705.5

⁸² In accordance with the Order of the Ministry of Finance of Ukraine No. 44 dated 24 January 2012.

⁸³ These operations, with the exception of accounts payable for budget obligations not recorded by Treasury bodies, are temporary arrears arising from the features of accounting or execution of payments and cannot create an additional burden on the budget. At the same time, accounts payable for budget obligations not recorded by Treasury bodies, will lead to an increase in accounts payable after their recording. Their actual assessment is unknown, since the Treasury does not prepare aggregate data for such liabilities, given that they will be included already in the next monthly report on accounts payable. Given that for the “B” score under indicator 22.1 there is a “reserve” of almost the same amount as the accounts payable recorded (about 3% of total expenditures), this data won’t affect its decrease.

etc.) (in the annual budget reporting); and (vi) the reasons for assuming obligations without relevant budget allocations or exceeding the powers established by the Budget Code, Law on the State Budget, decision on the local budget, and the measures taken.

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

397. **The State Fiscal Service shall report monthly on the budget refund of the value added tax, including information on the budget arrears of value added tax refunds.**⁸⁴ Such reports can be found on the website of the State Fiscal Service (<http://sfs.gov.ua/diyalnist-/vidshkoduvannya-pdchv/informatsiya-pro-obsyagi-vidshkoduvannya/>).

398. **The Treasury generates and submits monthly and annual reports on expenditure arrears.** The reports are submitted over a period of more than four weeks, but within eight weeks after the end of the monthly reporting period.

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

PI-23. Payroll controls

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

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

Summary of scores and performance table

Indicator/ Dimension	Scoring Method M1 (WL)			
	Current assessment		Previous assessment <i>(applying PEFA 2016 framework)</i>	
	2019 Score	Brief justification for score	2015 Score	Explanation of change <i>(including comparability issues)</i>
PI-23: Payroll controls	D+		D+	
23.1 Integration of payroll and personnel records	D	Information on manning tables, personnel and labor remuneration is accounted for separately. Information about the payroll, as a rule, is recorded in a computer accounting system, and information on personnel can be accounted for both manually and in a separate computer system. Information on manning tables is recorded manually. There is no reconciliation of the payroll with the personnel records.	D	There are no significant changes.

⁸⁴ According to paragraph 4 of part 3 of Article 59 of the Budget Code of Ukraine.

Indicator/ Dimension	Scoring Method M1 (WL)			
	Current assessment		Previous assessment <i>(applying PEFA 2016 framework)</i>	
	2019 Score	Brief justification for score	2015 Score	Explanation of change <i>(including comparability issues)</i>
23.2 Management of payroll changes	B	Responsible departments update the payroll to reflect changes in information on staff within the period of up to three months. There are few retrospective adjustments to the payroll.	C	The score has improved from C to B since there was no large-scale reorganisation of the executive branch (the process exposed to frequent retroactive payroll adjustments) in place at the time of the assessment compared with the previous PEFA assessment under Resolution of the Cabinet "On Optimization of the System of Central Executive Authorities" No. 442 of 10 September 2014.
23.3 Internal control of payroll	A	Budget institutions have clear and detailed rules and procedures for making changes to staff information and payroll, which include signatures of authorized persons and provide for clear audit trails.	A	There are no significant changes.
23.4 Payroll audit	C	The State Audit Service and the Accounting Chamber check the payroll on a regular basis within the framework of regular financial audits. The latter are held on average once every three years in certain CG entities – within the framework of integrated checks of budget programs, under which the labor is paid.	A	The score deteriorated from A to C, as the SAS and the Accounting Chamber audited the payroll at least once during the past three fiscal years. During the 2015 evaluation, this frequency was once in 18 months.

23.1. Integration of payroll and personnel records

Performance level and evidence for scoring the dimension

401. **Each budgetary agency is responsible for maintaining its own payroll accounting system.** As a rule, such accounting is carried out in a computerized accounting system. The personnel records can still be accounted for both manually and in a separate computer system. Information on staffing tables is recorded manually.

402. **The Human Resource (HR) unit maintains records of employees, and the accounting department of all payments to employees in accordance with staffing tables.** Any recruitment or promotion is carried out on the basis of an order of the Ministry (institution or organization managing the institution), which, among other things, determines that the salary of the corresponding employee is set according to the staffing table. This process is initiated by the unit recruiting or promoting the employee. After that the HR unit checks it with personnel records, a competition is organized and subsequently prepares a draft order for appointment based on the competition results. This draft order is agreed by the Chief Accountant (verifying compliance with the budget and manning tables), legal unit, initiating unit and the Deputy Minister (head of the institution

or organization managing the institution). After that, the order is signed by the State Secretary (head of the institution or organization managing the institution).

403. **There is no reconciliation of information on employees, which is accounted for by the HR unit, and the labor remuneration is carried out by the accounting department.**

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

23.2. Management of payroll changes

Performance level and evidence for scoring the dimension

405. **The HR unit makes changes to the personal employee information, and the accounting department to the information on salary.** These are made based on the relevant orders of the Ministry (institution or organization managing the institution) in a period of up to three months. There are few retrospective adjustments to the payroll.

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

23.3. Internal control of payroll

Performance level and evidence for scoring the dimension

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

408. **Only authorized staff members of the personnel or accounting departments may make changes to the information regarding the staff and salary specified in job descriptions of those persons.** The history of changes that employees make in the corresponding computer system is saved. To access those systems, their administrator gives such employees appropriate user rights.

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

23.4. Payroll audit

Performance level and evidence for scoring the dimension

410. **The State Audit Service and the Accounting Chamber, on the basis of regular inspections, monitor the eligibility, timeliness and completeness of salary payments.** These inspections are conducted on average once every three years in certain CG entities within the framework of integrated checks of budget programs, under which the labor is paid. Based on the available data, they audit staff records and conduct a random check of payroll accounting. During each inspection, bodies of the SAS check the procedures for the entire period that elapsed since the last inspection. The Pension Fund and the Social Insurance Fund also periodically review data on staff and salaries. Internal audit divisions may investigate this issue during audits, but this is not necessary. As a rule, the internal audit divisions do not check these operations, as they are not considered risky (as was indicated at the meetings with the Ministry of Education and Science, the Ministry of Health and the Ministry of Youth and Sports).

411. **Information on violations in salary payments based on results of the state financial control inspections conducted by bodies of the State Audit Service is given in Table 23.4.**

Table 23.4. Information on violations in salary payments based on the state financial control inspections

	2016	2017	2018
Inspected entities, units	1,100	860	690
Total revealed violations, UAH million, <i>of which:</i>	111.7	120 .4	110 .9
On budgetary funds	84.2	90.2	64.8
- <i>State Budget funds</i>	48.6	51.7	26.2
- <i>Local budgets funds</i>	35.6	38.5	38.7

Source State Audit Service

412. **Partial payroll checks were carried out at least once in the past three fiscal years.**

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

Performance change since the previous evaluation

414. **The dimension 23.2 score has improved from C to B.** There was no large-scale reorganization of the executive branch (the process exposed to frequent retroactive payroll adjustments) in place at the time of the assessment compared with the previous PEFA assessment under Resolution of the Cabinet “On Optimization of the System of Central Executive Authorities” No. 442 of September 10, 2014.

415. **Under dimension 23.4, the score deteriorated from A to C.** The SAS and the Accounting Chamber audited the payroll at least once during the past three fiscal years in certain CG entities. During the 2015 evaluation, this frequency was once in 18 months.

PI-24. Procurement

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

416. **This indicator examines key aspects of procurement management. It focuses on transparency of arrangements, emphasis on open and competitive procedures, monitoring of procurement results, and access to appeal and redress arrangements.** Time period: Last completed fiscal year (2018) and Coverage: CG as there is a centralized procurement system in place

417. **Public procurement is the subject of close attention by civil society and mass media.** The consequences of developing the partnership of the state, non-governmental organizations, journalists and civic activists to fight for fair public procurement and broad disclosure on public contracts have become more extensive in terms of disclosure and making public information compared with the minimum requirements set out in the EU Directives. A new Law on Public Procurement (LPP) was adopted in December 2015. The law establishes legal and economic principles of the procurement of supplies, works and services to meet the needs of the State and the local communities. Starting from 2016, all procurements are made in the ProZorro, which is a centralized electronic procurement system. The advent of ProZorro was preceded by a large-scale public discussion about the bill and consultations with international institutions and experts. During 2016-2018, the LPP was additionally revised, particularly in relation to the introduction of a new framework of online monitoring of procurement by the State Audit Service using automatic risk indicators.

418. **LPP aims to ensure efficient and transparent procurement, create a competitive environment in the field of public procurement, prevent corrupt practices, and develop fair competition.** The law sets the following principles that procurement is based on: (i) fair competition among tenderers, (ii) maximum cost saving and efficiency, (iii) openness and transparency at all stages of the procurement process, (iv) non-discrimination of tenderers, (v) objective and impartial evaluation of tenders and (vi) prevention of corrupt practices and abuse.

419. The law ensures that procurement is performed by open competitive methods except for cases below set thresholds (i.e., low-value procurements).

420. Approximately 35,000 procurement organizers and more than 210,000 procurement participants were registered in the electronic procurement system by the end of 2018. The system contains information about 2.73 million procurements with an expected value of almost UAH 2.07 trillion, of which 458,000 procurements exceeding the thresholds established by LPP with an expected value of UAH 1.63 trillion and 784,000 low-value procurements (below the threshold) with an expected value of UAH 235 billion. 1.48 million reports have been published on direct low-value contracts (below the thresholds established by LPP) with a total value of UAH 210 billion.

Summary of scores and performance table

Indicator/ Dimension	Scoring Method M2 AV			
	Current assessment		Previous assessment <i>(applying PEFA 2016 framework)</i>	
	2019 Score	Brief justification for score	2015 Score	Explanation of change <i>(including comparability issues)</i>
PI-24: Procurement	A		A	
24.1 Procurement monitoring	A	Data is entered in databases (or accounting bases) on the contracts representing at least 90 percent of the value of procurement of goods, services, and works by value, in particular information about what was procured, the amount and price of a contract, where information on the cost of a contract is available not only for each individual contract (as it was the case in 2015) but also for every given customer, supplier, procurement item, etc. Information on procurement whose value exceeds the thresholds set by the Law of Public Procurement (LPP) and low-value procurement (below the thresholds under LPP) is made public in the electronic procurement system.	A	No change of results is observed.
24.2 Procurement methods	B	In 2018, 78.1 percent of the total cost of all public procurement covered by LPP was made on a competitive basis using electronic auctions (open bidding, competitive dialogue, etc.).	A	The previous PEFA indicated 88.4 per cent was via competitive bidding,
24.3 Public access to procurement information	A	Information is available and exceeds the requirements for the criteria.	A	No change of results is observed.
24.4 Procurement complaints management	A	The complaint settlement framework meets all the dimension criteria.	A	No change of results is observed.

24.1. Procurement monitoring

Performance level and evidence for scoring the dimension

421. **Procurement monitoring and control of public procurement is conducted by (i) the Antimonopoly Committee of Ukraine, (ii) the State Audit Service of Ukraine, (iii) Accounting Chamber of Ukraine, (iv) State Treasury Service of Ukraine and (v) National Police of Ukraine.**

422. **Data on public procurement can be found on the website of the authorized body for Procurement at <https://prozorro.gov.ua/>.** During 2016-2018, the module of analytics (<https://bi.prozorro.org>) enabling online display of all procurements made through the ProZorro electronic procurement system that has been developed and is continuously improved. The tool provides for quick and thorough analysis of information on tenders conducted in the system by many indicators, displays data in the digital and graphical forms (tables, charts, and graphs). Civic society is granted easy and unlimited access to the above information.

423. **In addition, the Ministry for Development of Economy, Trade and Agriculture publishes annual reports containing scrutiny of the public procurement system on its official website (www.me.gov.ua).**

424. **According to the report, 28,000 customers made more than 1 million procurements (including low-value ones) in the ProZorro during 2018.** The total expected value amounted to UAH 657.7 billion, in which more than 148,000 participants took part. The difference between the expected value of procurement and the value of winning bids was 7.64 percent or about UAH 65.5 billion. The average number of participants in the tender was 2.68.

425. **The accuracy and completeness of information is assessed by audit reports which are published on official websites of the audit institutions.**

426. **Below-threshold procurements with reporting requirement on the concluded contract amounted to 28.7 percent of the total expected value of all procurements completed for 2018.** These procurements are not subject to LPP and are not governed by it, except for the provisions of Article 10 on making public procurement information.

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

24.2. Procurement methods

Performance level and evidence for scoring the dimension

428. **LPP applies to all public contracting authorities with some exceptions, provided that (a) the value of goods or services to be procured equals or exceeds UAH 200,000, and the value of works to be procured equals or exceeds UAH 1,500,000, and (b) for contracting authorities operating in certain areas of economic activity the value of goods or services equals or exceeds UAH 1,000,000, and the value of works equals or exceeds UAH 5,000,000⁸⁵.** Contracting authorities may use the e-procurement system for the purpose of selection of the supplier, provider and contractor for lower value procurements.

429. **The following procurement procedures are envisaged for the procurement whose value exceeds the thresholds of LPP: (1) open bidding, (2) competitive dialogue, (3) negotiated procedure, and (4) procurement under framework agreements.** In addition, a special law establishes the procedure for entering into energy service agreements through the ProZorro electronic procurement system.

430. **In 2018, out of all procurements whose value exceeded the thresholds set by LPP, 78.1 percent fell under the competitive procurement procedures (open bidding, competitive dialogue, etc.) and 21.9 percent fell under negotiated procedures.** At the same time, a large proportion of non-competitive procedures are attributable to the procurement of utilities, namely electricity, heat, water supply, etc.

⁸⁵ An average foreign exchange rate of Ukrainian hryvnia to 1 US dollar was 27.20437875 in 2018.

431. **For procurement whose value is lower than the thresholds set by LPP, customers can run competitive procurement or publish reports on contracts concluded.** Thus, during 2018, 237,500 competitive low-value procurements were conducted in the system and 783,700 reports on concluded low-value contracts were made public.

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

24.3. Public access to information about procurement

Performance level and evidence for scoring the dimension

433. **Public procurement information is in the public domain on the website at <https://prozorro.gov.ua/>.**

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

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

435. **Periodic procurement statistics are made available to the public** in the format of quarter, semi-annual and annual reports on The Ministry for Development of Economy, Trade and Agriculture website⁸⁶. The web portal also contains legal and regulatory framework database⁸⁷, information about policy, professionalization of public procurement, international cooperation, etc. An additional feature with no restrictions or additional fees is available to consult on public procurement-related matters by making an online application that does not require prior registration.

436. **Public procurement information is complete, reliable and timely.** Completeness and reliability are assured by third parties like the Accounting Chamber, State Audit Service, etc. The information is made available and remains so without time limitation.

⁸⁶ <http://www.me.gov.ua/Documents/List?lang=uk-UA&id=ca5d0012-c7f9-4750-b1f8-cf5550ecb270&tag=Zviti>

⁸⁷ <http://www.me.gov.ua/LegislativeActs/List?lang=uk-UA&id=6e190ba6-3c35-4244-8a3f-bc8733ca97de&tag=NormativnaBaza&pageNumber=1>

437. **Media representatives and duly authorized representatives of civic associations can monitor the course of an electronic auction online.** At the same time, individuals and civic organizations and their unions have no right to interfere with a procurement procedure.

438. **The NGO Transparency International has created a monitoring portal at <https://dozorro.org/>.** Individuals and businesses can post and report signs or abuse of procurement procedures on the portal.

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

24.4. Procurement complaints management

Performance level and evidence for scoring the dimension

440. **According to LPP, participants to procurement procedures can submit a complaint to an independent appeal body, the Antimonopoly Committee of Ukraine (AMC).** AMC is the complaint review authority exercising, among other things, control in the field of public procurement within the scope of the powers vested in it by the Constitution and applicable law. LLP specifies that bodies authorized to exercise control in the field of procurement shall not interfere with the procurement procedures.

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

442. **Complaints are filed exclusively through the ProZorro electronic procurement system to AMC for consideration of all public procurement complaints.** A fee of UAH 5,000 is charged for filing an appeal for goods or services and UAH 15,000⁸⁸ for works. The complaint process has the following characteristics:

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

443. **According to the AMC, 7,786 complaints were received in 2018, of which 5,962 complaints were accepted for consideration.** Following consideration, 5,549 decisions were made: 1,645 decisions on complaint rejection; 3,197 complaints were fully or partially satisfied; 707 decisions were made to terminate the complaint.

444. **Sixty-six percent of complaints were filed against the customer's decision and 34 percent concerned provisions of tender documentation.**

445. **Therefore, as the requirements are met for all elements, the score for the dimension is A.**

⁸⁸ An average foreign exchange rate of Ukrainian hryvnia to 1 US dollar was 27.20437875 in 2018.

Performance change since the previous assessment

446. **A change in the score for the dimension 24.2 occurred.** This lowering from A to B is the result of increased accuracy of the data and easy availability of key procurement information to the public following introduction of the new e-procurement system.

Recent or ongoing reform activities

447. **Since 2014, the Ministry for Development of Economy, Trade and Agriculture (the Authorized Public Procurement Body) has reformed the scope of public procurement to make it more open, effective and efficient.** In particular, the ProZorro electronic procurement system has been introduced in cooperation between authorities, the public and business.

448. **The ProZorro electronic procurement system has been recognized internationally and has received several awards:**

- Rated #1 by World Procurement Awards 2016 in the Public Sector nomination;
- Rated #1 by Open Government Awards 2016;
- Rated #1 for Master nomination by The Fair Sourcing Awards (FSA) for innovative, inspirational or long-term use of digital procurement and tendering processes, eAuctions, inquiries, eSourcing and other digital procurement solutions.

449. **In late 2016 – early 2017, the World Bank assessed the functioning of the electronic public procurement system in accordance with the requirements of Multilateral Development Banks for electronic public procurement using the framework of electronic reverse auctions.** The assessment covered only ProZorro and not the overall national public procurement system. According to its findings, the World Bank made a positive decision on the use of ProZorro in Ukraine for procurement under joint projects for such methods as Shopping and National Competitive Bidding. Projects funded by the World Bank have piloted procurement in ProZorro since 2017.

450. **A new LPP has been in force since 2016.** It establishes that all procurements whose value exceeds UAH 200,000 for goods and services and UAH 1.5 million for works should be processed in the ProZorro electronic system. The LPP provides for the following procurement procedures: (1) open bidding, (2) competitive dialogue, (3) negotiated procedure, and (4) procurement under framework agreements.

451. **In 2018, amendments were made to LPP.** This introduced a new framework of online procurement monitoring by the State Audit Service using automatic risk indicators, which was an innovation in the field of public procurement globally.

452. **The MoE in cooperation with higher education institutions has introduced relevant educational programs for the training of public procurement professionals at the level of Bachelor's and Master's Degree programs.** This provides a foundation for the functioning of a highly professional public procurement market. In addition, the professional standard of the Public Procurement Specialist profession has been elaborated and approved.

453. **For a greater coverage of public procurement entities with guidelines, a single public procurement knowledge base (<https://infobox.prozorro.org/>) has been created.** This embeds relevant information, as required for running and participating in procurement, making legal and regulatory framework for procurement easily accessible and available to public

454. **The official website of the MoE has launched on-line public procurement consultations⁸⁹.**

⁸⁹ <http://www.me.gov.ua/InfoRez/List?lang=uk-UA&id=7758c77b-e410-44ea-a07d-37f1799e11e5&tag=ZapitiKoristuvachiv>

455. **During 2016-2018, introduction of centralized procurement was piloted whereby the Professional Procurement State Enterprise procured on behalf central executive authorities.** Following the pilot, the MoE draft a CMU resolution concerning the peculiarities of the foundation and operation of centralized procurement units (it was adopted under No. 1216 on December 28, 2018), which would allow scaling up the centralized procurement framework.

456. **The MoE has developed Guidelines for the Ethical Conduct of Customers during public procurement.**

457. **During 2017-2018, the electronic procurement system was integrated with several registers.** These include the Unified State Registry of Legal Entities, Private Entrepreneurs and Civic Formations (USR) and the Registry of Medicinal Products in order to implement automatic exchange of data necessary for performance of procurement procedures. The State Treasury Service, State Fiscal Service and Ministry of Internal Affairs are planned for integration in 2019.

458. **In 2018, systematic work was continued within the framework of implementation of the Public Procurement System Reforming Strategy.** Relevant work was performed to analyze the functioning of the public procurement sector, which became a basis for drafting necessary regulatory acts and developing the electronic procurement system, in view of best international practices and EU Directives. The Ministry has drawn up a bill containing a number of norms aimed at aligning Ukrainian law with EU Directives (Stages II and III of the Action Plan on Implementation of the Public Procurement System Development Strategy as well as improving the public procurement sector. The bill is currently pending coordination with the governmental authorities concerned.

PI-25. Internal controls on nonsalary expenditure

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

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

460. **The basic principles for implementing internal controls by the budget spending units have been established⁹⁰.** In accordance with these basic principles, the institutions' internal documents will regulate, in particular: (i) listing of tasks and functions, their segregation and assignment to performers (co- performers); (ii) establishing authorization and confirmation procedures (in particular, obtaining permissions from responsible officials to carry out operations by means of signing, confirming, or approving of documents); (iii) the segregation of duties between employees to reduce the risks of mistakes or wrongful acts and timely detection of such actions.

461. **The Ministry of Finance has approved the guidelines on organizing internal controls⁹¹ for the budget spending units.** These guidelines, inter alia, prescribe that internal controls in an institution shall be based on the principle of responsibility and sharing of powers, which means sharing of duties between the management of the institution and its employees, establishing boundaries of their responsibility in the decision-making process or when performing other actions. In accordance with this order, control measures will be carried out at all levels of the institution's activities and for all functions and tasks and include relevant rules and procedures, the most characteristic of which are: (i) authorization and confirmation are done by obtaining permission of the responsible persons for carrying out operations through the procedures of signing, approval, or confirmation; (ii) sharing of duties and powers, and rotation of staff in order to reduce the risks of errors or losses.

⁹⁰ Approved by Resolution of the Cabinet of Ukraine # 1062, dated December 12, 2018.

⁹¹ MoF Order of September 14, 2012, # 995

Summary of scores and performance table

Indicator/ Dimension	Scoring Method M2 AV			
	Current assessment		Previous assessment <i>(applying PEFA 2016 framework)</i>	
	2019 Score	Brief justification for score	2015 Score	Explanation of change <i>(including comparability issues)</i>
PI-25: Internal controls on nonsalary expenditure	B+		B	
25.1 Segregation of duties	C	For part of the procedures segregation of duties is regulated at the legislative level, while in other cases the necessary duty segregation is regulated at the institution level. 38 percent of the agencies, when submitting reports to the Ministry of Finance on the status of organization and functioning of internal control, failed to provide information on the existence of rules and procedures for authorization and verification by way of obtaining permission from the responsible persons to perform transactions using the procedure of signing, agreement and approval.	C	There are no significant changes.
25.2 Effectiveness of expenditure commitment controls	A	In accordance with internal procedures, budget spending units execute control with the purpose that budget commitments are made only within the budget limits and monthly budget allocations. The MoF and KSUs adjust monthly allocations in compliance with the cash forecast. The Treasury IT System is used in public administration institutions at all levels and includes a module that envisages registration of all budget commitments and their accounting only in cases when they are within the budget allocations of the appropriate spending unit. Under this system commitments cannot extend beyond the current budget year, and if not already provided for would require virement authorization or new appropriations.	A	There are no significant changes.
25.3 Compliance with payment rules and procedures	A	There is a link between accounting of commitments and payments. Treasury making payments based on a payment order within the balance of the account for opened appropriations in a case if budget commitment registered by Treasury. Exceptions are not allowed. Inappropriate and ineffective use of budgetary funds were less than 10 percent of the State Budget expenditures.	B	The score clarified in accordance with the requirements of assessment.

25.1. Segregation of duties

Performance level and evidence for scoring the dimension

462. **Despite some progress in reforming the system of internal public finance control, there are still some outstanding issues.** For example, according to the results of the MoF analysis of the reporting information provided by the authorities on the state of organization and functioning of internal control in 2018, it has been confirmed that, in general, the authorities apply control measures. At the same time, individual bodies did not provide information on standard control measures that should be carried out in all public bodies in accordance with the law (fourteen spending units (17%) have not provided information on segregation of functional responsibilities between the head of the institution and his deputies. Thirty one spending units (38%) did not indicate the existence of rules and procedures for authorization and confirmation by obtaining permission from authorized persons to carry out operations through the procedures of signing, approval and confirmation. Forty nine (57%) did not provide information on access rules to information resources, and twenty six (32%) – regarding the existence of approved internal regulations.

463. **The heads of spending institutions approve provisions on the Tender Committee and its composition⁹².** These provisions define the responsibilities and powers of the Tender Committee during the procurement process. Each of the funds of mandatory State Social Insurance has also created a Tender Committee and approved its composition.

464. **The sharing of responsibilities for accounting and financial reporting is set at the legislative level.** In accordance with Article 9 of the Law of Ukraine “On Accounting and Financial Reporting”, which applies to budget institutions and state trust funds, original documents are the basis for accounting of business operations. The same article stipulates that the original documents (certificate of works completion (rendered services)) must be signed by the person who participated in conducting that business operation.

465. **In order to effect the payment, budget spending units issue a payment order in accordance with the template established by the MoF⁹³.** Pursuant to the instruction of the National Bank on cashless settlements in the national currency, a payment order subject to availability of the original document signed in due order, shall be signed by two persons, the head of the institution and the Chief Accountant (provided that their signature samples are registered), and sent to the Treasury bodies via the electronic system using electronic signatures.

466. **For the purpose of conducting internal audits, the head of an institution shall form an independent internal audit unit⁹⁴.** This unit is subordinated and accountable directly to the head.

467. **The mandatory State Social Insurance funds, with the view of executing the payments, also fill out and send to the Treasury the payment order and the register of payment orders according to the established Template.⁹⁵** The payment order is signed by the head of the fund and the Chief Accountant in accordance with the aforementioned requirements of the National Bank.

468. **For most procedures, the segregation of duties is regulated at the legislative level, and for the rest of the procedures such segregation must be regulated at the institution level.** As noted above, 38 percent of the agencies, when submitting reports to the Ministry of Finance on the status of organization and functioning of internal control, did not provide information on the existence of rules and procedures for authorization and verification.

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

⁹² In accordance with the Model Regulations on such a Committee approved by the Ministry for Development of Economy, Trade and Agriculture in 2016.

⁹³ Paragraph 11.3 and annex 35 of the MoF's order # 1407 dated December 24, 2012.

⁹⁴ In accordance with Part Three of Article 26 of the Budget Code of Ukraine,

⁹⁵ established by the Procedure for treasury service of funds of the mandatory State Social Insurance Funds (Resolution of the Cabinet of Ukraine dated August 23, # 523).

25.2. Effectiveness of expenditure commitment controls

Performance level and evidence for scoring the dimension

470. **In accordance with the established procedures, the budget spending units and the Treasury shall monitor the compliance of commitments and cost estimates with monthly allocations.** Before signing a contract, as a rule, its draft is approved by the specialist in public procurement, the Chief Accountant, a representative of the legal unit and the department initiating the procurement. The certificate of work completion (services rendered) is signed by a staff member of the department that initiated the procurement and is approved by the head (or deputy head) of the entity. Upon signing the relevant document, the budget spending unit submits it to the Treasury unit for registration.

471. **The MoF and KSUs adjust monthly allocations in compliance with the cash forecast (see PI-21.2) during a budget year and the Treasury controls the adequacy of SDUs' commitments with their monthly allocations.**

472. **The Treasury units are authorized to carry out preliminary controls at the stage of registration of budget commitments of budget spending units and recipients of budget funds⁹⁶.** The control over commitments is organized at a high level. The key legislative act defining the procedures for this type of control is the procedure for registration and accounting of budget commitments of budget spending units and recipients of budget funds with the bodies of the Treasury, approved by order of the Ministry of Finance dated March 02, 2012, # 309. The Treasury's bodies register budget commitments of spending units and budget fund recipients only in case of the existence of available budget allocations, approved by estimate, and passport budget program (in case of application of the program-target method in the budget process). The ex-ante expenditure commitment controls of the Treasury prevent spending units taking commitments beyond the in-year spending limits and beyond the budget year. In case the spending unit takes budget commitments resulted from the procurement procedure, the procurement contract availability, the availability of annual procurement plan and the report on procurement procedure results, on the basis of which the procurement contract was concluded, is checked.

473. **The Treasury's powers at the stage of preliminary control at the budget commitment registration allows preventing the violation of the budget laws by the spending units.** This is to ensure a commitment cannot be made without corresponding budget allocations or in breach of the provisions set forth in the Law of Ukraine on the State Budget for the relevant year and ensuring the targeted allocation of budget funds. With the help of such control, violations of the budget laws are timely eliminated by the spending units and budget funds recipients and prevented in the future.

474. **When executing budgets of funds of mandatory State Social Insurance, the control of commitments is carried out by the funds themselves.** The Executive Directorate of the fund makes monthly consolidated balances of the fund and consolidated plans of appropriations, which have to be approved by the director of the Executive Directorate of the fund or the deputy director responsible for control of the financial and economic activities of the fund.

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

25.3. Degree of compliance with payment rules and procedures

Performance level and evidence for scoring the dimension

476. **The Treasury administration effects payments of the budget spending units only if there are registered budget commitments available, and on the basis of a payment order duly executed in accordance with the procedure described in Paragraph 25.2.** Consequently, the Treasury system, which provides for control of the payments, prevents those expenditures of budgetary institutions which exceed the spending

⁹⁶ Order of the Ministry of Finance of Ukraine dated December 24, 2012 # 1407 "On Approval of the Treasury Service of the State Budget for Expenses".

limits during the year, as well as those for periods longer than the budget year. Due to the link between the accounting of commitments and the execution of payments, it is even more difficult to hide the inconsistencies of payments than non-compliance of commitments.

477. **Treasury provides payments based on payment orders in cases if budget commitments were registered by Treasury; exceptions are not allowed**⁹⁹. This is also confirmed at the meetings with the Ministry of Education and Science, the Ministry of Health and the Ministry of Youth and Sports that exceptions are not allowed. Their budget accounted for 6.1 percent of the total 2018 budget).

478. **The State Audit Service verifies retrospectively the conformity and eligibility of financial transactions.** According to the report of the State Audit Service, in 2018 inappropriate State Budget expenditures amounted to approximately UAH 65.0 million, of which approximately UAH 37.0 million came out of the State Budget; and ineligible expenditures totaled approximately UAH 1.2 billion, of which, UAH 433 million from the State Budget funds and UAH 4.7 million from State trust funds. In 2018, the Accounting Chamber found evidence of inappropriate and ineffective use of budgetary funds in the amount of UAH 10.2 billion, or 1.1 percent of the State Budget expenditures. For State trust funds, this indicator in 2018 was UAH 423,000 – a negligible share in the total value of expenditures of those funds.

479. **In January-March 2019, spending units and recipients of State Budget funds admitted budget legislation violations when submitting payment orders to the Treasury.** These amounted to UAH 5.2 million, or 0.002 percent of State Budget expenditures for this period.

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

Performance change since the previous evaluation

481. **The dimension 25.3 score for the previous assessment has been clarified in accordance with the requirements of assessment.**

PI-26. Internal audit

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

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

483. **The scope of the internal audit function in Ukraine, according to the current version of the National Internal Audit Standards encompasses three types of audit: effectiveness (performance), financial and compliance.** Effectiveness can comprise many types of audits: system and operational audits, performance audits, and financial audits. Such audits include performance evaluation of the internal control system, the degree of implementation and achievement of the goals set in the strategic and annual plans, the effectiveness of planning and execution of budget programs and the results of their implementation, the quality of administrative services provision and the implementation of supervisory and control functions, tasks defined by legislative acts, as well as risks that adversely affect the performance of the functions and tasks of the agency. This broad scope implies extensive work to be covered by limited amounts of personnel. According to the MoF, the new version of the standards is being currently developed and division of audit by types is going to be eliminated in the new standards.

484. **Authorities plan their internal audit activities for three years within preparation of their strategic internal audit plans and for one year within preparation of their operational audit plans**⁹⁷. Annual plans are formed on the basis of risk assessment of the institution's activities in cases where risk-assessment methodology is implemented. Otherwise, plans are formed based on authorities' previous experience, knowledge and to an extent personal view (professional judgment) of its management. Strategic and operational plans are submitted to the Ministry of Finance.

⁹⁷ In line with recent amendments introduced by the Cabinet Decree #1062.

485. **Ukraine has demonstrated progress in the development of the system of internal audit in the public sector since 2015.** Starting on January 1, 2017 the function of harmonization of state internal financial control (CIFC) in the public sector was shifted from the State Audit Service to the Ministry of Finance and its Department of the State Internal Financial Control Harmonization. The department consists of 17 staff focusing in four key areas: internal control, internal audit, coordination of internal audit divisions' activities and evaluation of functioning of internal control systems. In 2017 with support from the National Academy of Finance and Economics of the Ministry of Finance of the Netherlands the overview of the general state of development and functional capacity of internal audit was carried out in the executive bodies. Based on the overview results, amendments to the Cabinet Decree 1001 were introduced aiming to improve internal audit activities, bring the internal audit framework closer to the international standards. In particular, these changes envisage extension of the norm as to mandatory internal audit to all the main spending units of the State Budget, introduction of strategic and operational annual planning of internal audit activities, introduction of standards for signing of the declaration of internal audit, ability to establish audit committees, prerequisites for implementation of IT audits. In addition, a guideline for quality assessment of internal audit in the state authorities was introduced in 2018 and methodological recommendations on internal audit in the state sector were updated accordingly and introduced in a version of 2019. The key purpose of the amendments was to shift the focus of the internal audit procedures from checking financial transactions and compliance of activities to risk-based planning and ongoing monitoring of the internal control system operation. Considering the fact that the amendments were first introduced at the end of 2018, their effectiveness and the level of implementation is difficult to assess yet.

Summary of scores and performance table

Indicator/ Dimension	Scoring Method M1 WL			
	Current assessment		Previous assessment <i>(applying PEFA 2016 framework)</i>	
	2019 Score	Brief justification for score	2015 Score	Explanation of change <i>(including comparability issues)</i>
PI-26: Internal Audit	C+		D+	Scoring Method M1
26.1 Coverage of internal audit	A	The Internal Audit function is implemented in 100 percent of central executive authorities (which are not under liquidation or reorganization). During 2018, 11 out of 65 authorities (two of them were newly established) had vacancies in internal audit divisions. However, the total amount of the State Budget expenditures in these institutions constituted only about 2 percent of overall State Budget expenditures in 2018, and 98 percent of State Budget expenditures in 2018 were covered by internal audit. Therefore, given the risk-based approach to internal audit, above 98 percent of the budget expenditures are considered covered by the scope of internal audit, as all these expenditures could be picked during internal audit for review. While as staffing issues existed in 2018, they did not materially affect the coverage of internal audit. The Internal audit function is operational in the CG entities which cover over 90 percent of the CG revenue.	D	Coverage of internal has significantly improved.

3. Assessment of PFM Performance

Indicator/ Dimension	Scoring Method M1 WL			
	Current assessment		Previous assessment <i>(applying PEFA 2016 framework)</i>	
	2019 Score	Brief justification for score	2015 Score	Explanation of change <i>(including comparability issues)</i>
26.2 Nature of audits and standards applied	C	Overall the Internal audit function has systematic nature and provides for assessing the effectiveness of internal control processes in the public organizations. The practical introduction of IAU's is described by the Ukrainian Internal Audit Standards which are based on IIA. Methodical recommendations and Guidelines on conducting internal audit procedures were also updated to be more aligned international standards in 2018.	C	The new approach based on risk assessment was introduced in December 2018 and its effectiveness and the level of implementation is difficult to assess yet.
26.3 Implementation of internal audits and reporting	B	In 54 executive bodies with the functioning internal audit, 100% of audit plans were implemented in 89% of central executive authorities, 11% of authorities had implemented their audit plans partly. Authorities that partly implemented their audit plan are those authorities where the internal audit function was not fully and continuously staffed in 2018. The total amount of the State Budget expenditures in such institutions with lacking internal audit staff constituted only about 2% of overall State Budget expenditures in 2018. staff. In December 2018 two types of Internal Audit (IA) plans were introduced: strategic plan covering a three-year period, and operational plan covering one-year period. Both types of audit plans are submitted to the Ministry of Finance and are made publicly available on the authorities' websites. Reports on the audit plans implementation is submitted to the Ministry of Finance.	B	There are no significant changes.
26.4 Response to internal audits	B	16,666 recommendations were issued as a result of internal audits in the Central State Authorities in 2018. 99.6 percent of the recommendations were accepted by the audited authorities. 83% of recommendations were confirmed to be implemented within required timeframe, and about 16% were not implemented within the required time frame (either not implemented or implemented after the due date).	C	Since 83% of the recommendations were implemented in the reporting period, the score is B.

26.1. Coverage of the internal audit

Performance level and evidence for scoring the dimension

486. **According to the information provided by the MoF, as of January 1, 2019, internal audit (IA) was formally established in all 65 Central Executive Authorities.** Nevertheless, it actually functioned in 54 out of 65 Central Executive Authorities (83%). MoF indicated that the lack of IA staff of about 23 percent yearly is an issue. During 2018, 11 out of 65 authorities (two of them were newly established) had vacancies in internal audit divisions. However, the total amount of the State Budget expenditures in these institutions constituted only about 2 percent of the overall State Budget expenditures in 2018, and 98 percent of State Budget expenditures in 2018 were covered by internal audit. Therefore, given the risk-based approach to internal audit, above 98 percent of the budget expenditures are considered covered by the scope of internal audit, as all these expenditures could be picked during internal audit for review. Several the CG bodies conducted internal audits of the CG revenues which covers 92.8 percent of the total CG revenues. The internal audit function exists in the State Fiscal Service (SFS) which collects around 82 percent of the CG revenues and covers financial and economic activities as well as activities on collecting revenues; in the National Bank which is responsible for collecting 4.8 percent of the CG revenues; in MoE which is responsible for collecting 3.5 percent of CG revenues; in the Pension Fund (about 1 percent of the CG revenues), in the National Commission for the State Regulation of Communications and Informatization (about 1 percent), and in the Courts and State Court Administration (0.5 percent). The total number of internal auditors was 1,450 as of January 1, 2019.

487. **The internal audit function is operational in CG entities which cover 98 percent of CG expenditures and 92.8 percent of CG revenue.**

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

26.2. Nature of audits and standards applied

Performance level and evidence for scoring the dimension

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

490. **The internal audit function at the central level has been gradually changing.** These changes have effected a shift from another type of state control and inspection activity in Ukraine to an advisory and diagnostic service. This has provided a focus on the guidance of the state authorities in assessing the effectiveness of internal control and management processes and systems on ongoing basis.

491. **There is a report of the results of IA units' performance in 2018⁹⁸.** The report shows that 2,172 internal audits were carried out in the Central Executive Authorities in 2018, with 1,991 internal financial and/or compliance audits (92%) and 181 internal efficiency audits (8%) at a central level. In 1,732 audit reports (87% of total IAs) auditors have identified violations. About 15,500 violations were of non-financial nature, 11,000 were financial violations and 6,157 of them caused losses for a total amount of UAH 933,926,570. More than 3,100 violations were identified specifically related to the functioning of the internal controls systems, procedures for planning and implementation of budget programs, effectiveness of controls and oversight function, etc.

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

⁹⁸ SIA form #1.

26.3. Implementation of internal audit and reporting

Performance level and evidence for scoring the dimension

493. **Before 2018 the National Internal Audit Standards required only semi-annual planning.** There was little evidence that IA departments based their semi-annual plans on a proper risk assessment, as prescribed by the National Internal Audit Standards. In December 2018 two types of IA plans were introduced: a strategic plan covering a three-year period, and an operational plan covering a one-year period. Both types of IA plans are subject to approval by the Central State Authority Manager. Upon approval plans are submitted to the Ministry of Finance and are made publicly available on the authorities' websites.

494. **In 2018, 48 out of 65 authorities achieved 100 percent implementation of their IA plans, while 6 authorities did not implement the IA plans in full.** This was due to either lack of staff or having audits in progress as of the reporting date. 11 authorities were missing an internal audit function due to the absence of IA staff, i.e., out of 54 executive bodies where internal audit functioned, 100 percent of audit plans were implemented in 89 percent of central executive authorities, 11 percent of authorities had implemented their audit plans partly. At the same time, a small number of audits were not completed (18 audits), or 1 percent of the planned (1890 audits). Authorities that partly implemented their audit plan are those authorities whose internal audit function was not fully and continuously staffed in 2018. The total amount of the State Budget expenditures in institutions lacking internal audit staff constituted only about 2 percent of overall State Budget expenditures in 2018.

495. **Reports on the audit plans implementation is submitted to the Ministry of Finance on a yearly basis.** As required by Decree of the CMU No 1001 dated September 28, 2011 (paragraph 16) reports should be submitted to the MoF before February 1 of the next year. For 2018 one authority did not submit a report to the MoF and five authorities missed the deadlines. These are summarized in the report on the results of IA units' performance (SIA form #1).

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

26.4. Response to internal audits

Performance level and evidence for scoring the dimension

497. **According to the report on the results of IA units' performance in 2018, 2,083 audit reports were issued based on the results of internal audits.** Out of the total number, 53 audit reports were unqualified (clean), 1,780 audit reports were qualified, and 227 reports had negative auditors' opinions. More than 16,666 recommendations were issued, and about 99.6 percent of these recommendations were accepted. 83.6 percent of the recommendations were implemented and/or were implementing on time in the reporting period, and about 16 percent (2,656) recommendations were not completed within the required time frame. Financial and non-financial violations were identified during the audits, with the majority of violations relating to non-compliance with legislation requirements and organization of accounting procedures and processes in the audited authorities.

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

Performance change since the previous assessment

499. **In 2015, the State Audit Service was responsible for the harmonization of the IA function at the central level and the function of internal audit which was implemented by the IA units of government bodies.** In most cases, it was focused on checking financial transactions and identifying violations and in compliances with legislation during ex-post reviews, i.e., the function was another type of state control and inspection. Starting from January 2017 the function of harmonization was shifted from the State Audit Service to the Ministry of Finance and its Department of the State Financial Control Harmonization. The key purpose

of amendments was to focus the internal audit procedures on risk-based planning and ongoing monitoring of the internal control system operations in the public sector authorities. In 2017-2018 the Ministry of Finance, in close cooperation with international partners, conducted an overview of the overall state of development and functional capacity of internal audit aiming to identify gaps and IA key development areas. Based on the overview results, IA regulations were updated to harmonize the internal audit framework with good international practices. Several methodological and guiding materials were issued by the MoF to support internal auditors in carrying out their activities as well as for conducting internal audit training. Amendments to the Internal Audit Standards are drafted and are scheduled to be introduced in the upcoming year. These amendments are quite recent, and their effectiveness and the level of implementation are not feasible to assess at this point.

Recent or ongoing reform activities

500. **The function of the internal audit in public sector in Ukraine is undergoing changes, which are aimed at aligning the IA procedures with international benchmarks and best practices in the area.** Amendments to the internal audit standards are drafted and are planned to be implemented within a year. A new version of Ukrainian Internal Audit Standards has been developed in early 2019 to maximize their convergence with international best practice. While staffing issues existed in 2018, they did not materially affect the coverage of internal audits.

501. **As of July 2019, the MoF, in compliance with the recommendations of the Association Agreement between Ukraine and the European Union is in the process of updating the Internal Audit Standards to eliminate the current division of internal audit by their types.**

PILLAR SIX: Accounting and reporting

PI-27. Financial data integrity

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

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

Summary of scores and performance table

Indicator / Dimension	Scoring Method M2 AV			
	Current assessment		Previous assessment <i>(applying PEFA 2016 framework)</i>	
	2019 Score	Brief justification for score	2015 Score	Explanation of change <i>(including comparability issues)</i>
PI-27: Financial data integrity	B+		A	
27.1 Bank account reconciliation	A	All active bank accounts of the CG are reconciled on a daily basis at the general and analytical levels, the Treasury incorporates all transactions into a single system of electronic payments in the National Bank which allows daily reconciliation of indicators.	A	There are no significant changes.
27.2 Suspense accounts	A	In Ukraine, accounts are used to record revenue or expenditure whose purpose is not identified. The purposes of unidentified amounts are determined daily. Such accounts are closed in time, until the end of the reporting interim and annual periods, if the purpose is not identified immediately.	N/A	The assessment score has been verified against the State Treasury's practical use of the specified accounts.
27.3 Advance accounts	B	Advance accounts are reconciled monthly based on reporting about arrears of budget-sustained institutions. Much of the accounts receivable due to a prepayment made towards budget funds is closed in time, except for certain complex cases.	A	The analysis of annual reporting of public sector entities debts has shown arrears in receivables for budget-funded prepayments, which corresponds to a B score. The assessment criterion is that not all receivables are repaid as at the end of the reporting period.
27.4 Financial data integrity processes	B	Access and changes to records is restricted and recorded, and results in an audit trail, but there is no operational body in charge of verifying financial data integrity.	B	There are no significant changes.

27.1. Bank account reconciliation

Performance level and evidence for scoring the dimension

503. **The State Treasury Service is responsible for managing the TSA and other bank accounts of the public sector⁹⁹.**

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

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

506. **The correctness of the delineation and accumulation of revenues of the state and local budgets is checked on the next business day for funds transfer.** The correctness of generating reports on execution of revenues and other receipts of the state and local budgets is checked. The data of statements of relevant accounts is reconciled in terms of crediting the revenues with the data of the Report on Execution of Revenues and Other Receipts of the State and Local Budgets. The adequacy of the data presented in the daily trial balance and the Report on Execution of Revenues and Other Receipts of the State and Local Budgets is checked.

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

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

27.2 Suspense accounts

Performance level and evidence for scoring the dimension

509. **Treasury bodies open a special account for the recording of amounts to be clarified.** In the execution of budgets, account 38 "Accounts for unclear receipts and unmatched debit amounts" is used in terms of sub-accounts:

381 Accounts by unclear receipts

382 Unmatched debit sums

510. **Treasury bodies that perform banking functions shall check compliance of the beneficiary's account number and its code referred to in the electronic settlement document¹⁰⁰.** Funds are credited to the beneficiary's account only if beneficiary's requisites match. Funds shall be transferred during the business day, when beneficiary's requisites are confirmed. In case of mismatch, the bank has the right to suspend the transfer amount for up to four business days (which include the day of receipt by the bank of the recipient's electronic settlement document) in order to identify the appropriate recipient of these funds, which shall be credited to the account "Credit amounts to be clarified". The bank shall ensure the storage of a paper copy of an electronic settlement document or electronic settlement document duly executed (certified by the physical or digital signature of the responsible executor). The purposes of unidentified amounts are determined daily for quick write-off from account 38. The assessment has been verified against the Treasury's practical use of the specified accounts.

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

⁹⁹ In accordance with Treasury Order No. 122 of 26 June 2002 "Regulation on the Single Treasury Account".

¹⁰⁰ In compliance with paragraph 2.32 of the NBU Instruction No. 22.

27.3. Advance accounts

Performance level and evidence for scoring the dimension

512. **The balance of advance accounts is analyzed every month.** However, there is no specific account in the chart of accounts called advance accounts. Instead, they are reported as accounts receivable by each public sector entity. The advance accounts are generally closed on time (approximately 85 percent), with some exceptions particularly in complex cases. In these cases, the public sector entities explain the main reasons for such delays in the notes to their financial statements.

513. **Advances are usually authorized only for specific types of contracts (such as construction and/or large-scale infrastructure contracts).** They are limited to 30-40 percent of the total value of the contract, depending on contract terms. Once the advance payments are executed, spending units are required to submit documentation, reporting the use of the advance (i.e., reports on contract execution or management/physical progress) prior to requesting subsequent payments. This documentation is required to be submitted within three working days after the completion of the delivery of goods, execution of works and/or provision of services specified in the contract. If documentation is not provided by the spending unit, the Treasury withholds further payments and these contracts are noted in the monthly/quarterly reports. Treasury can also withhold all payments of the spending unit except for payments related to protected items. This is complied with in practice. The analysis of annual reporting of public sector entities debts has shown arrears in receivables for budget-funded prepayments. Not all receivables are repaid as at the end of the reporting period.

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

27.4. Financial data integrity process

Performance level and evidence for scoring the dimension

515. **Treasury keeps its records in the automated accounting and reporting system.** Access is restricted by a hard-coded password system. Records cannot be created or modified without registration in the electronic checklist. The internal control unit is responsible for verifying and controlling data integrity.

516. **The function of internal control is not risk-based.** It utilizes a procedure and there is no special body responsible for the operational control of indicators, other than a given executor. Subsequently, the use of funds is verified by the State Audit Service and the Accounting Chamber (ACU) for a certain period under verification.

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

Performance change since the previous assessment

518. **The system of current control over the use of budget funds can be generally considered as effective and transparent.** The latter is confirmed by the fact that it was made possible for the public to track operations on the TSA through a designated website: <https://spending.gov.ua/>. This allows stakeholders to track budget expenditures immediately after their execution and, thus, control public sector funds.

Recent or ongoing reform activities

519. **Effective in 2020, the Treasury plans to switch to the new Chart of Accounts¹⁰¹.** This is to include two separate accounts (9333 “Budgetary financial commitments of spending units and recipients of budgetary funds for prepayment and advance payments from the State Budget of the reporting period” and 9343 “Budgetary financial obligations of managers and recipients of budgetary funds for prepayment and advance payments from local budgets of the reporting period”) to record budget obligations of spending units and recipients of budget funds in terms of prepayments and advances. Such an approach should secure timely identification of amounts of accounts receivable by issued advances and operational control over their collection.

¹⁰¹ Order of the Ministry of Finance No. 1203.

520. In addition, Treasury's transition to a single Chart of Accounts in the public sector will allow automatic summarization of information on budget execution.

PI-28. In-year budget reports

521. This indicator assesses the comprehensiveness, accuracy and timeliness of information on budget execution. The time period is the last completed fiscal year. Coverage is Budgetary Central Government.

Summary of scores and performance table

Indicator/ Dimension	Scoring Method M1 W)			
	Current assessment		Previous assessment <i>(applying PEFA 2016 framework)</i>	
	2019 Score	Brief justification for score	2015 Score	Explanation of change <i>(including comparability issues)</i>
PI-28: In-year budget reports	B+		B+	
28.1 Coverage and comparability of reports	A	The coverage of reports and the classification of indicators contained therein make it possible to directly match them with the approved budget. The information includes all metrics contained in the approved budget. Reports include expenditures in the form of transfers in favor of decentralized subdivisions within the CG.	A	There are no significant changes.
28.2 Timing of in-year budget reports	A	The Treasury makes monthly reports on the State Budget within 15 days after the month end.	A	There are no significant changes.
28.3 Accuracy of in-year budget reports	B	There are no issues with quality. However, the reports provide information on expenditures only at the payment stage (only unpaid commitments are shown).	B	There are no significant changes.

28.1. Coverage and comparability of reports

Performance level and evidence for scoring the dimension

522. Reports on implementation of the State Budget during the year include the revenues, expenditures, lending and financing of the budget, guarantees provided, public debt and sovereign guaranteed debt. Reports are submitted by the Treasury to the Parliament, the President, the Cabinet, the Accounting Chamber and the Ministry of Finance (as well as published on its website). Reports are prepared according to the budget classification by detailed codes and indicators and can be easily compared with the approved budget. Reports covering revenues and expenditures, lending and budget financing, budgetary arrears as well as information on provided sovereign guarantees are produced on a monthly (key information in Table 28.2) and a quarterly basis. Quarterly reports also contain information on the state of the public debt and sovereign guaranteed debt, as well as information on achieving performance indicators according to the Templates provided in annexes to the Law on the State Budget of Ukraine. Expenditures carried out in the form of transfers from the State Budget to the Pension Fund of Ukraine, local budgets, and state enterprises are included in the Treasury's reports on budget execution.

523. The score for the dimension is A.

28.2. Timing of in-year budget reports

Performance level and evidence for scoring the dimension

524. **The Treasury submits monthly and quarterly reports.** These are (1) monthly reports on execution of the State Budget not later than 15 days of the month end, (2) detailed information on performance of the State Budget indicators – not later than the 25th of the month following the reporting period, (3) reports on budget debts – not later than the first day of the second month following the reporting period¹⁰². The quarterly reports are submitted by the Treasury not later than 35 days from the quarter end (Article 60 of the Budget Code). Timing of in-year budget reports for 2018 is provided in Table 28.2. These reports are submitted to the Parliament, the President, the Cabinet, the Accounting Chamber, and the Ministry of Finance.

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

Period covered by the report	Actual date of issuance	Actual date of issuance of information on budget arrears at the month end
Monthly reports		
January	Feb 15, 2018 (basic information) Feb 23, 2018 (detailed information)	Feb 28, 2018
January – February	Mar 15, 2018 (basic information) Mar 23, 2018 (detailed information)	Mar 30, 2018
January – March	Apr 13, 2018 (basic information) Apr 25, 2018 (detailed information)	April 26, 2018
January – April	May 15, 2018 (basic information) May 25, 2018 (detailed information)	May 31, 2018
January – May	June 15, 2018 (basic information) June 23, 2018 (detailed information)	June 26, 2018
January – June	July 13, 2018 (basic information) July 25, 2018 (detailed information)	July 31, 2018
January – July	Aug 15, 2018 (basic information) Aug 23, 2018 (detailed information)	Aug 31, 2018
January – August	Sept 14, 2018 (basic information) Sept 25, 2018 (detailed information)	Sept 28, 2018
January – September	Oct 12, 2018 (basic information) Oct 24, 2018 (detailed information)	Oct 31, 2018
January – October	Nov 15, 2018 (basic information) Nov 23, 2018 (detailed information)	Nov 30, 2018
January – November	Dec 14, 2018 (basic information) Dec 22, 2018 (detailed information)	Dec 27, 2018
January – December	Jan 15, 2019 (basic information) Jan 25, 2019 (detailed information)	Jan 29, 2019
Quarterly reports		
I Quarter	May 05, 2018	May 5, 2018 *
II Quarter	Aug 03, 2018	Aug 3, 2018 *
III quarter	Nov 05, 2018	Nov 5, 2018 *

* Information is included in the quarterly report.

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

¹⁰² According to Article 59 of the Budget Code of Ukraine.

28.3. Accuracy of in-year budget reports

Performance level and evidence for scoring the dimension

526. **The TSA services all budget transactions (revenues and expenditures) for all public budget spending units.** In addition, local branches of the Treasury carry out transactions of local budgets (including oblast) and funds of the mandatory State Social Insurance. Such mechanisms allow a thorough and regular monitoring and verification of financial information and cash flows (in particular, conducting of cross-checks).

527. **The Treasury reports include both planned (the law with all amendments) and actual figures according to the cash accounting method.** With regard to expenditures and lending, the reports are compiled for all classification types (budgetary programs, functional and economic classification, and also for the departmental classification of the State Budget). These reports include information at the payment stage and do not contain complex information on budget commitments. The reports provide information about unpaid commitments only. Regarding the revenues, financing and debt commitments, reports are also produced in accordance with the budget classification. Revenue reports only reflect the actual proceeds and do not include information on accrued revenues. According to Paragraph 10 of Part 2 of Article 60 of the Budget Code, the quarterly reports shall contain a clarification regarding the achievement of indicators of the State Budget.

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

Performance change since the previous evaluation

529. **No significant changes occurred.**

PI-29. Annual financial reports

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

530. **This indicator assesses the extent to which annual financial statements are complete, timely and consistent with generally accepted accounting principles and standards.** The period of assessment for dimension 29.1 is the last completed fiscal year, i.e., FY 2018; for dimension 29.2 last annual financial report submitted for audit; for dimension 29.3 the last three years' financial report, i.e., FYs 2016-2018. Coverage is Budgetary Central Government.

Summary of scores and performance table

Indicator/ Dimension	Scoring Method M1 WL			
	Current assessment		Previous assessment <i>(applying PEFA 2016 framework)</i>	
	2019 Score	Brief justification for score	2015 Score	Explanation of change <i>(including comparability issues)</i>
PI-29: Annual financial reports	C+		C+	
29.1 Completeness of the annual financial reports	A	Financial statements of the public sector entities contain both indicators of estimates and actual data. The financial statements are drawn up quarterly and annually. The financial statements include complete information on assets, liabilities, including long-term, revenue, expenditure, and cash flow statement.	B	The forms and contents of financial reporting approved under the National Public Sector Accounting Standards (NPSAS) contain full information on financial and tangible assets, liabilities, long-term obligations, revenue, expenditure and is supported by a cash flow statement in line with the A score requirements.

Indicator/ Dimension	Scoring Method M1 WL			
	Current assessment		Previous assessment <i>(applying PEFA 2016 framework)</i>	
	2019 Score	Brief justification for score	2015 Score	Explanation of change <i>(including comparability issues)</i>
29.2 Submission of reports for external audit	A	Treasury summarizes, draws up, and submits financial statements of the CG to the Ministry of Finance, which makes a public presentation of the report on execution of the State Budget for the previous budget period, in which duly authorized representatives of the Budget Committee of the Parliament (BC) and ACU participate. To perform external audit, the financial statements are submitted to the ACU on behalf of the Cabinet within three months after the expiry of the reporting year.	A	There are no significant changes.
29.3 Accounting standards	C	NPSAR(S) that apply to all financial statements and are largely consistent with the international standards have been approved and introduced in Ukraine. The standards used in the preparation of annual financial statements and the provisions of accounting policies are presented in the Notes to Financial Statements. However, the differences between the applicable national and IPSAS are not presented at time of assessment.	C	There are no significant changes.

29.1. Completeness of the annual financial reports

Performance level and evidence for scoring the dimension

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

532. **The annual financial statements of the government are part of the annual reporting on execution of the State Budget within three months after the end of the fiscal year¹⁰³** The annual report presents information on financial and non-financial assets and also contains budget revenue, expenditure, lending and financing indicators. The reports also cover: (i) the state of sovereign and government-backed debt; (ii) the financial position (balance) of the State Budget; (iii) financial performance of the budget and cash flow; (iv) accounts receivable and payable; (v) data on the reserve fund expenditure; and (vi) outstanding loans on credits issued against state guarantees, payments against state guarantees under guarantees issued and under government debt management operations.

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

¹⁰³ In accordance with the requirements of the Budget Code of Ukraine (BCU).

29.2. Submission of reports for external audit

Performance level and evidence for scoring the dimension

534. **The Treasury shall be the body responsible for summarizing, drawing up, and reporting on execution of the State Budget (financial and budget reporting)**¹⁰⁴. At the same time, the monthly, quarterly and annual reports on execution of the State Budget are published on the official website of Treasury: <https://www.treasury.gov.ua/ua/file-storage/vikonannya-derzhavnogo-byudzhetu>.

535. **The Ministry of Finance annually defines the timetable for Treasury to draw up and submit annual reports.** According to Article 28 of BCU, the Ministry of Finance shall, before March 20 of the year following the reporting one, publicly present a report on execution of the State Budget for the previous budget period, in which the authorized representatives of BC and ACU participate.

536. **The Cabinet submits an annual report to the Parliament, President and ACU no later than April 1 of the year following the reporting year**¹⁰⁵.

Table 29.2. Deadlines for submitting annual financial reports to the ACU for Audit

Fiscal years	Dates of submission of the annual financial reports to the ACU	Dates of submission of the financial audit reports to the legislature
2016	March 30, 2017 № 2602/0/2-17	Letter dated April 13, 2017 No. 06-720 to the Chairman of the Parliament, Parubiy A.V.
2017	March 30, 2018 № 4088/0/2-18	Letter dated April 13, 2018 No. 06-664 to the Chairman of the Parliament, Parubiy A.V.
2018	March 28, 2019 № 6721/0/2-19.	Decision of the ACU dated April 09, 2019 № 8-5

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

29.3. Accounting standards

Performance level and evidence for scoring the dimension

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

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

Performance change since the previous assessment

540. **The most significant achievement is the preparation and generation of financial statements.** This has ensured that they are in accordance with the approved and implemented system of NPSAR(S) whose standards are, in the most important aspects, consistent with IPSAS.

541. **The templates and content of financial reporting, approved under NPSAR(S), contain full information on financial and tangible assets, liabilities, long-term obligations, revenue, expenditure.** It is supported by a cash flow statement.

Recent or ongoing reform activities

542. **One of the important tasks that is to be carried out is to supplement notes to financial statements in order to explain the differences between NPSAR(S) used in the preparation of financial statements and IPSAS.**

¹⁰⁴ According to Article 58 of BCU.

¹⁰⁵ According to Article 61 of BCU.

PILLAR SEVEN: External Scrutiny and Audit

PI-30. External audit

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

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

544. **The new law (2015) on the Accounting Chamber, Ukraine’s supreme audit institution, was adopted by the Parliament on July 2, 2015.** It was ratified by the President on August 5, 2015. The ACU is an independent body that reports to Parliament.

545. **The Law of Ukraine “On the Accounting Chamber of Ukraine” provides for the use in the activities of the Accounting Chamber.** These activities follow the main principles of the International Organization of Supreme Audit Institutions (INTOSAI), including the International Standards of Supreme Audit Institutions, and the European Organization of Supreme Audit Institutions (EUROSAI) insofar as this does not contradict the Constitution and laws of Ukraine.

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

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

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

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

Summary of scores and performance table

Indicator/ Dimension	Scoring Method M1 WL			
	Current assessment		Previous assessment <i>(applying PEFA 2016 framework)</i>	
	2019 Score	Brief justification for score	2015 Score	Explanation of change <i>(including comparability issues)</i>
PI-30: External audit	B+		C+	
30.1 Audit coverage and standards	B	During the last three years, ACU has audited reports of the CG, that included budget expenditure and revenue, respecting the Financial Audit Guidelines approved by ACU and developed on the basis of ISSAI. At the same time, reports of the ACU emphasize not only significant deficiencies and violations but also auditees’ general and specific risks.	C	In the past five years, the ACU extensively studied the ISSAI Framework to prepare the ground for its practical implementation. Notably, the study resulted in the approval of ISSAI-based financial audit methodology recommendations. In addition, ACU has audited the CG financial reports to identify systemic and control risks.

Indicator/ Dimension	Scoring Method M1 WL			
	Current assessment		Previous assessment <i>(applying PEFA 2016 framework)</i>	
	2019 Score	Brief justification for score	2015 Score	Explanation of change <i>(including comparability issues)</i>
30.2 Submission of audit reports to the legislature	A	According to the website of BC and data provided by Parliament for analysis, ACU submitted audit reports within three months upon receipt of financial statements from the Cabinet.	A	There are no significant changes.
30.3 External audit follow-up	B	Based on audit findings, ACU provides recommendations and comments. Auditees have to report back to ACU on how they addressed them. Key results of addressing the recommendations and flaws are published by ACU on its website. ACU receives, in timely and comprehensive fashion, information about the fulfillment of recommendations provided in ACU's opinion in the form of official decisions and letters of governmental authorities.	C	Over the past three completed fiscal years, entities subject to ACU's audit as well as the Cabinet and ministries to whom such entities report to, provided official, exhaustive and timely information compliant with ACU's specific recommendations and observations. This information is available on a separate page of ACU's official website. ACU has also put in place a system to track the implementation of audit observations and recommendations.
30.4 Supreme Audit Institution independence	B	According to the Law of Ukraine on the Accounting Chamber adopted in 2015, ACU is the body independent of the Government in all the following essential aspects: (i) determination and election of ACU members, including the Head of the ACU; (ii) independence in planning audits and making public audit findings; and (iii) budget planning and execution. The auditors of ACU are also granted access to all documents and information required for auditing.	B	ACU has become independent according to Supreme Audit Institution independence criteria. Significant changes include, among others, (i) ACU's ability to act independently of the government executive in terms of its management and audit of government reports, and (ii) ACU's independence enshrined in law and implemented de facto.

30.1. Audit coverage and standards

Performance level and evidence for scoring the dimension

549. **ACU conducts audits in accordance with the Guidelines for Financial Audit by ACU as of 2019**¹⁰⁶. They have been developed based on the requirements and provisions of ISSAI, including the Fundamental Principles of Public Sector Auditing (ISSAI 100), the Fundamental Principles of Financial Audit (ISSAI 200), and the Financial Audit Guidelines (ISSAI 1000-1999). The ACU is currently working on the review of the ISSAI and determination of the best way for their further implementation.

550. **ACU audits 100 percent of revenues and expenditures reported in the annual budget execution report, which in turn includes financial statements of the CG.** ACU carries out financial and performance audits that provide for the evaluation of the timeliness and completeness of budget revenues, productivity,

¹⁰⁶ Approved by ACU Decision No. 5-5 dated 22 September 2015 (https://rp.gov.ua/upload-files/About/RegulatoryDoc/arp_6.pdf).

performance, and efficiency of using budget funds. ACU's reports include major findings detected by auditors as well as systemic and control risks identified (audit reports covering all last 3 fiscal years contain the most significant systemic and control risks).

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

30.2. Submission of audit reports to the legislature

Performance level and evidence for scoring the dimension

552. **ACU submits¹⁰⁷ to the Parliament opinions on the state of execution of the State Budget law on a quarterly basis as well as proposals for the addressing deviations and violations detected.¹⁰⁸** ACU adheres to the deadlines for the preparation and submission of these quarterly opinions within the quarter following the reporting one. These reports are published on ACU's website of: <https://rp.gov.ua/FinControl/FinReports/?pid=111>.

553. **The annual report on execution of the State Budget includes financial and budgetary reporting in accordance with BCU¹⁰⁹.** This shall be submitted to ACU by the Cabinet no later than April 1 of the year following the reporting one. ACU submits its opinions and proposals regarding this report to the Parliament no later than April 15 of the year following the reporting one. For instance, for the past 3 years, such reports were submitted by the ACU on April 13, 2017, April 13, 2018, and April 9, 2019, i.e., within three months after receipt (see Table 29.2).

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

30.3. External audit follow-up

Performance level and evidence for scoring the dimension

555. **The following procedure is envisaged for responding to the results of control actions of ACU¹¹⁰:**

- 1) A decision taken according to the results of the report discussion is subject to consideration by an auditee. Within a month, the auditee informs ACU about the outcomes of consideration of ACU's decision as well as the measures planned and taken.
- 2) If the auditee has not provided ACU with information on the outcomes of the review of its decision or if ACU has deemed inappropriate the measures planned and taken by the auditee in connection with its decision, ACU informs the relevant governmental authorities, to which the auditee reports, the Parliament and the Cabinet as well as the public through mass media.

556. **In practice, all clarifications to audit's findings for the past three years were timely submitted by the audited entities to the ACU, as confirmed by ACU.** In some cases of particularly complex findings, additional clarifications could be submitted by the audited entity with minor delays.

557. **The audit results, recommendations, and auditees' reports on addressing detected shortcomings and implementation of ACU's recommendations are regularly published¹¹¹.**

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

¹⁰⁷ In accordance with the Law of Ukraine on the Accounting Chamber.

¹⁰⁸ Article 7 of the Law of Ukraine on the Accounting Chamber.

¹⁰⁹ Under Article 61 of BCU.

¹¹⁰ In compliance with paragraph 2 of Article 36 of the Law of Ukraine on the Accounting Chamber.

¹¹¹ On ACU's website: <https://rp.gov.ua/FinControl/FinReactions/?pid=113>.

30.4. Supreme audit institution independence

Performance level and evidence for scoring the dimension

559. **ACU is the body independent of the Government of Ukraine in the essential aspects of its activities¹¹².** These relate to (i) determination and election of ACU members, including the head of the ACU, which are appointed and removed by the Parliament¹¹³; (ii) independence in planning audits and making public audit findings; (iii) ACU's budget planning and execution; and also (iv) access of ACU's representative to the records, documentation and information to conduct audits.

560. **The execution of the annual budget is carried out directly by ACU without interference from the CG based on estimates approved by the ACU within the budget allocations adopted by State Budget.** ACU submits its budget request to the MoF, which includes it in the State Budget based on general procedures, established for all KSUs. In case of any potential disagreements between the ACU and MoF on the proposed allocation, the situation might be reviewed and resolved directly by the VRU when considering the draft budget. However, this has not taken place in the past three years. In terms of access to information, according to article 32 of the ACU's law, ACU's auditors have access to all necessary information required for conducting audits. However, the access to data bases and information produced by financial management information systems is only limited to Board members of the ACU. This constraint limits the ability of the ACU to build a risk-oriented control system.

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

Performance change since the previous assessment

562. **In the past five years, the Accounting Chamber has extensively studied the ISSAI framework to prepare the ground for its practical implementation.** Notably, the study resulted in the approval of ISSAI-based financial audit methodology recommendations. In addition, ACU has audited the CG financial reports to identify systemic and control risks. The score for parameter 30.1 has changed from C to B.

563. **Over the past three completed fiscal years, entities subject to ACU's audit as well as the Cabinet and ministries to whom such entities report, provided official, exhaustive and timely information compliant with ACU's specific recommendations and observations.** This information is available on a separate page of ACU's official website. ACU has also put in place a system to track the implementation of audit observations and recommendations. The score for parameter 30.3 has changed from C to B.

564. **ACU has become independent according to all Supreme Audit Institution independence criteria.** Significant changes include, among others, (i) ACU's ability to act independently of the government executive in terms of its management and audit of government reports, and (ii) ACU's independence enshrined in law and implemented de facto.

Recent or ongoing reform activities

565. **The most important task at this stage of ACU's development is to fully implement/adopt the ISSAI.** In this process, consideration should be given to the possibility and timing of the implementation of a compliance audit as one of the types of audit defined by ISSAI. In addition, measures should be taken to ensure the financial independence of the ACU and create conditions for building a risk-based control system.

¹¹² According to the Law of Ukraine on the Accounting Chamber of Ukraine adopted in 2015.

¹¹³ Article 20 the Law of Ukraine on the Accounting Chamber of Ukraine adopted in 2015.

PI-31. Legislative scrutiny of audit reports

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

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

Summary of scores and performance table

Indicator/ Dimension	Scoring Method M2 A)			
	Current assessment		Previous assessment <i>(applying PEFA 2016 framework)</i>	
	2019 Score	Brief justification for score	2015 Score	Explanation of change <i>(including comparability issues)</i>
PI-31: Legislative scrutiny of audit reports	B		C+	
31.1 Timing of audit report scrutiny	A	Budget Committee scrutinizes Accounting Chamber's reports, as a rule, during two months after receiving a report in question from ACU.	B	The Assessment Working Group has been assured that the legislature verifies audit reports on annual financial statements within two months of their receipt, which corresponds to an A score.
31.2 Hearing of audit findings	C	In-depth hearings on key findings of audit reports take place occasionally, covering about 30 percent of audited entities.	C	There are no significant changes.
31.3 Recommendations on audit by the legislature	C	The legislature gives recommendations to executive power. In particular, the minutes of BC's hearings or the minutes of Parliament's session provide for the recommendations for the Cabinet on the implementation of the recommendations and comments of the ACU. But further monitoring of the implementation of the recommendations by the executive is limited.	C	There are no significant changes.
31.4 Transparency of legislative scrutiny of audit reports	B	The meetings of the BC are held in public, except for certain cases related to national security.	B	There are no significant changes.

31.1. Timing of audit report scrutiny

Performance level and evidence for scoring the dimension

567. **Audit reports on annual financial statements are scrutinized by the Budget Committee.** Based on the minutes of BC's meeting and the reconciliation of source documents of ACU, the Budget Committee, as a rule, completes the verification of auditor's opinions of ACU within two months upon the receipt of the reports. It has been confirmed that the legislature verifies audit reports on annual financial statements within two months of their receipt (table 31.1).

Table 31.1. Deadlines for submitting reports on verification of the annual report of the ACU and their verification by the Parliament

FY	Dates of submission of the financial audit reports to the legislature	Date of the minutes of the budget committee meeting based on the results of the audit of the ACS report
2015	Letter dated April 11, 2016, No. 06-668	June 1, 2016, № 60
2016	Letter dated April 13, 2017 No. 06-720 to the Chairman of the Parliament, Parubiy A.V.	May 16, 2017, № 96
2017	Letter dated April 13, 2018 No. 06-664 to the Chairman of the Parliament, Parubiy A.V.	June 6, 2018, № 143

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

31.2. Hearing on audit findings

Performance level and evidence for scoring the dimension

569. **The annual report on the outcomes of ACU's activities is submitted to the Parliament.** However, the regular hearings, which are public, are used only to discuss the ACU's findings on the general reports on execution of the State Budget, prepared by the MoF on quarterly and annual basis. For other ACU's reports, such as specific audit reports, hearings with participation of representatives from ACU and audited entities are conducted occasionally, covering about 30 percent of audited entities. Annual ACU's reports contain detailed information about conducted hearings on audit findings including name of the committee of the VRU, name of ACU's audit report and decision as result of hearings. Minutes of the committees of the Parliament's meetings are available on their websites.

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

31.3. Recommendations on audit by the legislature

Performance level and evidence for scoring the dimension

571. **Recommended actions are considered at the meetings of BC.** The recommendations related to results of the analysis of budget execution reported in quarterly and annual reports are discussed in the BC meetings. The BC publishes information about its activities, including the timetable of future meetings, minutes of meetings, and results of discussions at the meetings, on its page on the website of the Parliament (<http://budget.rada.gov.ua/>). The analysis of findings of BC's meetings presented in the relevant minutes indicates that certain recommended actions of ACU are factored in when approving the law of Ukraine on the State Budget for the relevant year.

572. **Information on the implementation of BC's decisions is summarized for each meeting on BC's website.** This shows the results of BC's meetings and decisions made. Thus, BC elaborates recommendations to governmental authorities and summarizes information on BC's requests to relevant governmental authorities in pursuance of the decisions made by BC.

573. **Despite these recommendations, follow-up on the Cabinet' actions, as per Article 152 of the Law of Ukraine on the Rules of Procedure of the Parliament, is limited, and no formal follow-up system on recommendations is established.** The score for the dimension is C.

31.4. Transparency of legislative scrutiny of audit reports

Performance level and evidence for scoring the dimension

574. **The hearings of all committees, including those of BC, are conducted openly and publicly, except for the cases when a committee decides to hold a closed meeting¹¹⁴.** At the open hearings of committees, the persons present at such hearings have the right to perform audio and video recording, take photos, and broadcast meetings on radio, television, Internet and/or other data transmission networks in a manner that does not interfere with the holding of hearings of committees.

575. **The results of BC's work are shared with the Parliament, but they are not discussed in its full chamber.** The timetable of future meetings, minutes of meetings and the results of hearing the issues on the agenda of BC's meeting are made public on BC's website (<http://budget.rada.gov.ua/>).

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

Performance change since the previous assessment

577. **During the period covered by the assessment, the system of making public the information on the results of reviewing of ACU's performance has gained significant transparency.**

¹¹⁴ According to Article 25 of the Law of Ukraine on Committees of the Verkhovna Rada of Ukraine.

4. Conclusions of the analysis of PFM systems

4.1. Integrated assessment across the performance indicators

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

578. **The challenges in producing accurate total revenue projections have been met in recent years.** Revenue actuals were close in total overall estimates (Score A) but composition slightly less so (Score B). As a result, the aggregate expenditure side of the budget scored A, with the expenditure composition both by administrative type and by economic type both scoring B. This overall result has been achieved in the context of strengths in virement (Score B) and two adjustments to the annual budget law (Score A). The process of controlling budget allocations to match the availability of cash has been supported by good cash forecasting (Score A). This aspect has been offset by budgetary units having certainty in the availability of funds to execute their budgets as planned (Score A). The stock of arrears is not significant at less than 1 percent of the total (Score A) which reflects strong commitment control (Score A).

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

579. **Ukraine has an impressive array of information regarding the finances of budgetary central government.** The Chart of Accounts, which underpins budget preparation, execution and reporting, is comprehensive and consistent with GFS standards (Score A). Information is included in the budget on a timely basis. As a result, the budget documents include all the basic, and much of the supplementary information, required to support a transparent budget process (Score A). However, fiscal impact of policy proposals on the budget is only assessed for one budget year.

580. **There is complete data regarding operations for public bodies in the budget documentation apart from information on the three Social Security Funds.** However, the Social Security Funds are significant in size (Score D) and they do produce annual budget and financial statements (Score A), but these are outside of the overall government reports. The transfers to subnational government are transparently determined (Score A). Information on performance plans and achievements in service delivery outputs and outcomes across the government sectors is very good (Score A) with performance plans (Score A), performance achieved (Score A) and performance evaluation (Score B). Tracking of resources to service delivery units scores A reflecting the strong accounting and reporting system.

581. **Public access to fiscal information is strong (Score A).** All of required elements are made available, including a citizen's (summary) budget which was produced for the first time as part of the most recent budget.

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

582. **A comprehensive and inclusive process is lacking in managing the public investment programs and assets.** Economic analysis and monitoring are carried out for the major investment projects, but the results were not published (Score C) and project costing does not meet the basic requirements (Score D). Selection of investments is rated higher at Score A reflecting the interagency commission and its standard criteria for

choosing projects. Reporting of risks associated with public corporations scores C as the number of audited financial statements is insufficient. Unaudited reports on the majority of municipalities are produced annually with some delay of up to nine months (Score C). However, there are no contingent liabilities outside of the public corporations and municipalities therefore the dimension is not applicable. Public assets management is good (Score B) but information on the usage and the age of non-financial assets is not complex. Debt recording management and approval are strong (Score A), but the debt management strategy lacks complete borrowing targets and annual reporting to the Parliament against debt management objectives (Score B).

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

583. **Some, but limited, progress has been made towards a comprehensive medium-term expenditure framework.** There is good information on the specification and evaluation of key performance indicators (overall score B+). However, this is not linked in a medium-term approach to expenditure budgeting as the budget is presented for the up-coming year only (score D). The overall fiscal strategy only focuses on the budget year (Score C) and does contain objectives to be achieved and there is no reporting against outcomes (Score D). There are no hard ceilings for budget preparation (Score D) and costed sector strategies that are used for budget formulation are the exception rather than the norm (Score C). All of this is carried out in the context of strong macroeconomic and fiscal forecasting (Score A). There is a budget calendar (score C) but it does not provide budgetary units adequate time (less than four weeks) to prepare their budgets. The legislature does get sufficient time to carry out its scrutiny function (Score A) and it approves the budget on time (Score A). Nevertheless, the legislature only considers fiscal policies and aggregates for the upcoming budget year and not the medium-term (Score B) and the procedures and timetable for budget scrutiny have not been adhered to in the most recent passed budget (Score D).

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

584. **The State Fiscal Service was responsible for revenue collection at the time of the assessment combining tax and customs administration as well as the collection of social security payments.** In January 2019, the Cabinet approved reorganization of the State Fiscal Service into separate State Tax Service and State Customs Service but as of June 2019 the reorganization had not been implemented. The taxation system is based on comprehensive legislation providing information on the tax liabilities of taxpayers with respect to obligation and redress with a three-tier appeal system that guarantees independence from the administration. This is supported by information leaflets that can be accessed on-line and at departmental offices, as well as media broadcasts, training and awareness events (Score A). A comprehensive risk-based approach to administering revenues is lacking (Score C) and this is used to determine audit planning (Score C). While the stock of tax arrears is below 10 percent of revenue collections, the arrears are relatively greater than 12 months, but this is due to problems with security (Score B).

585. **Revenue collected is relatively well managed in terms of the flow of funds to the Treasury and recording of transactions.** All revenues are paid into the Treasury account (Score A). All accounts are reconciled on a timely basis (score A). State Fiscal Service can monitor revenues in real time. Payments to the TSA are reconciled on the fourth day of each month (score A). A revenue report is prepared monthly for management purposes (score A).

586. **The consolidation of cash balances in TSA at the National Bank is made daily (Score A).** The Treasury forecasts the annual cash flow broken down by month and updates the projections monthly; forecasts with daily cash flow estimates are also developed, however that forecast is limited to the calendar month and never projects forward beyond that month (Score A). Spending units know their annual budget within one month

of approval of the State Budget and can commit funds up to the value of their annual budget allocations and make payments up to the value of their monthly apportionment limits (Score A). Management of budget releases has been successful in controlling arrears (Score A) and the number of supplementary budgets is only two and is not significant in size (Score A).

587. **Overall the payroll system scores a D+.** Each budgetary agency is responsible for maintaining its own payroll accounting system but information on employees, which is accounted for by the Human Resource unit, and remuneration by the accounting department are not reconciled (Score D). Changes to the employee information and salaries are made within three months (Score B). Budgetary institutions have clear and detailed rules and procedures for making changes to staff and payroll information, which include the requirement for signatures of authorized persons and provides a clear audit trail (Score A). The State Audit Service and the Accounting Chamber conduct regular inspections to monitor the eligibility, timeliness and completeness of salary payments. However, full payroll audits are conducted on average once every three years (Score C).

588. **The public procurement system scores A in three dimensions and B in procurement methods.** Only 78 per cent of purchases were carried out by competitive methods. Overall the indicator scores an A which reflects the ProZorro electronic procurement system which has been recognized internationally and received several awards.

589. **Internal controls on non-salary expenditure scores a B+ with effective commitment controls (Score A) and compliance with payment rules and procedures (Score A).** Improved segregation of duties with clear responsibilities (Score C) would lead to a higher overall score. This achievement is ensured by the management information system (“E-Treasury”) that supports the TSA. The internal audit function is being developed (score C+) but the overall coverage is good (score A) with smaller units suffering from staff shortages. Internal audit activities are primarily focused on compliance with some assessment of efficiency but are guided by Ukrainian Internal Audit Standards (Score C). Those bodies that conduct internal audit have an annual plan that implements a three-year plan of action and prepare annual reports to the Ministry of Finance (Score B). The implementation of internal audit recommendations ensures its effectiveness (Score B).

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

590. **Accounts reconciliation and financial data integrity are areas of strengths.** The bank reconciliation for the TSA takes place daily (Score A). Suspense accounts are limited and are used only where clarification is needed. They are reconciled within 4 days (Score A). Generally advance accounts are reconciled monthly based on reporting by spending units (Score B). Data integrity is good (Score B) as access and changes to records are restricted and recorded thereby resulting in a sufficient audit trail. However, the system lacks a dedicated operational unit.

591. **With respect to in-year budget reports, coverage and classification of data allows for direct comparison to the original budget.** Information includes all budget estimates for the budgetary units. There are both monthly and quarterly budget execution reports that are issued to Parliament within 15 days from the end of month and within 35 days from the end of the quarter (Score A). Initially, basic information is provided with detailed follow up information. There are no material concerns regarding data accuracy. Information on expenditure is provided at the payment stage (Score B).

592. **The situation with respect to the annual financial reports is varied (overall score of C+).** The financial statements include complete information on assets, liabilities, including long-term, revenue, expenditure, and reconciled cash statement (Score A). The financial statements are submitted for external audit on behalf of the Cabinet within three months after the expiry of the reporting year (Score A). The national public sector accounting regulations (standards) that apply to all financial statements are largely consistent with international standards. Notes to the Financial Statements clearly disclose the accounting framework and standards used in preparing annual financial reports. However, the differences between applicable national provisions and IPSAS are not presented (Score C).

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

593. **External audit is an area of significant strength (score B+).** The financial statements are audited using standards based on International Standards of Supreme Audit Institutions. The financial audit and (few) performance audits that are carried out provide for the evaluation of the timeliness and completeness of budget revenues, productivity, performance, and efficiency of using budget funds. The audits reports have highlighted significant problems detected by auditors and have identified relevant material issues and systemic and control risks (score B). During the last three completed fiscal years, audit reports have been submitted to Parliament within 3 months after receipt of the report from the Ministry of Finance (score A). The content of audit completion certificates as well as recommendations and auditees' reports on the elimination of detected shortcomings and implementation of audit recommendations are published (score B). The independence of the Accounting Chamber is assured by the Constitution (Score B) but its full operation is constrained by potential ability to access data by its employees.

594. **Legislative scrutiny of audit reports is good (Score B) particularly on the timing of audit report scrutiny (Score A) and transparency of the scrutiny process (Score B).** However, hearing of audit findings and follow up of audit recommendations issued by Parliament, both scored C.

4.2. Effectiveness of the internal control framework

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

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

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

598. **There is an emerging risk-based approach supported by a developing internal and external audit and oversight function.** Risk assessment is becoming an important part of the control framework that applies to internal audit and analysis. Similarly, certain activities, such as advances and procurement receive a level of attention in the ex-ante control process. Audits related to payroll, which is a significant expenditure, are performed only once every three years although there are regular inspections to monitor the eligibility, timeliness and completeness of salary payments.

599. **Control activities are generally strong, in particular regarding reconciliation of accounts.** Segregation of duties requires better definition of responsibilities and an operational body focusing on financial data integrity processes. Budget rules for supplementary estimates and virement are met.

600. **Information and communication of internal control awareness is continuously promoted through the operation of separate central bodies dedicated to internal control and internal audit.** Monitoring is carried out through the processes of internal and external audit, with follow-up improving.

601. **Budget execution reporting system that provides information on performance relating to service delivery is strong (Score A), but the possibilities for performance-based analysis and allocation decisions are limited by the volume and quality of the information.** While internal and external audits are financial and compliance focused, independent performance audits are still poorly developed.

4.3. Strengths and weaknesses of PFM

Aggregate Fiscal Discipline

602. **Aggregate fiscal discipline is achieved due to control over spending during budget execution, as well as relatively realistic revenue forecasts.** Revenue administration ensures that revenues are efficiently collected, but the relative weaknesses in applying risk-based approaches to enforcement undermine overall discipline. The planned budget, on an aggregate basis, is not circumvented using virement and supplementary budgets. Treasury operations and cash management enables expenditures to be managed within the available resources. Control of contractual commitments is effective and has removed expenditure arrears. The external audit function enhances fiscal discipline.

Strategic allocation of resources

603. **The Chart of Accounts caters to a multi-dimensional analysis of expenditure.** However, there is an absence of a medium-term perspective in expenditure budgeting. Performance indicators are specified, and there is assessment and independent evaluation of performance achievement. Costed strategic plans aligned to the budget process are generally lacking. There is an emphasis on overall fiscal forecasting, but this does not extend to a multi-year fiscal strategy to assist in resource allocation. The public investment management lacks strategic allocation of resources and investment project costing.

Efficient use of resources for service delivery

604. **The strength in the procurement process is good and impacts on efficiency in service delivery though it may be possible to increase the percentage of contracts based on competitive bidding.** Weakness in the payroll system particularly with the integration of payroll and personnel systems may mean that staff is not used effectively. The strengths in the accountability mechanisms make external audits effective as counter checks on inefficient use of resources. The annual production of consolidated annual financial statements ensures the timely impact of audits. The monthly (and quarterly) budget execution reports also ensure that there is well-timed assessment of resource usage relating to the planned budget. Publishing of performance targets and outcomes and their achievements supports the efficient use of resources in service delivery units as does the evaluation of performance.

4.4. Performance changes since previous assessment

605. **The 2019 PEFA and the previous PEFA assessments were carried out using the 2016 methodology so it is possible to compare both sets of scores.** The detailed comparison is shown in Annex 1.

606. **The comparison of the assessments indicates that many indicators and dimensions have improved in fiscal discipline, strategic allocation of resources and efficient use of resources for service delivery.** The improved indicators are presented in Table 4.4a and show that 29 of the 94 dimensions over 21 of the 31 indicators improved (i.e., there were 21 indicators in which at least one dimension improved).

Table 4.4a. Improvements since previous PEFA assessment

Indicator	Dimension	Dim.#
Fiscal Discipline		
Aggregate expenditure outturn	Aggregate expenditure outturn	1.1
Expenditure composition outturn	Composition of expenditure by function Composition by economic type	2.1/2.2
Revenue outturn	Actual revenue aggregate composition	3.1/3.2
Predictability of in-year resource allocation	Significance of in-year budget adjustments	21.4
Strategic Allocation of Resources		
Budget documentation	Comprehensiveness of information included in budget documentation	5.1
Transfers to subnational governments	System for allocating transfers	7.1
Performance information for service delivery	Performance plans Performance achieved Performance evaluation	8.1/8.2/8.4
Public access to fiscal information	Public access to fiscal information	9.1
Public investment management	Economic analysis of investment proposals Investment project selection Project monitoring	11.1/11.2/11.4
Public asset management	Financial asset monitoring	12.1
Debt management	Debt management strategy	13.3
Macroeconomic and fiscal forecasting	Macroeconomic forecasts	14.1
Fiscal strategy	Fiscal strategy adoption	15.2
Medium-term perspective in expenditure budgeting	Alignment of strategic plans	16.3
Efficient Use of Resources for Service Delivery		
Expenditure arrears	Stock of expenditure arrears	22.1
Payroll controls	Management of payroll changes	23.2
Internal controls on nonsalary expenditure	Compliance with payment rules and procedures	25.3
Internal audit effectiveness	Coverage of internal audit Response to internal audits	26.1/26.4
Annual financial reports	Completeness of annual financial reports	29.1
External audit	Audit coverage and standards External audit follow-up	30.1/30.3
Legislative scrutiny of audit reports	Timing of audit report scrutiny	31.1

607. **Four dimensions in four indicators deteriorated since the last PEFA.** The time for budget preparation was shortened, there was a reduction in competitive procurement bidding and fewer payroll audits compared to the previous PEFA. The difference relating to advance accounts may well be due to stricter application of the scoring methodology as the process has not changed (see Table 4.4b).

Table 4.4b. Deterioration since previous PEFA assessment

Indicator	Dimension	Dim.#
Budget preparation process	Budget calendar	17.1
Payroll controls	Payroll audit	23.4
Procurement management	Procurement methods	24.2
Financial data integrity	Advance accounts	27.3

5. Government PFM reform process

5.1. Approach to PFM reforms

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

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

- (i) Adhering to general budget and taxation discipline in the medium-term;
- (ii) Increasing the efficiency of reallocating resources when setting state policy;
- (iii) Ensuring the efficient execution of the State Budget; and
- (iv) Increasing transparency and accounting in public financial management.

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

610. **Positive developments and remaining gaps in the implementation of the 2017-2020 PFM Reform Strategy are summarized in Table 5.1:**

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

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

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

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

612. **The key tasks of the PFM Strategy are to be updated and re-prioritized in 2020.** This will follow the comprehensive PFM system assessment through the 2019 PEFA Assessment.

5.2. Recent and on-going reform actions

613. **Overall, reforms across the Ukrainian PFM system have proceeded gradually and progressively.** Specifically, the Government has made progress in:

- (i) Implementing medium-term budget planning;
- (ii) Integration of International Public Sector Accounting Standards (IPSAS) into Ukraine's statutory framework and the adoption of the 2025 public sector accounting (PSA) strategy;
- (iii) Improving macroeconomic and budget forecasting tools;
- (iv) Increasing transparency in public financial management through the introduction of an open budget portal;
- (v) Fiscal risk management, and
- (vi) Gradually introducing a gender-oriented approach to budgeting.

614. **These reform initiatives have been implemented with the wider support of international donors, including the EU, the World Bank, IMF, GIZ, and SIDA.**

615. **The New Budget Code provisions introduced the medium-term budget declaration, which is to be adopted by the Government.** This declaration is the key strategic document in PFM and consists of a broad list of information including key macroeconomic indicators, revenues, financing, expenditures (including budget ceilings for key spending units), performance indicators, the amount of public investment and an evaluation of fiscal risks. In addition to the budget declaration, a fiscal risk report is to be submitted to the Parliament among other supplementary documents for the annual Law on the State Budget. The introduction of expenditure reviews is aimed at analyzing the efficiency of budget expenditures. The Government is to consider the results and recommendations of such reviews while developing budget declarations and laws on the State Budget.

616. **The 2017-2020 PFM Reform Strategy also includes a gender-oriented approach in budgeting as part of medium-term and program budgeting.** The Ministry of Finance has been working to incorporate a gender-oriented approach in budget processes since 2014 and issued the Order on the Application of Methodological Recommendations for a Gender Oriented Approach in early 2019. All key spending units are to follow that order.

5.3. Institutional considerations

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

- (i) Implementation of the medium-term budget framework in the national and local budgets,
- (ii) Fiscal risk management, and
- (iii) Expenditure reviews following a decision from the Cabinet.

Annexes

Annex 1: Performance indicator summary

COUNTRY NAME: UKRAINE		Current assessment		Previous assessment (applying PEFA 2016 framework)	
Pillar	Indicator/Dimension	Score	Description of requirements met	Score	Explanation of change (including comparability issues)
Budget Reliability	PI-1 Aggregate expenditure outturn	A	Expenditure outturns deviation was below 5 percent in 2016-2018. The average annual variations across categories were 2.6 percent in 2016, 4.9 percent in 2017, and 0.6 percent in 2018.	B	There was a significant improvement in fiscal discipline since 2015 PEFA assessment. The Government's efforts to undertake fiscal consolidation succeeded resulting in improvement of the score.
	PI-2 Expenditure composition outturn	B+	Scoring Method M1	C+	Scoring Method M1
	(i) Expenditure composition outturn by function	B	Variance was below 10 percent in the last three completed fiscal years. The average annual variations across categories were 6.2 percent in 2016, 5.2 percent in 2017, and 6.3 percent in 2018.	C	The variations in budget outturns became considerably smaller underscoring the improved fiscal discipline during 2016-2018.
	(ii) Expenditure composition outturn by economic type	B	Variance was below 10 percent in the last three completed fiscal years. The average annual variations across categories were 5.8 percent in 2016, 6.8 percent in 2017, and 7.0 percent in 2018.	C	
	(iii) Expenditure from contingency reserves	A	The actual expenditure charged to contingency fund did not exceed 1 percent of the original budget in the last three completed fiscal years.	A	The average amount of expenditure changed to a contingency vote remained low and continued to get an A score.
	PI-3 Revenue outturn	B+	Scoring Method M2	C	Scoring Method M2
(i) Aggregate revenue outturn	A	The actual revenue was between 97 to 106 percent in 2 of the last three completed fiscal years, with the highest deviation in 2017. The deviation in 2016 was 3.5 percent, in 2017 – 8.5 percent, and in 2018 – 1.1 percent.	C	The indicator score improved since 2015 reflecting better and at the same time more conservative revenue forecast as well as economic recovery.	
(ii) Revenue composition outturn	B	Revenue composition variance was less than 10 percent in the last three completed fiscal years. The variance in 2016 was 9.7 percent, in 2017 – 9.6 percent, and in 2018 – 8.2 percent.	C		

COUNTRY NAME: UKRAINE		Current assessment		Previous assessment (applying PEFA 2016 framework)	
Pillar	Indicator/Dimension	Score	Description of requirements met	Score	Explanation of change (including comparability issues)
Transparency of public finances	PI-4 Budget Classification	A	The budget process, execution of the budget and reporting on its execution are based on all classifications which meet the requirements of the IMF Government Finance Statistics Manual/Classification of the Functions of Government. Moreover, programmatic classification is applied.	A	No significant changes in the budget classification were observed.
	PI-5 Budget Documentation	A	Budget documentation contains 10 of 12 elements, including all basic ones. Each of them is available to the public. As part of macroeconomic assumptions, forecast indicators of the exchange rate and interest rates are given only for the planned year.	B	Information on the medium-term forecast and on the assessment of tax expenditures was included in budget documentation. This affected the improvement of the score from B to A.
	PI-6 Central government operations outside financial reports	C	Scoring Method M2	D+	Scoring Method M2 The previous score was aggregated as an M1 and should have been scored C
	(i) Expenditure outside financial reports	D	The share of EBOs in CG expenditures is 28.1 percent in 2018	D	There are no significant changes.
	(ii) Revenue outside financial reports	D	EBO revenues are above 25 percent of budgetary central government in 2018	D	There are no significant changes.
	(iii) Financial reports of extrabudgetary units	A	According to Budget law, the reporting of EBOs is now done to both the Executive and to the Legislature, and reporting requirement is complied with. Quarterly and annual EBO reports are to be disclosed, however, there are slippages in compliance with this requirement. Data on all EBOs is included into ex-post report and detailed at least at the level of GFS economic classification or equivalent	A	In 2017 the Temporary Disability Social Insurance Fund and the Industrial Accident and Occupation Disease Social Insurance Fund were merged in one fund – the Social Insurance Fund of Ukraine. In order to unify accounting and financial statements (also in Funds), a Chart of Accounts for Public Sector Accounting and National Public Sector Accounting Policy Standard 101 “Presentation of Financial Statements” have been approved; they came into effect from 2016. Consequently, the Funds started compiling the same financial statements as all other spending units, which improved reports comparability. The reporting requirements for the funds expanded, and now include reporting to both the legislative and executive branches.

PI-7	Transfers to subnational governments	B	Scoring Method M2	C+	Scoring Method M2
	(i) System for allocating transfers	A	In 2018, 94 percent of the intergovernmental transfers were distributed on the basis of transparent rules.	B	Score improved from B to A since the ratio of transfers allocated based on a formula approach exceeds 90 percent of total transfers.
	(ii) Timeliness of information on transfers	C	Local governments have received the estimates of intergovernmental transfers approved by the Parliament after the established deadline.	C	There are no significant changes.
PI-8	Performance information for service delivery	A	Scoring Method M2	C+	Scoring Method M2
	(i) Performance plans for service delivery	A	Key Spending Units (KSUs) annually publish information on planned program objectives, outputs, outcomes, and KPIs.	B	Methodology refined, and with improvement in actual performance.
	(ii) Performance achieved for service delivery	A	Reports on performance achieved are published annually but deviations from the plan are not always explained and reports do not include basis for comparability over time.	C	Methodology refined, improvement in the amount of information generated.
	(iii) Resources received by service delivery units	A	Information on all resources received and used by service delivery units (SDUs) across sectors are recorded and available from the CG and SNG accounting systems.	A	No change in performance.
PI-9	(iv) Performance evaluation for service delivery	B	Independent evaluations and audit of programs have been carried out and published.	D	KSUs have started publishing assessment results of program performance. Spending reviews have been introduced for the first time in 2018. Efficiency audits are carried out and published but the degree of conformance with the relevant ISSAIs could not be confirmed due to insufficient evidence.
	Public access to information	A	The Government discloses all the basic elements and four additional ones.	B	Compared to the assessment made in 2015, the rating improved from B to A, since the requirement for the publication of the Summary of the Budget Proposal (citizen's budget) was observed in the last fiscal year, while this was not complied with in the previous assessment. However, legislation does not require such publication, so there is a risk of non-compliance with the requirement in future. Due to the change in the methodology, another extra element is observed: publication of the macroeconomic forecast (according to the PEFA methodology, under which the previous assessment was conducted, the publication of the medium-run budget was assessed).

COUNTRY NAME: UKRAINE		Current assessment		Previous assessment (applying PEFA 2016 framework)		
Pillar	Indicator/Dimension	Score	Description of requirements met	Score	Explanation of change (including comparability issues)	
Management of assets and liabilities	PI-10	Fiscal risk reporting	C	Scoring Method M2 The GoU receives annual financial statements from all public corporations within nine months of the end of the fiscal years.	C+	Scoring Method M2 There are no changes.
		(i) Monitoring of public corporations	C		C	
		(ii) Monitoring of subnational government (SNG)	C	Unaudited reports on the financial position and performance of all subnational governments are published at least annually within nine months of the end of the FY.	A	While the previous PEFA scored this dimension as A it was not based on the PEFA scoring methodology relating to annual reports. There is no change.
		(iii) Contingent liabilities and other fiscal risks	NA	The GoU does not have significant contingent liabilities as defined by the PEFA framework.	D	There are no significant changes even though the previous PEFA scored this D instead of N/A.
	PI-11	Public investment management	C+	Scoring Method M2	D+	Scoring Method M2 The previous score was aggregated as an M1 and should be scored D
		(i) Economic analysis of investment proposals	C	The economic analysis of the major investment project defined as per PEFA framework was carried out, but the results were not published. The analysis was reviewed by an independent body.	D	Due to the implementation of changes to the Budget Code and the new procedure for evaluation and selection of public investment projects.
		(ii) Investment project selection	A	Selection of the major investment project was carried out according to the published standard criteria.	D	Due to the implementation of changes to the Budget Code and the new procedure for evaluation and selection of public investment projects.
		(iii) Investment project costing	D	The MoE shared the projection of the total capital cost of the major investment project sent to the Budget Committee of the Parliament as part of the selection process. However, this cost was not included into the budget documentation. Expenditures for implementing the major project are calculated for three years, but the budget documentation contained the information for a forthcoming year only.	C	There are no significant changes.
		(iv) Investment project monitoring	C	Monitoring of implementation of the major public investment project was carried out in accordance with established procedures; however, results were not published.	D	Due to the implementation of changes to the Budget Code and the new procedure for the monitoring of public investment projects.

PI-12	Public asset management	B	Scoring Method M2	C+	Scoring Method M2
		B	GoU maintains a record of its holdings in all categories of financial assets, which are recognized at fair value. However, information on the performance is published annually only for the major categories of the financial assets.	C	There is an improvement in recording.
		C	GoU maintains a register of its holdings in fixed assets and collects partial information on their age, and usage.	C	There are no significant changes.
		B	Procedures and rules for the transfer and disposal of nonfinancial assets are established. Information on transfer and disposal is included in the budget documents and other reports.	B	There are no significant changes.
PI-13	Debt management	A	Scoring Method M2	B+	Scoring Method M2
		A	The recording of internal and external debt obligations is complete, accurate, and relevant; monthly reconciliations are in place to ensure the reliability and adequacy of the data. At least once a quarter, management and statistical reports (covering debt servicing, and existing debt obligations and transactions) are drawn up.	A	There are no significant changes.
		A	According to the Budget Code, the Government's borrows and provides state guarantees within the limits of the total amount of debt obligations and the total amount of guarantees allowed as part of the State Budget law and are always approved by the sole government body responsible for this.	A	There are no significant changes.
	(iii) Debt management strategy	B	The medium-term strategy has been developed and approved by the Government but does not determine targets for borrowing indicators. Reporting to the legislature on actual results in comparison with the debt management objectives defined by the strategy is not legally stipulated and does not take place.	C	The last strategy determines the targets ranges for interest rates, refinancing and currency risks based on a thorough analysis of debt acceptability.

COUNTRY NAME: UKRAINE		Current assessment		Previous assessment (applying PEFA 2016 framework)		
Pillar	Indicator/Dimension	Score	Description of requirements met Scoring Method M2	Score	Explanation of change (including comparability issues) Scoring Method M2	
Policy-based fiscal strategy and budgeting	PI-14 Macroeconomic and fiscal forecasting	A	Indicative major macro-economic indicators are used to project the two budget periods following the planned one. The forecast is discussed in the explanatory note to the budget including underlying assumptions and scenarios. The projections are prepared by the MoE and reviewed and approved by the full Cabinet.	B+	The details provided to the Parliament as part of the budget submission improved and include explanation of assumptions underlying the macroeconomic forecast as well as three scenarios.	
		A		B		
		B	The government prepares forecasts of the main fiscal indicators, including revenues (by type), aggregate expenditure, and the budget balance, for the budget year and two following fiscal years. Forecasts and underlying assumptions are included in budget submission.	B	The comprehensive process for medium-term fiscal forecasting, including revenues, for the State budget for the two years following the upcoming budget year has been fully implemented, which was not the case during 2015 assessment.	
	PI-15 Fiscal strategy	(iii) Macro-fiscal sensitivity analysis	A	The government prepares a range of fiscal forecast scenarios based on alternative macro-economic assumptions, and these scenarios are published, together with its central forecast.	A	There are no significant changes.
		(i) Fiscal impact of policy proposals	D+	Scoring Method M2	D+	Scoring Method M2
		(ii) Fiscal strategy adoption	C	The MoF undertakes assessment of impact of draft laws on budget, however impact on the budget is only assessed for one budget year.	C	There are no significant changes.
	PI-16 Medium-term perspective in expenditure budgeting	(iii) Reporting on fiscal outcomes	C	Fiscal rules provide for quantitative fiscal objectives on debt and budget balance.	D	The score has improved due to improvement in the fiscal impact assessment methodology implemented mid 2018.
		(i) Medium-term expenditure estimates	D	There was no reporting on fiscal outcomes outside of the budget execution reports.	N/A	There is no change from the previous PEFA as the circumstances are the same.
			D+	Scoring Method M2	D	Scoring Method M2
			D	Key spending units compile detailed calculations of mid-term expenditure for all budget classifications and submit them to the Ministry of Finance as part of budget requests. Estimates for the outer years are not presented in the annual budget.	D	There are no changes.

COUNTRY NAME: UKRAINE		Current assessment		Previous assessment (applying PEFA 2016 framework)		
Pillar	Indicator/Dimension	Score	Description of requirements met	Score	Explanation of change (including comparability issues)	
Policy-based fiscal strategy and budgeting	PI-18 Legislative scrutiny of budgets (i) Scope of budget scrutiny (ii) Legislative procedures for budget scrutiny	D+	Scoring Method M1	D+	Scoring Method M1	
		B	The Parliament rather thoroughly reviews the budget law. However, mid-term budget forecasts and mid-term priorities are not considered in this process.	B	There are no changes.	
		D	The timetable for consideration of the draft Law on the State Budget for 2019 was approved by the Budget Committee of the Parliament before the Parliament received the draft State Budget law. However, it was not adhered to, which significantly reduced the time for the Budget Committee to consider the draft law prepared for the second reading and to formulate a corresponding opinion. Procedures do not stipulate mechanisms for public consultations.	D	There are no changes.	
		A	The State Budget law in each of the previous three years was approved before the beginning of the fiscal year.	A	There are no changes.	
	PI-19	(iv) Rules for budget adjustments by the executive	B	In some cases, the Budget Code allows redistributing the expenditure without amending the State Budget law during a year. There are clear limits to this redistribution that are always respected but there no limits set.	B	There are no changes.
			B	Scoring Method M2	B	Scoring Method M2
			A	There is sufficient information provided on all procedures, obligations and rights.	A	There are improvements in communication with taxpayers that took place since 2015.
			C	There is no comprehensive risk management system utilized by SFS, however some elements of risk management such as risk based selection of tax audits and customs inspections are in place.	C	There is also ongoing work on compliance management. The SFS has approved the Concept on risk management in tax in July 2018, which lays out risks in both tax compliance and organizational risks of SFS. This work is currently at the early stage, but going forward can provide an important umbrella to comprehensive risk management.
	PI-19	(iii) Revenue audit and investigation	C	Ukraine utilizes a target driven approach to revenue collection, however audit and investigation activities are performed, and plans exist and are followed.	C	There is no comprehensive compliance improvement plan. The majority of audits are carried out according to documented audit plan.

Predictability and control in budget execution						
PI-20	(iv) Revenue arrears monitoring	B	Stock of revenue arrears at the end of the last completed fiscal year is below 10 percent of the total revenue collection of the year and the revenue arrears older than 12 months are less than 50 percent of the total revenue arrears.	B	There are no changes.	
	Accounting for revenues	A	Scoring Method M1	A	Scoring Method M1	
	(i) Information on revenue collections	A	Data on over 90 percent of revenue is available to the Ministry of Finance in real time.	A	There are no changes.	
	(ii) Transfer of revenue collections	A	All tax and customs payments are paid to the account of the respective agency in the State Treasury and thus transfer is immediate.	A	There are no changes.	
	(iii) Revenue accounts reconciliation	A	The SFS reconciles revenue data with the Treasury. Reconciliation happens on the fourth day of the month following the reporting one.	A	The reconciliation process was changed to ensure more timely data reconciliation between the Treasury and SFS, however the 2015 reconciliation met the A score requirements, this no changes in score.	
	Predictability of in-year resource allocation	A	Scoring Method M2	B+	Scoring Method M2	
	(i) Consolidation of cash balances	A	Treasury consolidates all cash balances on a daily basis.	A	No changes in performance are observed.	
	(ii) Cash forecasting and monitoring	A	A comprehensive annual cash flow forecast is developed and updated monthly based on actual cash inflows and outflows.	A	No changes in performance are observed.	
	(iii) Information on commitment ceilings	A	Spending units receive reliable information more than six months in advance by which they can commit funds within their annual budget allocations and make payments within monthly limits.	A	No changes in performance are observed.	
	(iv) Significance of in-year budget adjustments	A	Changes to the annual budget are made in a fairly transparent manner and are below the significance threshold.	C	A reduction in the number of changes to the annual budget as well as the significance of the value of those changes contributed to an improvement in the rating score for dimension 21.4 relative to the previous assessment.	
PI-22	Expenditure arrears	B+	Scoring Method M1	B+	Scoring Method M1	
	(i) Stock of expenditure arrears	A	The ratio of expenditure arrears for the last three fiscal years was less than 1 percent.	B	Arrears have decreased.	

COUNTRY NAME: UKRAINE		Current assessment		Previous assessment (applying PEFA 2016 framework)	
Pillar	Indicator/Dimension	Score	Description of requirements met	Score	Explanation of change (including comparability issues)
Predictability and control in budget execution	(ii) Expenditure arrears monitoring	B	Data expenditure arrears is formed on a monthly and annual basis. The Treasury draws up and submits such monthly reports to the Parliament, President, Accounting Chamber, Cabinet and Ministry of Finance within a maximum term of eight weeks from the end of the quarter (no later than the 1st day of the second month following the reporting period). SFS generates VAT refund reports, including such refund arrears, on a monthly basis.	B	No changes in performance are observed.
	PI-23 Payroll controls	D+	Scoring method M1	D+	Scoring Method M1
		D	Information on manning tables, personnel and labor remuneration is accounted for separately. Information about the payroll, as a rule, is recorded in a computer accounting system, and information on personnel can be accounted for both manually and in a separate computer system. Information on manning tables is recorded manually. There is no reconciliation of the payroll with the personnel records.	D	There are no significant changes.
	(ii) Management of payroll changes	B	Responsible departments update the payroll to reflect changes in information on staff within the period of up to three months. There are few retrospective adjustments to the payroll.	C	The score has improved from C to B since there was no large-scale reorganisation of the executive branch (the process exposed to frequent retroactive payroll adjustments) in place at the time of the assessment compared with the previous PEFA assessment under Resolution of the Cabinet On Optimisation of the System of Central Executive Authorities No. 442 of 10 September 2014.
(iii) Internal control of payroll	A	Budget institutions have clear and detailed rules and procedures for making changes to staff information and payroll, which include signatures of authorized persons and provide for clear audit trails.	A	There are no significant changes.	
(iv) Payroll audit	C	The State Audit Service and the Accounting Chamber check the payroll on a regular basis within the framework of regular financial audits. The latter are held on average once every three years – within the framework of integrated checks of budget programs, under which the labor is paid.	A	The score deteriorated from A to C, as the SAS and the Accounting Chamber audited the payroll at least once during the past three fiscal years. During the 2015 evaluation, this frequency was once in 18 months.	

PI-24	Procurement (i) Procurement monitoring	A	Scoring Method M2 Data is entered in databases (or accounting bases) on the contracts representing at least 90 percent of the value of procurement of goods, services, and works by value, in particular information about what was procured, the amount and price of a contract, where information on the cost of a contract is available not only for each individual contract (as it was the case in 2015) but also for every given customer, supplier, procurement item, etc. Information on procurement whose value exceeds the thresholds set by the Law of Public Procurement (LPP) and low-value procurement (below the thresholds under LPP) is made public in the electronic procurement system.	A	Scoring Method M2 No change of results is observed.
		B	In 2018, 78.1 percent of the total cost of all public procurement covered by LPP was made on a competitive basis using electronic auctions (open bidding, competitive dialogue, etc.).	A	The previous PEFA indicated 88.4 per cent was via competitive bidding.
		A	Information is available and exceeds the requirements for the criteria.	A	No change of results is observed.
		A	The complaint settlement framework meets all the dimension criteria.	A	No change of results is observed.
PI-25	Internal controls on nonsalary expenditure (i) Segregation of duties	B+	Scoring Method M2	B	Scoring Method M2
		C	For part of the procedures segregation of duties is regulated at the legislative level, while in other cases the necessary duty segregation is regulated at the institution level. 38 percent of the agencies, when submitting reports to the Ministry of Finance on the status of organization and functioning of internal control, failed to provide information on the existence of rules and procedures for authorization and verification by way of obtaining permission from the responsible persons to perform transactions using the procedure of signing, agreement and approval.	C	There are no significant changes.

COUNTRY NAME: UKRAINE		Current assessment		Previous assessment (applying PEFA 2016 framework)	
Pillar	Indicator/Dimension	Score	Description of requirements met	Score	Explanation of change (including comparability issues)
Predictability and control in budget execution	(ii) Effectiveness of expenditure commitment controls	A	In accordance with internal procedures, budget spending units execute control with the purpose that budget commitments are made only within the budget limits and monthly budget allocations. The Treasury IT System is used in public administration institutions at all levels and includes a module that envisages registration of all budget commitments and their accounting only in cases when they are within the budget allocations of the appropriate spending unit.	A	There are no significant changes.
	(iii) Compliance with payment rules and procedures	A	There is a link between accounting of commitments and payments. Inappropriate and ineffective use of budgetary funds were less than 10 percent of the State Budget expenditures.	B	The score clarified in accordance with the requirements of assessment.
	PI-26 Internal audit effectiveness	C+	Scoring Method M1	Scoring Method M1	D+
	(i) Coverage of internal audit	A	The Internal Audit function is implemented in 100 percent of central executive authorities (which are not under liquidation or reorganization). During 2018, 11 out of 65 authorities (two of them were newly established) had vacancies in internal audit divisions. However, the total amount of the State Budget expenditures in these institutions constituted only about 2 percent of overall State Budget expenditures in 2018, and 98 percent of State Budget expenditures in 2018 were covered by internal audit. Therefore, given the risk-based approach to internal audit, above 98 percent of the budget expenditures are considered covered by the scope of internal audit, as all these expenditures could be picked during internal audit for review. While as staffing issues existed in 2018, they did not materially affect the coverage of internal audit. The internal audit function is operational in CG entities which cover over 90 percent of CG revenue.	D	Coverage of internal has significantly improved.

	<p>The new approach based on risk assessment was introduced in December 2018 and its effectiveness and the level of implementation is difficult to assess yet.</p>	<p>There are no significant changes.</p>	<p>Since 83 percent of the recommendations were implemented in the reporting period, the score is B.</p>
	<p>Overall the Internal audit function has systematic nature and provides for assessing the effectiveness of internal control processes in the public organizations. The practical introduction of IAU's is described by the Ukrainian Internal Audit Standards which are based on IIA. Methodical recommendations and Guidelines on conducting internal audit procedures were also updated to be more aligned international standards in 2018.</p>	<p>In 54 executive bodies with the functioning internal audit, 100 percent of audit plans were implemented in 89 percent of central executive authorities, 11 percent of authorities had implemented their audit plans partly. Authorities that partly implemented their audit plan are those authorities where the internal audit function was not fully and continuously staffed in 2018. The total amount of the State Budget expenditures in such institutions with lacking internal audit staff constituted only about 2 percent of overall State Budget expenditures in 2018. staff. In December 2018 two types of IA plans were introduced: strategic plan covering a three-year period, and operational plan covering one-year period. Both types of audit plans are submitted to the Ministry of Finance and are made publicly available on the authorities' web-pages. Reports on the audit plans implementation is submitted to the Ministry of Finance.</p>	<p>16,666 recommendations were issued as a result of internal audits in the Central State Authorities in 2018. 99.6 percent of the recommendations were accepted by the audited authorities. 83 percent of recommendations were confirmed to be implemented within required timeframe, and about 16 percent were not implemented within the required time frame (either not implemented or implemented after the due date).</p>
<p>(ii) Nature of audits and standards applied</p>	<p>C</p>	<p>B</p>	<p>C</p>
<p>(iii) Implementation of internal audits and reporting</p>	<p>B</p>	<p>B</p>	<p>B</p>
<p>(iv) Response to internal audits</p>			

COUNTRY NAME: UKRAINE		Current assessment		Previous assessment (applying PEFA 2016 framework)	
Pillar	Indicator/Dimension	Score	Description of requirements met	Score	Explanation of change (including comparability issues)
Accounting and Reporting	PI-27 Financial data integrity (i) Bank account reconciliation	B+	Scoring Method M2 Bank accounts are reconciled by all active bank accounts of the CG on a daily basis at the general and analytical levels, which is solved by including the bodies of the State Treasury Service into a single system of electronic payments of the National Bank. The latter causes the need for daily reconciliation of indicators.	A	Scoring Method M2 There are no significant changes.
		A	In Ukraine, accounts are used to record revenue or expenditure whose purpose is not identified. The purposes of unidentified amounts are determined on a daily basis. Such accounts are closed in time, until the end of the reporting interim and annual periods, if the purpose is not identified immediately.	N/A	The assessment score has been verified against the State Treasury's practical use of the specified accounts.
		B	Advance accounts are reconciled monthly on the basis of reporting about arrears of budget-sustained institutions. Much of the accounts receivable due to a prepayment made towards budget funds is closed in time, except for certain complex cases.	A	The analysis of annual reporting of public sector entities debts has shown arrears in receivables for budget-funded prepayments, which corresponds to a B score. The assessment criterion is that not all receivables are repaid as at the end of the reporting period.
		B	Access and changes to records is restricted and recorded, and results in an audit trail, but there is no operational body in charge of verifying financial data integrity.	B	There are no significant changes.
PI-28	In-year budget reports (i) Coverage and comparability of reports	B+	Scoring Method M1 The coverage of reports and the classification of indicators contained therein makes it possible to directly match them with the approved budget. The information includes all metrics contained in the approved budget. Reports include expenditures in the form of transfers in favor of decentralized subdivisions within the CG.	B+	Scoring Method M1 There are no significant changes.
		A		A	

Pillar	COUNTRY NAME: UKRAINE Indicator/Dimension	Current assessment		Previous assessment (applying PEFA 2016 framework)	
		Score	Description of requirements met Scoring Method M1	Score	Explanation of change (including comparability issues) Scoring Method M1
External scrutiny and audit	PI-30 External audit (i) Audit coverage and standards	B+	During the last three years, ACU has verified reports of the CG, having analyzed budget expenditure and revenue, respecting the Financial Audit Guidelines approved by ACU and developed on the basis of International Standards of Supreme Audit Institutions (ISSAI). At the same time, reports of the ACU emphasize not only significant deficiencies and violations but also auditees' general and specific risks.	C+	In the past five years, the Accounting Chamber (ACU) has extensively studied the ISSAI Framework to prepare the ground for its practical implementation. Notably, the study resulted in the approval of ISSAI-based financial audit methodology recommendations. In addition, ACU has audited the CG financial reports to identify systemic and control risks.
	(ii) Submission of audit reports to the legislature	A	According to the website of BC and data provided by VRU for analysis, ACU submitted audit reports within three months upon receipt of financial statements from the Cabinet.	A	There are no significant changes.
	(iii) External audit follow-up	B	Based on audit findings, ACU provides recommendations and comments. Auditees have to report back to ACU on how they addressed them. Key results of addressing the recommendations and flaws are published by ACU on its website. ACU timely, fully, in the form of official decisions and letters of governmental authorities, receives information about the fulfillment of recommendations provided in ACU's opinion.	C	Over the past three completed fiscal years, entities subject to ACU's audit as well as the Cabinet and ministries to whom such entities report to, provided official, exhaustive and timely information compliant with ACU's specific recommendations and observations. This information is available on a separate page of ACU's official website. ACU has also put in place a system to track the implementation of audit observations and recommendations.
	(iv) Supreme Audit Institution (SAI) independence	B	According to the Law of Ukraine on the Accounting Chamber adopted in 2015, ACU is the body independent of the Government in all the following essential aspects: (i) determination and election of ACU members; (ii) independence in planning audits and making public audit findings; and (iii) budget planning and execution. The auditors of ACU are also granted access to all documents and information required for auditing.	B	ACU has become independent according to Supreme Audit Institution independence criteria. Significant changes include, among others, (i) ACU's ability to act independently of the government executive in terms of its management and audit of government reports, and (ii) ACU's independence enshrined in law and implemented de facto.

Annex 2: Summary of observations on the internal control framework

Internal control components and elements	Summary of observations
Control Environment	
1.1 The personal and professional integrity and ethical values of management and staff, including a supportive attitude toward internal control constantly throughout the organization	<p>The basic principles for implementing internal controls by the budget spending units were approved by Resolution of the Cabinet # 1062, dated December 12, 2018. These principles regulate: (i) listing of tasks and functions, their segregation and assigning to performers; (ii) establishing authorization and confirmation procedures (obtaining permissions from responsible officials to carry out operations by means of signing, confirming, or approving of documents); (iii) the segregation of duties between employees to reduce the risks of mistakes or wrongful acts and timely detection of such actions. Established guidelines prescribe that internal controls in an institution is based on the principle of responsibility and sharing of powers, which means sharing of duties between the management of the institution and its employees, establishing boundaries of their responsibility in the decision-making process or when performing other actions. Control measures are carried out at all levels of the institution's activities and for all functions and tasks and include relevant rules and procedures. The State Audit Service is responsible for internal control.</p> <p>The Budget Code 2010, art. 26; Cabinet Decree No. 1001 (with amendments introduced by the Cabinet Decree 1062 on December 12, 2018), National Internal Audit Standards and Code of Ethics, MoF Ordinance #480 of 2017 on the Procedure of assessment by the Ministry of Finance of the internal audit systems provide the regulatory framework upon which Internal Audit Units have been established.</p>
1.2 Commitment to competence	<p>In January 1, 2017 the function of the harmonization of the state internal financial control was shifted from the State Audit Service to the Ministry of Finance and its Department of the State Internal Financial Control Harmonization. The existence of the Central Harmonization Unit indicates a commitment to competence in implementing internal controls and is evidence by the improvement in scores in PIs 25 and 26 from the previous assessment.</p>
1.3 The 'tone at the top' (i.e. management's philosophy and operating style)	<p>There is a positive approach to implementing internal controls as evidenced by the organisational structure which will be strengthened by ensuring that there is greater response to recommendations.</p>
1.4 Organizational structure	<p>The roles of the various parties involved in the financial management control system are established in the Budget Code Law and Decrees relating to on Public Internal Financial Control and Internal audit. The Ministry of Finance and the Council of Ministers are the authorized bodies which, through the Harmonization Unit promote the establishment and development of public internal control systems and carries out coordination and harmonization policies and procedures.</p> <p>The government is taking practical steps towards the development of the management accountability and delegation of tasks in accordance with the Decree on Internal Audit. Full implementation of the requirements of this Decree and alignment with international good practices will take time. All public sector units have yet to must establish an organizational structure that enables the achievement of the objectives and compliance with the functions assigned to the activity.</p>

Internal control components and elements	Summary of observations
Human resource policies and practices	A cadre of professional in internal audit and financial control is in place and follows standard public sector policies and practices. However as of the 1 st of January 2019, the Internal Audit function has been established in 54 out of 65 Central Executive Authorities (83%). MoF indicated that the lack of IA staff of about 23 percent yearly remains to be an issue. As of January 1, 2019, 11 out of 65 authorities (two of them were newly established) had vacancies in internal audit divisions. However these were in small departments.
Risk assessment	
2.1 Risk identification	<p>Several PIs are related to the extent to which risks are identified, notably:</p> <p>Economic Analysis of Investment Proposals is rated C in 11.1 – Economic analyses of the major investment project conducted but the results were not published.</p> <p>Debt Management Strategy is rated B in 13.3 –The Debt Management Strategy has yet to set targets.</p> <p>Macro-fiscal sensitivity analysis is rated A in 14.3 – The government prepares the scenarios of fiscal forecasts on the basis of alternative macroeconomic assumptions, and these scenarios are reflected in the published budget documentation together with forecasts.</p> <p>Revenue Risk Management is rated C in 19.2 – Entities collecting most revenues have yet to use a comprehensive, structured and systematic approach for assessing and prioritizing compliance risks for all categories of revenue and, as a minimum for their large and medium revenue payers.</p> <p>Cash Flow Forecasting and Monitoring is rated A in 21.2 – A comprehensive cash flow forecast is developed and updated routinely but is limited to the calendar month.</p>
Risk assessment (significance and likelihood)	See risk identification (2.1 above)
Risk evaluation	<p>In 2018, 48 out of 65 authorities achieved 100 percent implementation of their IA plans, while 6 authorities did not implement the IA plans in full. This was due to either lack of staff or having audits in progress as of the reporting date; 11 authorities were missing an internal audit function due to the absence of IA staff. I.e., out of 54 executive bodies where internal audit functioned, 100 percent of audit plans were implemented in 89 percent of central executive authorities, 11 percent of authorities had implemented their audit plans partly. At the same time, a small number of audits were not completed (18 audits), or 1 percent of the planned.</p> <p>(Implementation of internal audits and reporting – 26.3 rated B).</p>
2.4 Risk appetite assessment	The development and implementation of identification and assessment of risk indicates a positive risk appetite which will grow as these become more mature.
2.5 Responses to risk (transfer, tolerance, treatment, or termination)	Standard public sector HR policies are in place throughout the areas of control.

Internal control components and elements	Summary of observations
Control activities	
3.1 Authorization and approval procedures	<p>Financial data integrity processes are rated B in 27.4. Access and changes to records is restricted and recorded, and results in audit trail. There is no unit or team in charge.</p> <p>Recording and reporting of debt and guarantees are rated A in 13.1. Domestic and foreign debt and guaranteed debt records are complete, accurate, updated, and reconciled monthly. Comprehensive management and statistical reports covering debt service, stock, and operations are produced monthly.</p> <p>Approval of debt and guarantees are rated A in 13.2. Primary legislation grants authorization to borrow, issue new debt, and issue loan guarantees on behalf of the CG to a single responsible debt management entity. Documented policies and procedures provide guidance to borrow, issue new debt and undertake debt-related transactions, issue loan guarantees, and monitor debt management transactions by a single debt management entity. Annual borrowing must be approved by the government or legislature.</p> <p>Effectiveness of expenditure commitment controls is rated A in 25.2. Commitment control applies to all payments made from the TSA. Actual expenditures incurred is in line with approved budget allocations and does not exceed committed amounts and projected available cash resources.</p> <p>Integration of payroll and personal records is rated D in 23.1. Information on manning tables, personnel and labor remuneration is accounted for separately. There is no reconciliation of the payroll with the personnel records.</p> <p>Management of payroll changes is rated B in 23.2. Personal records are updated at least quarterly with few retroactive changes.</p> <p>Compliance with payroll payment rules and procedures is rated A in 23.3. Budget institutions have clear and detailed rules and procedures for making changes to staff information and payroll, which include signatures of authorized persons and provide for clear audit trails.</p>
3.2 Segregation of duties (authorizing, processing, recording, reviewing)	<p>Segregation of duties is rated C in 25.1. For part of the procedures segregation of duties is regulated at the legislative level, while in other cases the necessary duty segregation is regulated at the institution level. 42 percent of the agencies did not notify the existence of such rules and procedures when reporting to the Ministry of Finance on results of the internal control evaluation.</p>
Controls over the access to resources and records	<p>Compliance with payment rules and procedures is rated A in 25.3. Compliance with payment rules and procedures is very high.</p> <p>Financial data integrity processes are rated B in 27.4. Access and changes to records is restricted and recorded, and results in audit trail but there is no overall body in charge.</p>
Verifications	<p>Accuracy of in-year budget reports which is rated B in 28.3. There are no material concerns regarding data accuracy There are monthly and quarterly budget execution reports of payments in the Treasury system. Treasury submits these reports to the Parliament, the President, the Cabinet, the Accounting Chamber and the Ministry of Finance.</p>
3.5 Reconciliations	<p>Banks account reconciliations are rated A in 27.1. A TSA is in place and is reconciled on a daily basis.</p> <p>Suspense account reconciliations are rated A in 27.2. Suspense accounts are used if there is a query. These are reconciled and cleared within 4 days.</p>

Internal control components and elements	Summary of observations
Reviews of operating performance	Business processes, operations, and activities are included within the scope of internal and external audits. Coverage of both is high. Ukraine utilizes a target driven approach to revenue collection, however audit and investigation activities are performed, and plans exist and are followed.
3.7 Reviews of operations, processes and activities	The audit trail in place indicates that reviews are conducted. Databases or records are maintained for all contracts in the electronic procurement system.
Supervision (assigning, reviewing, and approving, guidance and training)	The audit trail in place indicates a supervisory focus. Personnel development through mentoring and training is in place.
4. Information and communication	There is good use of the internet throughout government. All procurement is on-line. Public access to fiscal information is good and scores A in PI-9
5. Monitoring	
5.1 Ongoing monitoring	<p>The Assessment highlighted a number of areas related to ongoing monitoring activities:</p> <p>Resources received by service delivery units is rated A in 8.3. The information on the resources received by the service providers is collected and recorded through the TSA.</p> <p>Monitoring of public corporations is rated C in 10.1.</p> <p>Monitoring of subnational governments is rated C in 10.2. Unaudited annual financial statements for subnational governments are published within 9 months after the end of the financial year.</p> <p>Investment project monitoring is rated C in 11.4. Monitoring of implementation of the major investment project is carried out in accordance with the established procedures; however, results were not published.</p> <p>Quality of CG financial asset monitoring is rated B in 12.1. The Government maintains a record of its holdings in the major categories of financial assets.</p> <p>Quality of CG non-financial asset monitoring is rated C in 12.2. The Government maintains a register of its holdings in fixed assets and collects information on their age, but not on usage. It is also not possible to assess the extent to which the register is accurate and comprehensive.</p> <p>Revenue arrears monitoring is rated B in 19.4. Stock of revenue arrears at the end of the last completed fiscal year is below 10 percent of the total revenue collection of the year and the revenue arrears older than 12 months are less than 75 percent but higher than 50 percent of the total revenue arrears.</p> <p>Expenditure arrears monitoring is rated B in 22.2. Data on expenditure arrears is processed on a monthly and annual basis.</p> <p>Procurement monitoring is rated A in 24.1. Databases or records are maintained for all contracts in the electronic procurement system.</p> <p>Implementation of internal audits and reporting is rated B in 26.3. In 2018, 48 out of 65 authorities achieved 100 percent implementation of their IA plans, while 6 authorities did not implement the IA plans in full. This was due to either lack of staff or having audits in progress as of the reporting date; 11 authorities were missing an internal audit function due to the absence of IA staff. I.e., out of 54 executive bodies where internal audit functioned, 100 percent of audit plans were implemented in 89 percent of central executive authorities, 11 percent of authorities had implemented their audit plans partly. At the same time, a small number of audits were not completed (18 audits), or 1 percent of the planned.</p>

Internal control components and elements	Summary of observations
5.2 Evaluations	Performance evaluation for service delivery is rated B in 8.4. Investment project selection is rated A in 11.2.
5.3 Management responses	<p>Response to internal audits is rated B in 26.4. More than 16,666 recommendations were issued, and about 99.6 percent of these recommendations were accepted. Majority of recommendations were implemented in the reporting period, and about 16 percent (2,656) recommendations were not completed within the required time frame.</p> <p>External audit follow-up is rated B in 30.3. Based on audit findings, ACU provides recommendations and comments. Auditees must report back to ACU on how they addressed them. Key results of addressing the recommendations and flaws are published by ACU on its website. ACU timely, fully, in the form of official decisions and letters of governmental authorities, receives information about the fulfillment of recommendations provided in ACU's opinion.</p>

Annex 3: Sources of information

Annex 3A: Related surveys and analytical work

No	Institution	Document title	Date	Link
1	The World Bank	Ukraine PEFA 2015 – Public Finance Management Performance Report	31.05.2016	https://pefa.org/sites/default/files/UA-May16-PFM-PR-Public-UA.pdf
2	The World Bank	Ukraine Public Finance Review	June 2017	https://elibrary.worldbank.org/doi/abs/10.1596/28301
3	The World Bank	Cash management and forecasting	April 2019	
4	The World Bank	Assessment of Ukraine electronic procurement system (ProZorro)	2017	
5	The World Bank	Doing Business Rankings	2018	http://russian.doingbusiness.org/ru/rankings
6	The World Bank	Public Finance Review (PER –1)	2017	

Annex 3B: List of people interviewed

No	Institution	Department	Person	Position
1	Ministry of Finance	Strategic Planning and European Integration	Mr. Oleksii Zhak	Director
2		State Budget Department	Mr. Volodymyr Lozytskiy	Director
3		State Budget Planning Division/State Budget Department	Mr. Mykhailo Bosak	Deputy Director
4		Unit for medium-term budgeting planning/State Budget Department	Ms. Olena Mikhailenko	Head of unit
5		State Budget Department	Ms. Olena Hayevska	Deputy Head of Unit
6		Government Finance Statistics Unit/Department for budget analysts and government finance statistics	Ms. Larysa Kalinichenko	Head of Unit
7		Unit for budget process support/State Budget Department	Ms. Valentyna Doletska	Head of Unit
8		Department for Harmonization of State Internal Financial Control	Ms. Iryna Troshchiiy	Deputy Director
9		Unit for internal control harmonization/ Department for Harmonization of State Internal Financial Control	Mr. Vyacheslav Nabok	Head of Unit
10		Unit for public sector accounting methodology /Department for budget revenue forecasts and accounting methodology	Ms. Svitlana Tokareva	Head of unit

Annex 3: Sources of information

No	Institution	Department	Person	Position
11	Ministry for Development of Economy, Trade and Agriculture	State Property Management Department	Mr. Roman Kropivnitsky	Director
12		Unit for state investment projects/Department for State Investment Projects and Development Support	Ms. Natalia Spichak	Head of Unit
13		Unit for state investment projects/Department for State Investment Projects and Development Support	Ms. Inna Grigorenko	Deputy Head of Unit
14		Department for public procurements	Ms. Natalia Shymko	Deputy Director
15		Department for public procurements	Mr. Yarema Dul	Head of Unit
16	Ministry of Education and Science	Unit for labour and regulatory and information support/Department for financing state and national expenditures	Ms. Oksana Tkachenko	Acting Director
17		Unit for Consolidated Planning and Analysis/ Department for financing state and national expenditures	Ms. Oksana Bura	Chief specialist
18		Unit for Medium-term forecasting and current planning of funds of establishments for specialized advance education/ Department for financing state and national expenditures	Ms. Iryna Isayeveva	Head of Unit
19		Unit for medium-term forecasting and current planning of finances of high educational establishments / Department for financing state and national expenditures	Ms. Nadia Pidlisna	Head of Unit
20		HR unit /HR Department	Mr. Hrygoriy Boiko	Deputy Director
21		HR unit /HR Department	Ms. Svitlana Nastencko	Deputy Head of Unit
22		Unit for Internal Audit/HR Department	Ms. Halyna Kalinevich	Head of Unit
23		Unit for Internal Audit/HR Department	Mr. Volodymyr Popko	Chief specialist
24		Division for accounting and reporting	Ms. Lesya Polyvach	Head – Chief accountant
25		Expert Group on Budgeting/Directorate for Strategic Planning and European Integration	Ms. Anastasia Sofiyenko	Head of expert group
26		Expert Group on Budgeting/Directorate for Strategic Planning and European Integration	Mr. Vladislav Dementiyev	State expert
27	Ministry of Health	Department for staff management and policy	Ms. Olha Azhyabkina	Director
28		Department for financial and economic issues, accounting, and financial reporting	Mr. Petro Yemets	Acting Director
29	Ministry of Youth and Sports	Economic and Finance Department	Mr. Yuriy Muzyka	Director
30		Unit for financing national teams/Economic and Finance Department	Ms. Oleksii Punda	Deputy Director

No	Institution	Department	Person	Position
31		Unit for finances of youth programs / Economic and Finance Department	Ms. Halyna Levkivska	Deputy Director
32		Department for physical culture and non-Olympic sports	Mr. Matviy Bidny	Director
33		Unit for priority non-Olympic sports/ Department for physical culture and non-Olympic sports	Ms. Oksana Anastasiyva	Deputy Director
34		Unit for physical training of different groups of population/ Department for physical culture and non-Olympic sports	Ms. Olena Havrylenko	Head of Unit
35		Unit for Accounting and Reporting	Ms. Yulia Rudakivska	Head of Unit- Chief Accountant
36		HR unit of Human Resource Division	Ms. Olena Postarnak	Deputy Head of Division
37		Unit for Administrative and IT support	Ms. Olha Menshikova	Senior procurement specialist
38		Internal Audit Sector	Mr. Ihor Kachan	Head
39		Unit for analytical, scientific and methodological support for teams and for Olympic Training/ Department for Olympic Sports	Ms. Tetyana Fedyushina	Deputy Director
40		Unit for cyclic and high-speed summer Olympic sports/ Department for Olympic Sports	Mr. Leonid Mirskiy	Deputy Director
41	Ministry of Social Policy	Expert group on solidarity pension insurance system/ Department for Development of Social Insurance and Pensions	Ms. Tetyana Matyukh	Head of expert group
42		Expert Group on Social Budget Issues/ Department for Strategic Planning, Policy Coordination and European Integration	Ms. Hanna Holoborodko	Head of expert group on social budget issues
43		Division for Supervision over Pension Fund and Social Insurance Funds/Department for supervision over Pension Fund and Social Insurance Funds	Ms. Inna Trenba	Chief specialist
44	State Audit Service	Department for Strategic Planning, Reporting and Coordination of State Financial Control	Mr. Ihor Volyanskiy	Director
45		Department for Strategic Planning, Reporting and Coordination of State Financial Control	Ms. Natalia Hlushchenko	Deputy Director
46		Division for Regulatory and Methodological Support for the State Financial Control	Ms. Olha Kuchma	Head
47	State Fiscal Service	Audit Department	Mr. Vyacheslav Salomovskiy	Head of Unit
48		Audit Department	Ms. Inna Litvin	Head of Unit
49		Unit for Customs Audit/Audit Department	Mr. Serhiy Korenitsyn	Head of Unit

No	Institution	Department	Person	Position
50		Department for targeting and customs risk management	Ms. Alisa Brendak	Head of Unit
51		Unit for debt repayment monitoring/ Department for debt repayment	Mr. Volodymyr Kudritskiy	Deputy Director
52		Unit for information and analytical support of the budgeting process/	Ms. Alina Dzhygan	Deputy Head of Unit
53		Department for monitoring revenues, and recording and reporting systems	Ms. Tetyana Yegorova	Head of Unit
54	State Property Fund	Department for Monitoring, Forecasting and IT	Ms. Veronika Mudra	Director
55	State Treasury Service	Consolidated Reporting Department	Ms. Galyna Shamraj	Director
56		Department of methodology of servicing budget funds and development of the Treasury	Ms. Natalia Tolstoukhova	Director
57		Unit of Accounting Methodology and Budget Reporting / Department of methodology of servicing budget funds and development of the Treasury	Ms. Yuliia Zaiets	Deputy Head of Unit
58		Unit of Treasury Operations and Expenditure Limits / Liquidity and Treasury Operations Department	Ms. Tetiana Alyokhina	Deputy Head of Unit
59		Resource Balance Unit / Liquidity and Treasury Operations Department	Ms. Maryna Shamina	Chief Specialist
60		Division for Liquidity and Treasury Transactions	Ms. Olha Pavlovska	Head
61	Accounting Chamber		Ms. Lesya Karnaukh	Deputy Chief Administrative Officer
62		Department for Strategic Development and Methodology	Ms. Olha Zvarych	Director
63		Department for Strategic Development and Methodology	Ms. Tetyana Shevchenko	Deputy Director
64		Public Administration Audit Unit/ Public Administration and Inter-Budgetary Relations Control Department	Mr. Leonid Nikiforov	Head of Unit
65	GIZ	“Efficient Public Finance Management”	Ms. Simona Noimaer	Senior Advisor on PFM

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

Indicator/dimension	Data Sources
Budget reliability	
PI-1. Aggregate expenditure outturn 1.1. Aggregate expenditure outturn	Treasury reports on State budget execution for 2016, 2017, and 2018.
PI-2. Expenditure composition outturn 2.1. Expenditure composition outturn by function	Treasury reports on State budget execution for 2016, 2017, and 2018.
2.2. Expenditure composition outturn by economic type	
2.3. Expenditure from contingency reserves	
PI-3. Revenue outturn 3.1. Aggregate revenue outturn	Treasury reports on State budget execution for 2016, 2017, and 2018.
3.2. Revenue composition outturn	
Transparency of public finances	
PI-4. Budget classification 4.1 Budget classification	Budget Code (08. July 2010 № 2456-VI); MoF's Decree dated 14.01.2011 № 11 «On Budget Classification»; Law of Ukraine on State Budget for 2018 Treasury report on execution of the State Budget for 2018; MoF's Decrees as of: - 28.01.2002 № 57; - 06.06.2012 № 687; Cabinet's Order dated June 20, 2018 № 437 «An Approval of the Strategy for Modernization of the Public Sector Accounting and Financial Reporting for the Period till 2025».
PI-5. Budget documentation 5.1 Budget documentation	Budget Code (08. July 2010 № 2456-VI); Bills on State Budget for 2019 submitted by the Cabinet to the VRU on September 15, 2018.
PI-6. Central government operations outside financial reports 6.1. Expenditure outside financial reports	Budgets of compulsory state social insurance funds for 2018; Reports on execution of budgets by funds of compulsory state social insurance in 2018; Chart of public sector accounts and National provision (standard) of accounting in public sector 101 "Submission of Financial statements"; MoF's Decree № 44 dated January 24, 2012 «On approval of the Procedure for preparing financial, budget, and other reports by the spending units and budget funds recipients».
6.2. Revenue outside financial reports	
6.3. Financial reports of extrabudgetary units	
PI-7. Transfers to subnational governments 7.1. System for allocating transfers	Budget Code (July 08,2010 № 2456-VI); Cabinet's Resolutions: - 11.10.2017 № 779; 06.12.2017 № 983; - 14.02.2018 № 110; 28.03.2018 № 214; - 04.04.2018 № 237; 06.02.2012 № 106; - 10.05.2018 № 364; 16.03.2016 № 200; - 28.03.2018 № 220; 30.11.2016 № 925; - 21.02.2017 № 185; 18.05.2011 № 520; - 18.12.2018 № 1080; 27.02.2019 № 130; - 15.11.2017 № 577; 10.03.2017 № 181.
7.2. Timeliness of information on transfers	

Indicator/dimension	Data Sources
	MoF's letters: <ul style="list-style-type: none"> - 01.08.2017 № 05110-14-21/20701; - 18.08.2017 № 05110-14-8/22431; - 22.08.2017 № 05110-14-8/22836; - 19.09.2017 № 05110-14-21/25184; - 19.09.2017 № 05110-14-8/25185; - 04.12.2017 № 05110-14-8/33628; - 04.12.2017 № 05110-14-7/33630; - 13.12.2017 № 05110-14-21/35020; - 21.12.2017 № 05110-14-21/36093. Law of Ukraine dated October 19, 2017 № 2168-VIII.
PI-8. Performance information for service delivery	MoF's Decrees №№ 1098 (29.12.2002 p.), 1536 (10.12.2010 p.), and 608 (17.05.2011 p.).
8.1. Performance plans for service delivery	Annex 3 to the Law of Ukraine «On State Budget of Ukraine for 2019» (in the latest version that was available at the time of the assessment).
8.2. Performance achieved for service delivery	
8.3. Resources received by service delivery units	
8.4. Performance evaluation for service delivery	
PI- 9. Public access to fiscal information	Budget Code (08.07.2010 № 2456-VI);
9.1. Public access to fiscal information	Laws of Ukraine: <ul style="list-style-type: none"> - 11.02.2015 № 183-VIII; 13.01.2011 № 2939; - 02.07.2015 № 576; 10.02.2010 № 1861; - 27.02.2014 № 794; 23.09.1997 № 539; VRU's site (https://zakon.rada.gov.ua – in part of legislation; http://w1.c1.rada.gov.ua/pls/zweb2/webproc2 – in part of bills); Treasury's site (https://www.treasury.gov.ua); MoF's site (https://www.minfin.gov.ua); ACU's site (http://www.ac-rada.gov.ua); CoM's site (https://www.kmu.gov.ua); SAS's site (http://www.dkrs.gov.ua/kru/uk/index).
Management of assets and liabilities	
PI-10. Fiscal risk reporting	The Constitution;
10.1. Monitoring of public corporations	Budget Code (08.07.2010 № 2456-VI);
10.2. Monitoring of subnational government	Laws of Ukraine:
10.3. Contingent liabilities and other fiscal risks	
	Cabinet's Resolutions: <ul style="list-style-type: none"> - 28.02.2000 № 419; - 06.04.2015 № 390; - 03.02.2016 № 43; Treasury report on execution of the State Budget for 2018.

Indicator/dimension	Data Sources
PI-11. Public investment management	Budget Code (08.07.2010 № 2456-VI);
11.1. Economic analysis of investment proposals	Law on State Budget of Ukraine for 2018;
11.2. Investment project selection	Law of Ukraine dated September 18, 1991 № 1560-XII;
11.3. Investment project costing	Cabinet's Resolutions:
11.4. Investment project monitoring	<ul style="list-style-type: none"> - 22.07.2015 № 571; - 20.12. 2017 p. № 1099; Cabinet's Orders: <ul style="list-style-type: none"> - 09.11.2016 № 824-p; - 19.07.2017 № 538-p; Minutes of the meetings of Interagency Commission on Public Investment Projects as of 07.09.2017; Ministry's of Economic Development and Trade Decrees dated: <ul style="list-style-type: none"> - 25.10.2016 № 1785; - 19.06.2012 № 724; - 25.10.2016 № 1785; Decree of the Ministry of regional development, construction and housing and communal services of Ukraine dated 24.04.2015 № 80; MoE's website (http://www.me.gov.ua); Ministry's of Economic Development and Trade letter dated 19.09.2017 № 4001-06/33046-01; Bill on State Budget for 2019 submitted by the Cabinet to VRU on September 15, 2018.
PI-12. Public asset management	Laws of Ukraine:
12.1. Financial asset monitoring	- 18.01.2018 № 2269-VIII;
12.2. Nonfinancial asset monitoring	- 10.04.1992 № 2269-XII;
12.3. Transparency of asset disposal.	<ul style="list-style-type: none"> - 03.03.1998 № 147/98-BP; - 09.12.2011 № 4107-VI; Cabinet's Resolutions: <ul style="list-style-type: none"> - 14.04.2004 № 467; - 10.05.2018 № 386; - 10.05.2018 № 389; - 10.05.2018 № 351.
PI-13. Debt management	Budget Code (08.07.2010 № 2456-VI);
13.1. Recording and reporting of debt and guarantees	Law on State Budget of Ukraine for 2018;
13.2. Approval of debt and guarantees	Cabinet's Resolutions:
13.3. Debt management strategy	<ul style="list-style-type: none"> - 20.08.2014 № 375; - 31.01.2001 № 80; - 14.03.2018 № 186; - 22.08.2018 № 883.
	NBU's Board Resolution dated June 18, 2003 № 248; MoF's Report on execution of 2017-2019 Medium-term Strategy of State Debt Management in 2017.;; Treasury report on execution of the State Budget in 2018.

Indicator/dimension	Data Sources
Policy-based fiscal strategy and budgeting	
PI-14. Macroeconomic and fiscal forecasting	Budget Code (08.07.2010 № 2456-VI);
14.1. Macroeconomic forecasts	Forecasts of the State Budget submitted by the Cabinet to the VRU as part of materials to bills on State Budget for 2017 and 2019;
14.2. Fiscal forecasts	
14.3. Macro-fiscal sensitivity analysis	
	Cabinet's Resolutions: <ul style="list-style-type: none"> - 26.04.2003 № 621; - 31.05.2017 № 411; - 11.07.2018 № 546; - 01.12.2017 № 906; - 05.08.2015 № 558; - 01.07.2016 № 399; Cabinet's Order dated June 14, 2017 № 411-p. Publication «Ukraine: development prospects. Consensus-forecast» for 2016-2018.
PI-15. Fiscal strategy	Budget Code (08.07.2010 № 2456-VI);
15.1. Fiscal impact of policy proposals	VRU's Resolution as of 22.05.2006 № 428;
15.2. Fiscal strategy adoption	Cabinet's Resolutions as of 10.05.2018 № 501;
15.3. Reporting on fiscal outcomes	
	Cabinet's Orders: <ul style="list-style-type: none"> - 24.06.2016 № 478-p; - 14.06.2017 № 411-p; - 18.04.2018 № 315-p.
PI-16. Medium-term perspective in expenditure budgeting	Budget Code (08.07.2010 № 2456-VI);
16.1. Medium-term expenditure estimates	MoF's Decrees as of: <ul style="list-style-type: none"> - 06.06.2012 № 687; - 15.06.2015 № 553; - 15.06.2015 № 554;
16.2. Medium-term expenditure ceilings	
16.3. Alignment of strategic plans and medium-term budgets	MoF's letters as of: <ul style="list-style-type: none"> - 31.01.2018 № 04110-09-9/2801; - 27.07.2018 № 04110-09-9/20040;
16.4 Consistency of budgets with previous year's estimates	Ministry's of Economic Development and Trade Decree as of 25.07.2012 № 869; State Committee for TV and broadcasting of Ukraine's Decree as of 22.02.2018 № 109; MSP's Decree as of 15.02.2018 № 218; Budget requests of the State Committee for TV and broadcasting of Ukraine, and MSP for 2019-2021; Explanatory note to the bill on State Budget of Ukraine for 2019. Cabinet's Resolution as of June 14, 2017 № 411-p.
PI-17. Budget preparation process	MoF's Decree 29.01.2018 № 38;
17.1. Budget calendar	MoF's letter as of 27.07.2018 № 04110-09-9/20040;
17.2. Guidance on budget preparation	Cabinet's letters as of: <ul style="list-style-type: none"> - 15.09.2016 № 14603/0/2-16; - 15.09.2017 № 7995/0/2-17; - 15.09.2018 № 16996/0/2-18;
17.3. Budget submission to the legislature	

Indicator/dimension	Data Sources
	<p>Ministry of education and science of Ukraine's letters as of 03.08.2017 № 1/12-5049 on budget requests to the draft budget for 2019;</p> <p>MoH's letters as of 10.08.2017 № 10.2-11/21392 та 16.08.2018 № 11/2175/21619;</p> <p>MSP's letters as of 03.08.2017 № 15654/0/2-17/15, and 09.08.2018 № 15679/0/6-18/51;</p> <p>Ministry of Agrarian Policy and Food of Ukraine as of 07.08.2017 № 37-21-10/18508, and 10.08.2018 № 37-21-10/19837;</p> <p>Ministry's of Economic Development and Trade letter as of 19.09.2018 № 4001-08/40886-03;</p> <p>MoF's schedule for conducting conciliation meetings with key spending units on indicators of State budget of Ukraine for 2019.</p>
PI-18. Legislative scrutiny of budgets	Budget Code (08.07.2010 № 2456-VI);
18.1. Scope of budget scrutiny	Law of Ukraine dated 10.02.2010 № 1861-VI;
18.2. Legislative procedures for budget scrutiny	Minutes of the meetings of the VRU's Budget Committee as of:
18.3. Timing of budget approval	
18.4. Rules for budget adjustments by the executive	
Predictability and control in budget execution	
PI-19. Revenue administration	Tax Code as of 02.12.2010 № 2755;
19.1. Rights and obligations for revenue measures	Customs Code of Ukraine as of 13.03.2012 № 4495;
19.2. Revenue risk management	SFS's website (http://sfs.gov.ua/);
19.3. Revenue audit and investigation	MoF's Decree dated 21.10.2015 № 916;
19.4. Revenue arrears monitoring	<p>SFS's Report for 2018;</p> <p>Schedule for conducting planned evidence-based checks of taxpayers by the SFS for 2019;</p> <p>SFS's information on tax arrears;</p> <p>Concept for risk management in tax sphere (approved by the SFS in July 2018).</p>

Indicator/dimension	Data Sources
PI-20. Accounting for revenues	MoF's Decrees dated:
20.1. Information on revenue collections	- 18.07.2016 № 621;
20.2. Transfer of revenue collections	- 29.01.2013 № 43;
20.3. Revenue accounts reconciliation	Treasury's monthly report on execution of the State Budget of Ukraine for January-February 2019.
PI-21. Predictability of in-year resource allocation	Budget Code (08.07.2010 № 2456-VI);
21.1. Consolidation of cash balances	Laws of Ukraine as of:
21.2. Cash forecasting and monitoring	- 07.12.2017 № 2246-VIII;
21.3. Information on commitment ceilings	- 22.11.2018 № 2619-VIII;
21.4. Significance of in-year budget adjustments	- 06.12.2018 № 2648-VIII;
	Cabinet's Resolution as of 15.04.2015 № 215;
	MoF's Decrees as of:
	- 28.01.2002 № 57;
	- 23.08.2012 № 938;
	Treasury's Decree as of 26.06.2002 № 122;
	Information on transmission of budget allocations as per Government decision in 2018.
PI-22. Expenditure arrears	Budget Code (08.07.2010 № 2456-VI);
22.1. Stock of expenditure arrears	MoF's Decrees as of:
22.2. Expenditure arrears monitoring	- 24.01.2012 № 44;
	- 02.04.2014 № 372;
	Treasury's reports on budget arrears for 2016-2018;
	SFS's information on amounts of reimbursement of VAT from the State Budget in 2016-2018.
PI-23. Payroll controls	Cabinet's Resolution as of 26.01.2011 № 59;
23.1. Integration of payroll and personnel records	MoF's Decree as of 28.01.2002 № 57;
23.2. Management of payroll changes	MoF's report on performance of state internal financial control in 1H2018;
23.3. Internal control of payroll	Interviews with MYS, MES, and MoF's staff;
23.4. Payroll audit	Information provided by the SAS.
PI-24. Procurement management	Laws of Ukraine as of:
24.1. Procurement monitoring	- 25.12.2015 № 922-VIII;
24.2. Procurement methods	- 26.11.1993 № 3659-XII;
24.3. Public access to procurement information	Cabinet's Order as of 24.11.2016 № 175-p;
24.4. Procurement complaints management	Web-portal of the body authorized in procurements https://prozorro.gov.ua ;
	Analytics module (https://bi.prozorro.org);
	Monitoring portal https://dozorro.org ;
	Ministry's of Economic Development and Trade reports on analysis of public procurement system functioning;
	Information provided by the State Antimonopoly Committee and SAS
	Assessment of the e-system for public procurements against Multilateral Development Bank's e-Government Procurement requirements for electronic reverse auctions (World Bank);

Indicator/dimension	Data Sources
	<p>Single data base on public procurements https://infobox.prozorro.org;</p> <p>Reference to on-line consultations on public procurements http://www.me.gov.ua/InfoRez/List?lang=uk-UA&id=7758c77b-e410-44ea-a07d-37f1799e11e5&tag=ZapitiKoristuvachiv;</p> <p>Ministry's of Economic Development and Trade Guidance on ethical behavior of purchasers during public procurements.</p>
PI-25. Internal controls on nonsalary expenditure	Law of Ukraine as of 16.07.1999 № 996-XIV;
25.1. Segregation of duties	Budget Code of Ukraine (08.07.2010 № 2456-VI);
25.2. Effectiveness of expenditure commitment controls	Cabinet's Resolutions:
25.3. Compliance with payment rules and procedures	<ul style="list-style-type: none"> - 12.12.2018 № 1062; - 23.08.2016 № 523;
	<p>MoF's Decrees as of:</p> <ul style="list-style-type: none"> - 14.09.2012 № 995; - 24.12.2012 № 1407; <p>Ministry's of Economic Development and Trade Decree as of 30.03.2016 № 557;</p> <p>NBU's Resolution as of 21.01.2004 № 22;</p> <p>MoF's report on performance of state internal financial control in 1H2018;</p> <p>Interviews with MYS, MES, and MoF's staff;</p> <p>Information provided by SAS;</p> <p>ACU's Report for 2018;</p> <p>SAS's Report for 2018.</p>
PI-26. Internal audit effectiveness	Budget Code (08.07.2010 № 2456-VI);
26.1. Coverage of internal audit	Cabinet's Resolutions as of 28.09.2011 № 1001;
26.2. Nature of audits and standards applied	MoF's Decrees as of:
26.3. Implementation of internal audits and reporting	<ul style="list-style-type: none"> - 04.10.2011 № 1247; - 29.09.2011 № 1217;
26.4. Response to internal audits	<ul style="list-style-type: none"> - 03.05.2017 № 480; - 27.03.2014 № 347; <p>Report on results of activity of structural units on internal audit in 2018;</p> <p>Information provided by the MoF.</p>
Accounting and reporting	
PI-27. Financial data integrity	Treasury's Decree as of 26.06.2002 № 122;
27.1. Bank account reconciliation	NBU's Resolution as of 21.01.2004 № 22;
27.2. Suspense accounts	MoF's Decrees as of:
27.3. Advance accounts	<ul style="list-style-type: none"> - 24.12.2012 № 1407;
27.4. Financial data integrity processes	<ul style="list-style-type: none"> - 23.08.2012 № 938; - 31.12.2013 № 1203; <p>Treasury's Decree as of 17.05.2000 № 1.</p>

Indicator/dimension	Data Sources
PI-28. In-year budget reports	Budget Code (08.07.2010 № 2456-VI);
28.1. Coverage and comparability of reports	Treasury's monthly and quarterly reports on execution of the State Budget of Ukraine for 2018;
28.2. Timing of in-year budget reports	
28.3. Accuracy of in-year budget reports	
	MoF's Decree as of 12.10.2010 № 1202; Information provided by the MoF.
PI-29. Annual financial reports	Budget Code (08.07.2010 № 2456-VI);
29.1. Completeness of annual financial reports	Treasury Report on execution of the State Budget of Ukraine for 2018;
29.2. Submission of the reports for external audit	
29.3. Accounting standards	Information provided by the MoF.
External scrutiny and audit	
PI-30. External audit	Law of Ukraine dated 02.07.2015 № 576-VIII;
30.1. Audit coverage and standards	Budget Code of Ukraine (08.07.2010 № 2456-VI);
30.2. Submission of audit reports to the legislature	ACU Decision as of 22.09.2015 № 5-5;
30.3. External audit follow-up	Conclusions of the ACU on results of analysis on execution of the Laws on State Budget of Ukraine for 2016-2018 (quarterly and annual); Information on responses to the ACU's decisions http://www.ac-rada.gov.ua/control/main/uk/publish/category/16748563 ;
30.4. Supreme Audit Institution independence	
	Information provided by the ACU.
PI-31. Legislative scrutiny of audit reports	Laws of Ukraine as of:
31.1. Timing of audit report scrutiny	- - 02.07.2015 № 576-VIII;
31.2. Hearings on audit findings	- - 10.02.2010 № 1861-VI;
31.3. Recommendations on audit by the legislature	Budget Code of Ukraine (08.07.2010 № 2456-VI);
31.4. Transparency of legislative scrutiny of audit reports	Minutes of the meetings of the VRU's Budget Committee as of: - 17.10.2018 № 154; 19.12.2018 № 162; - 19.09.2018 № 152; 20.06.2018 № 145; - 06.06.2018 № 143; 6 – 7.12.2017 № 123; - 20.09.2017 № 113; 21-22.06.2017 № 102; - 16.05.2017 № 96; 18 – 19.10.2016 № 72; - 07.12.2016 № 81; 05.10.2016 № 70; - 06.07.2016 № 62; 01.06.2016 № 60; - Information provided by the ACU.

Annex 4: Calculations for PI-1, PI-2 and PI-3

Data on the functional classification for 2016, UAH billion

Functional head	budget	actual	adjusted budget	deviation	absolute deviation	percent
General public services	23.3	22.3	24.2	-1.9	1.9	7.9%
Defense	59.8	59.2	62.0	-2.8	2.8	4.5%
Public order, Security and Judicial Authority	58.9	71.1	61.1	10.0	10.0	16.4%
Economic activity	35.7	31.4	37.0	-5.6	5.6	15.2%
Environment protection	3.3	4.8	3.4	1.4	1.4	40.3%
Health protection	11.9	12.5	12.3	0.2	0.2	1.3%
Culture and Sport	4.5	4.5	4.7	-0.2	0.2	3.5%
Education	32.3	34.8	33.5	1.3	1.3	3.9%
Social protection and social security	154.2	152.0	159.8	-7.8	7.8	4.9%
Intergovernmental transfers	183.3	195.4	190.0	5.4	5.4	2.8%
(= sum of rest)	0.02	0.04	0.02	0.02	0.02	92.9%
expenditures	567.2	588.0	588.0	0.0	36.6	
interests	99.1	95.8				
contingency	1.5	1.1				
total expenditures	667.8	684.9				
aggregate outturn (PI-1)						102.6%
composition (PI-2) variance						6.2%
contingency share of budget						0.2%

Data on the functional classification for 2017, UAH billion

Functional head	budget	actual	adjusted budget	deviation	absolute deviation	percent
General public services	30.8	32.0	32.6	-0.6	0.6	1.9%
Defence	67.2	74.1	71.2	2.9	2.9	4.1%
Public order, Security and Judicial Authority	78.2	87.1	82.8	4.2	4.2	5.1%
Economic activity	40.7	47.0	43.1	3.9	3.9	9.0%
Environment protection	4.1	4.7	4.3	0.4	0.4	8.2%
Health protection	15.4	16.7	16.3	0.4	0.4	2.4%
Culture and Sport	7.3	7.9	7.7	0.2	0.2	2.2%
Education	40.1	41.3	42.5	-1.2	1.2	2.8%
Social protection and social security	152.5	144.5	161.5	-17.0	17.0	10.5%
Intergovernmental transfers	250.9	272.6	265.8	6.8	6.8	2.6%
(= sum of rest)	0.04	0.09	0.04	0.05	0.05	112.4%
expenditures	687.2	727.9	727.9	0.0	37.7	
interests	111.3	110.5				
contingency	1.5	1.1				
total expenditures	800.0	839.5				
aggregate outturn (PI-1)						104.9%
composition (PI-2) variance						5.2%
contingency share of budget						0.1%

Data on the functional classification for 2018, UAH billion

Functional head	budget	actual	adjusted budget	deviation	absolute deviation	percent
General public services	45.6	47.5	46.1	1.4	1.4	3.0%
Defence	88.6	97.0	89.6	7.4	7.4	8.2%
Public order, Security and Judicial Authority	110.3	116.4	111.6	4.8	4.8	4.3%
Economic activity	73.3	63.8	74.1	-10.3	10.3	14.0%
Environment protection	4.8	5.2	4.9	0.3	0.3	7.1%
Health protection	25.2	22.6	25.5	-2.9	2.9	11.3%
Culture and Sport	10.4	10.1	10.5	-0.4	0.4	4.0%
Education	41.3	44.3	41.8	2.5	2.5	6.0%
Social protection and social security	151.1	163.9	152.8	11.1	11.1	7.2%
Intergovernmental transfers	309.0	298.9	312.6	-13.7	13.7	4.4%
(= sum of rest)	0.4	0.2	0.4	-0.2	0.2	50.6%
expenditures	860.0	869.9	869.9	0.0	55.0	
interests	130.2	115.4				
contingency	1.5	0.6				
total expenditures	991.7	985.9				
aggregate outturn (PI-1)						99.4%
composition (PI-2) variance						6.3%
contingency share of budget						0.1%

Data on economic categories for 2016, UAH billion

Economic head	budget	actual	adjusted budget	deviation	absolute deviation	percent
Compensation of employees	96.5	105.4	99.0	6.4	6.4	6.4%
Use of goods and services	93.9	95.4	96.4	-1.0	1.0	1.0%
Acquisition of fixed capital	8.9	14.8	9.1	5.7	5.7	62.0%
Interest	101.5	97.4	104.2	-6.8	6.8	6.5%
Grants to other government units	182.7	195.4	187.5	7.9	7.9	4.2%
Other subsidies and grants	16.1	15.8	16.5	-0.7	0.7	4.4%
Social welfare	154.7	153.2	158.8	-5.6	5.6	3.5%
Other expenses	12.0	6.4	12.3	-5.9	5.9	48.0%
Total expenditure (without Reserve Fund)	666.3	683.8	683.8	0.0	39.9	
composition variance						5.8%

Data on economic categories for 2017, UAH billion

Economic head	budget	actual	adjusted budget	deviation	absolute deviation	percent
Compensation of employees	128.6	134.8	135.0	-0.2	0.2	0.2%
Use of goods and services	104.8	121.6	110.0	11.6	11.6	10.5%
Acquisition of fixed capital	10.0	18.2	10.5	7.7	7.7	73.3%
Interest	112.7	111.5	118.3	-6.8	6.8	5.8%
Grants to other government units	250.8	272.6	263.3	9.3	9.3	3.5%
Other subsidies and grants	25.8	24.4	27.1	-2.7	2.7	9.9%
Social welfare	156.7	148.8	164.5	-15.7	15.7	9.6%
Other expenses	9.1	6.5	9.6	-3.1	3.1	32.0%
Total expenditure (without Reserve Fund)	798.5	838.4	838.4	0.0	57.1	
composition variance						6.8%

Data on economic categories for 2018, UAH billion

Economic head	budget	actual	adjusted budget	deviation	absolute deviation	percent
Compensation of employees	173.2	171.3	172.3	-1.0	1.0	0.6%
Use of goods and services	146.1	157.3	145.4	11.9	11.9	8.2%
Acquisition of fixed capital	21.5	32.5	21.4	11.1	11.1	51.9%
Interest	131.1	116.3	130.5	-14.2	14.2	10.8%
Grants to other government units	309.0	298.9	307.5	-8.6	8.6	2.8%
Other subsidies and grants	45.4	35.7	45.2	-9.5	9.5	21.0%
Social welfare	155.9	166.6	155.1	11.5	11.5	7.4%
Other expenses	8.0	6.7	8.0	-1.3	1.3	15.8%
Total expenditure (without Reserve Fund)	990.2	985.3	985.3	0.0	69.0	
composition variance						7.0%

Data on revenues for 2016, UAH billion

Revenues types*	budget	actual	adjusted budget	deviation	absolute deviation	percent
Tax revenues						
Taxes on income, profit and capital gains	46.9	54.3	48.6	5.8	5.8	11.8%
Taxes on payroll and workforce	55.8	59.8	57.7	2.1	2.1	3.6%
Taxes on goods and services	312.4	325.6	323.5	2.1	2.1	0.7%
Taxes on international trade and transactions	19.6	20.4	20.3	0.0	0.0	0.2%
Other taxes	59.9	43.7	62.0	-18.3	18.3	29.5%
Social contributions						
Social security contributions	3.1	5.4	3.2	2.1	2.1	65.5%
Other social contributions	0.1	0.3	0.1	0.1	0.1	108.4%
Grants						
Grants from foreign governments	4.9	3.1	5.0	-1.9	1.9	37.6%
Grants from international organizations	0.6	1.0	0.7	0.3	0.3	46.4%
Grants from other government units	3.1	4.2	3.2	0.9	0.9	29.3%
Other revenues						
Property income	50.4	50.1	52.2	-2.1	2.1	3.9%
Sales of goods and services	23.2	27.7	24.0	3.7	3.7	15.4%
Fines, penalties and forfeits	9.1	1.8	9.5	-7.7	7.7	81.5%
Sum of rest	5.9	18.8	6.1	12.8	12.8	210.3%
Total revenues	595.2	616.3	616.3	0.0	60.0	
overall variance						103.5%
composition variance						9.7%

* The property tax in Ukraine is local only and thus is not part of CG.

Data on revenues for 2017, UAH billion

Revenues types*	budget	actual	adjusted budget	deviation	absolute deviation	percent
Tax revenues						
Taxes on income, profit and capital gains	57.9	66.9	62.9	4.1	4.1	6.4%
Taxes on payroll and workforce	68.7	75.0	74.5	0.5	0.5	0.7%
Taxes on goods and services	406.4	422.3	441.1	-18.9	18.9	4.3%
Taxes on international trade and transactions	22.8	24.5	24.7	-0.2	0.2	0.6%
Other taxes	50.2	38.4	54.5	-16.1	16.1	29.6%
Social contributions						
Social security contributions	4.4	6.2	4.8	1.4	1.4	28.5%
Other social contributions	0.1	0.2	0.2	0.0	0.0	15.0%
Grants						
Grants from foreign governments	1.2	0.5	1.3	-0.8	0.8	63.7%
Grants from international organizations	0.6	1.1	0.6	0.5	0.5	85.8%
Grants from other government units	3.9	6.0	4.3	1.7	1.7	40.2%
Other revenues						
Property income	66.0	69.3	71.6	-2.3	2.3	3.2%
Sales of goods and services	26.7	34.6	29.0	5.6	5.6	19.3%
Fines, penalties and forfeits	13.0	32.0	14.1	17.9	17.9	127.2%
Sum of rest	9.1	16.4	9.9	6.6	6.6	66.9%
Total revenues	731.0	793.4	793.4	0.0	76.5	
overall variance						108.5%
composition variance						9.6%

* The property tax in Ukraine is local only and thus is not part of CG.

Data on revenues for 2018, UAH billion

Revenues types*	budget	actual	adjusted budget	deviation	absolute deviation	percent
Tax revenues						
Taxes on income, profit and capital gains	82.3	96.9	83.2	13.6	13.6	16.4%
Taxes on payroll and workforce	91.1	91.7	92.1	-0.4	0.4	0.4%
Taxes on goods and services	508.4	493.4	514.0	-20.7	20.7	4.0%
Taxes on international trade and transactions	28.7	27.1	29.0	-1.9	1.9	6.7%
Other taxes	49.4	44.8	49.9	-5.2	5.2	10.4%
Social contributions						
Social security contributions	6.8	7.2	6.8	0.3	0.3	4.8%
Other social contributions	0.2	0.2	0.2	0.0	0.0	10.7%
Grants						
Grants from foreign governments	1.8	0.8	1.8	-1.0	1.0	56.4%
Grants from international organizations	0.6	0.7	0.6	0.1	0.1	16.8%
Grants from other government units	5.4	7.3	5.5	1.8	1.8	33.6%
Other revenues						
Property income	87.2	85.0	88.2	-3.2	3.2	3.6%
Sales of goods and services	39.6	44.9	40.1	4.8	4.8	12.0%
Fines, penalties and forfeits	8.2	2.6	8.3	-5.7	5.7	68.3%
Sum of rest	8.2	25.7	8.3	17.4	17.4	209.2%
Total revenues	917.9	928.1	928.1	0.0	76.2	
overall variance						101.1%
composition variance						8.2%

* The property tax in Ukraine is local only and thus is not part of CG.

Annex 5: The structure of inter-budgetary transfers by types of budgets in 2018 (percentage)

	Basic Grant	Stabilization Grant*	Additional Grant for maintenance for education and health entities*	Other additional Grants (city Slavutych; compensation for the loss of local budget revenues as a result of tax exemptions granted by the state)	Total Grants	Education Subvention	Health care Subvention	Social Subventions*	Subvention for the construction, reconstruction, repair and maintenance of roads*	Subventions for the purchase of equipment and materials for health and education entities*	Subvention for the infrastructure of the amalgamated territorial communities	Subventions for socioeconomic development and capital spending*	Other Subventions **	Total Subventions	Total Inter-governmental transfers
Oblasts	12.7%	100.0%	100.0%		70.5%	10.4%	42.9%	95.4%	90.0%	96.7%		14.6%	31.0%	61.1%	61.9%
City of Kyiv	0.0%			35.4%	0.4%	4.7%	7.0%	4.6%	10.0%	3.3%			6.2%	5.2%	4.8%
Cities	7.9%			63.7%	3.3%	27.5%	24.3%							11.5%	10.8%
Rayons	56.2%			1.0%	18.3%	40.4%	18.2%							13.0%	13.5%
ATCs	23.2%				7.5%	17.0%	7.6%				100.0%			6.1%	6.3%
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

* Fully or partially distributed by oblast to lower level budgets.

** Full information on allocations by each budget is not publicly available.

Annex 6. The structure of transfers from the State Budget to local budgets in 2018 (UAH thousand)

Name	Total	Among them:	
		Allocated in the law on the State Budget with transparent, clear criteria	Not allocated in the law on State Budget and allocated without transparent and clear criteria
Transfers from the State Budget to local budgets – total	301,819,959.5	288,029,071.6	13,790,887.9
<i>share in the total amount of intergovernmental transfers</i>	<i>100.0</i>	<i>95.4</i>	<i>4.6</i>
Grants – total, including:	25,166,047.1	24,966,047.1	200,000.0
Additional subsidies from the State Budget to local budgets	16,783,386.4	16,783,386.4	
Base grant	8,182,660.7	8,182,660.7	
Stabilization grant	200,000.0		200,000.0
Subsidies – total, including:	276,653,912.4	263,063,024.5	13,590,887.9
Subsidy from the State Budget to local budgets to provide benefits and housing subsidies to the population to pay for electricity, natural gas, heat, water supply and wastewater services, lease (maintenance of houses and structures and adjacent territories), management of a multi-apartment house, removal of household waste and liquid sewage	70,992,648.2	70,992,648.2	
Educational subsidy from the State Budget to local budgets	61,712,610.6	61,712,610.6	
Medical subsidy from the State Budget to local budgets	57,366,717.0	57,366,717.0	
Subsidy from the State Budget to local budgets to pay allowances to families with children, low-income families, persons who are not entitled to a pension, persons with disabilities, children with disabilities, temporary government support to children, temporary state social support to the unemployed, who reached the general retirement age and did not acquire the right to a pension; care for persons with Group I or Group II disability received as a result of mental illness; compensation payments to disabled, able-bodied persons providing care to persons with Group I disability, and persons over the age of 80	52,705,128.4	52,705,128.4	
Subsidy from the State Budget to local budgets for financial support to construction, reconstruction, repair and maintenance of public roads of local importance, municipally owned streets and roads in settlements	11,530,865.2	11,530,865.2	
Subsidy from the State Budget to local budgets to implement measures of social and economic development of separate territories	5,000,000.0		5,000,000.0
Subsidy from the State Budget to local budgets to provide benefits and housing subsidies to the population for the purchase of solid, liquid fuel and liquefied gas for heating	2,715,432.4	2,715,432.4	

Annex 6. The structure of transfers from the State Budget to local budgets in 2018 (UAH thousand)

Name	Total	Among them:	
		Allocated in the law on the State Budget with transparent, clear criteria	Not allocated in the law on State Budget and allocated without transparent and clear criteria
Subsidy from the State Budget to local budgets for development of infrastructure of the ATCs	1,900,000.0		1,900,000.0
Subsidy from the State Budget to local budgets for reforming regional health care systems to implement "Improving health services for people" project jointly with the International Bank for Reconstruction and Development	1,745,800.0	1,745,800.0	
Subsidy from the State Budget to local budgets for implementation of projects within the framework of the Emergency Loan Program to Rebuild Ukraine	1,500,000.0		1,500,000.0
Subsidy from the State Budget to local budgets to provide high-quality, modern and affordable general secondary education under the "New Ukrainian School" program	1,369,086.8		1,369,086.8
State budget subsidy to the budget of the city of Dnipro to complete construction of the subway	1,367,428.3	1,367,428.3	
Subsidy from the State Budget to local budgets for the reimbursement of the cost of drugs for treatment of certain diseases	1,000,000.0	1,000,000.0	
Subsidy from the State Budget to local budgets for implementation of measures aimed at development of the system of health care in rural areas	1,000,000.0		1,000,000.0
The subsidy from the State Budget to local budgets to pay the difference between the actual cost of heat energy, district heating services, hot water supply, centralized water supply and drainage, cold water supply and sewage (using indoor utility systems), that were produced, transported and supplied to the population, public establishments and organizations and / or other enterprises of heating supply, centralized drinking water supply and drainage which provide such services, and tariffs approved and / or agreed by public authorities or local governments	1,000,000.0		1,000,000.0
Subsidy from the State Budget to local budgets for the payment of state social support to orphans and children deprived of parental care, financial support to parent-educators and foster parents for the provision of social services in family-type orphanages and foster families using the "money follow the child" principle; payment for child patronage services and payment of social support for child's stay in the family of a patronage teacher	925,723.2	925,723.2	

Annex 6. The structure of transfers from the State Budget to local budgets in 2018 (UAH thousand)

Name	Total	Among them:	
		Allocated in the law on the State Budget with transparent, clear criteria	Not allocated in the law on State Budget and allocated without transparent and clear criteria
Subsidy from the State Budget to local budgets for design, construction and repair works, purchase of housing and premises for the development of family and other forms of education approximated to family education, and provision of housing for orphans, and alike	517,726.7	517,726.7	
Subsidy from the State Budget to local budgets to provide state support to people with special educational needs	504,458.3		504,458.3
Subsidy from the State Budget to local budgets for payment of monetary compensation for housing to the families of deceased persons specified in paragraphs 5-8 of paragraph 1 of Article 10 of the Law of Ukraine "On the Status of War Veterans, and Guarantees of Their Social Protection"; to persons with Group I or II, disabilities which occurred as a result of a wound, contusion, disability or illnesses received during direct participation in the antiterrorist operation, or provision of support to the conduct of this operation, as specified in paragraphs 11-14 of part two of Article 7 of the Law of Ukraine "On the Status of veterans of war, and guarantees of their social protection", who require improvement of living conditions	329,812.8		329,812.8
Subsidy from the State Budget to local budgets for holding elections of local council members and village, town, city mayors	259,530.0		259,530.0
Subsidy from the State Budget to local budgets for payment of monetary compensation for housing to the families of persons deceased in combat in the territory of other states, as defined in the first part of paragraph 1 of Article 10 of the Law of Ukraine "On the Status of Veterans of War, and Guarantees of Their Social Protection"; to persons with Group I or II, disabilities – the participants of combat in the territory of other states who have become disabled as a result of injury, contusion, disability or illness related to their stay in these states, as specified in paragraph 7 of part two of Article 7 of the Law of Ukraine "On the Status of War Veterans, and Guarantees of Their Social Protection", who require improvement of living conditions	200,000.0		200,000.0
Subsidy from the State Budget to local budgets for carrying out works related to the creation and maintenance of the administrative services centers, including social services, in the "Transparent office" format	150,000.0		150,000.0
Subsidy from the State Budget to local budgets for the construction / reconstruction of sport arenas	150,000.0		150,000.0

Annex 6. The structure of transfers from the State Budget to local budgets in 2018 (UAH thousand)

Name	Total	Among them:	
		Allocated in the law on the State Budget with transparent, clear criteria	Not allocated in the law on State Budget and allocated without transparent and clear criteria
Subsidy from the State Budget to local budgets for the purchase of medicines and medical products to support the work of the ambulance service	137,992.3	137,992.3	
Subsidy from the State Budget to local budgets to finance social and economic compensation measures for the population living in the territory of the observation zone	137,499.5	137,499.5	
Subsidy from the State Budget to local budgets for the purchase of angiographic equipment	150,000.0	150,000.0	
Subsidy from the State Budget to local budgets for modernization and updating of materiel in vocational schools	100,000.0		100,000.0
Subsidy from the State Budget to the regional budget of Ivano-Frankivsk oblast for the construction of a modern biathlon complex	50,000.0		50,000.0
Subsidy from the State Budget to local budgets to implement measures to support areas affected by armed conflict in eastern Ukraine	34,000.0		34,000.0
The subsidy from the State Budget to the budget of Kharkiv for extension of the third subway line in the city	30,000.0	30,000.0	
The subsidy from the State Budget to local budgets for the payment of cash compensation for housing for internally displaced persons who defended the independence, sovereignty and territorial integrity of Ukraine and took part in the anti-terrorist operation directly, ensured its implementation and stayed directly in areas of the antiterrorist operation in the period of its implementation; and recognized as Group III disabled as a result of war in accordance with paragraphs 11-14 of part two of Article 7 or participants of combat in accordance with paragraph 19-20 of part one, Article 6 of the Law of Ukraine "On the Status of Veterans of War, and Guarantees of Their Social Protection", and persons in need of better housing	25,000.0		25,000.0
Subsidy from the State Budget to the oblast budget of Kherson oblast for the construction the overpass at Admiral Senyavin Avenue and Zalaegersegg st. in Kherson	19,000.0		19,000.0
Subsidy from the State Budget to local budgets for the purchase of expendables for health facilities and medicines for inhalation anesthesia	18,972.6	18,972.6	
The subsidy from the State Budget to the budget of Zhovti Vody for implementation of measures regarding protection from radiation and social protection of the population in the city	8,480.1	8,480.1	

Annex 7: Financial reports of public corporations

Name of the Public Corporation	Date of audited financial statement	Total expenditure (2018)	As a % of total expenditure of public corporations
SE "Eastern Mining Porcessing Plant"	Auditor`s conclusion as of 15.07.2019	4,416,101	4.09
SE "Yuzhnoe State Design Office"	Auditor`s conclusion 15.05.2019	2,361,208	2.19
SOE of alcoholic beverage industry "Ukrspirt"	*	1,376,445	1.28
LLC Zaporizhzhya Titanium-Magnesium Plant	*	1,607,147	1.49
SE Lutsk repair plant "Motor"	*	439,618	0.41
Chernomorsk Sea Commercial Port	*	1,129,919	1.05
Mariupol Sea Commercial Port	06.08.2018	941,724	0.87
SOE Selydivvuhillya (coal mining)	*	1,453,079	1.35
SOE State Kyiv Construction Bureau "Luch"	*	2,329,344	2.16
Scientific and Production Complex "Iskra"	17.07.2019	1,152,071	1.07
Private JSC "Ukrainian Danube Shipping company"	*	850,442	0.79
SOE "Zaporizhzhya Machinery Building Construction Bureau "Progress" named after academician O.Ivchenka	*	1,188,856	1.10
SOE "Novator"	*	428,003	0.40
SOE "Mirnogradvuhillya"	26.04.2019	1,400,110	1.30
SOE Lviv State Aviation and Repair Plant	26.04.2019	366,816	0.34
SOE Kharkiv Armoured Plant	*	366,777	0.34
SOE Kyiv Armoured Plant	*	422,955	0.39
SOE Kharkiv Construction Bureau on Machine Building named after O.Morozova	*	425,815	0.39
Shostka Plant "Impuls"	*	466,547	0.43
PJSC "Kyiv-Dnipro MPPZT"	*	617,091	0.57
Concortium "Ukrspirt" (consolidated reporting)	*	619,728	0.57

Are contingent liabilities and fiscal risks of the public corporation included in the financial report? (Y/N)	Links <i>(financial statement/auditor's report)</i>
Yes/Fiscal risks are assessed using different methodologies.	http://vostgok.com.ua/sites/default/files/pdf/СхідГЗК_3віт_31_12_2018.pdf
Yes/Fiscal risks are assessed using different methodologies.	https://www.yuzhnoye.com/fo/years/2018/audit2018.pdf
Yes/Fiscal risks are assessed using different methodologies.	-
Yes/Fiscal risks are assessed using different methodologies.	-
Yes/Fiscal risks are assessed using different methodologies.	http://www.motor-lutsk.com.ua/uk/node/19
Yes/Fiscal risks are assessed using different methodologies.	https://seaport.com.ua/main/374-fnansova-zvtnst-derzhavnogo-pdpryemstva-morskiy-torgovelniy-port-chornomorsk-fotodokumenti.html
Yes/Fiscal risks are assessed using different methodologies.	https://www.marport.net/?q=node/306
Yes/Fiscal risks are assessed using different methodologies.	http://mpe.kmu.gov.ua/minugol/control/uk/publish/article?art_id=245372261&cat_id=245194014
Yes/Fiscal risks are assessed using different methodologies.	http://www.luch.kiev.ua/ukr/
Yes/Fiscal risks are assessed using different methodologies.	https://iskra.zp.ua/index.php?option=com_content&view=article&id=14&Itemid=112&lang=ua
Yes/Fiscal risks are assessed using different methodologies.	http://udp.one.ua/informaciya1/finansovaya-otchetnost
Yes/Fiscal risks are assessed using different methodologies.	-
Yes/Fiscal risks are assessed using different methodologies.	-
Yes/Fiscal risks are assessed using different methodologies.	https://www.mvug.com.ua/аудиторський-висновок
Yes/Fiscal risks are assessed using different methodologies.	http://sarp.com.ua/aboutus/promulgation/
Yes/Fiscal risks are assessed using different methodologies.	-
Yes/Fiscal risks are assessed using different methodologies.	-
Yes/Fiscal risks are assessed using different methodologies.	-
Yes/Fiscal risks are assessed using different methodologies.	-
Yes/Fiscal risks are assessed using different methodologies.	http://mppzt.com.ua/info/the-especial-information
Yes/Fiscal risks are assessed using different methodologies.	-

Name of the Public Corporation	Date of audited financial statement	Total expenditure (2018)	As a % of total expenditure of public corporations
"Olivia"	*	280,081	0.26
SOE Mine administration "Pivdenodonbas #1"	19.04.2019	657,103	0.61
SOE "Coalmine named after M.Surgaya"	25.04.2019	699,989	0.65
SOE "Odessa aviation plant"	*	246,190	0.23
SOE Mykolaiv Avia repair Plant "NARP"	*	132,360	0.12
SOE Coal Company "Krasnolimansk"	26.04.2019	0	0.00
Coalmine "Nadia"	07.03.2019	248,414	0.23
SOE "Document"	*	507,188	0.47
SOE "Zaporizhzhya State Aviation Repair Plant "MiGremont"	*	264,016	0.24
SOE Research and manufacturing complex "Photoprylad"	*	127,071	0.12
Odessa Sea Commercial Port	*	284,763	0.26
SOE "Pervomaiskvuhillya"	*	872,183	0.81
Research and Technical Complex "Institute for Electro Welding named after Ye.Paton, National Academy of Science of Ukraine	*	28,356	0.03
Kherson State Plant "Palada"	*	14,851	0.01
SOE Kharkiv Instrument Making Plant named after T.Shevchenko	*	78,105	0.07
SOE "Klesivsk Forestry"	*	225,436	0.21
SOE Novopokrovsk Bread Products plant	*	109,874	0.10
SOE "Shepetivla Repair Plant"	*	461,961	0.43
SOE "Plant Electrovazhmash"	15.05.2019	2,060,798	1.91
PJSC "Ukrgridroenergo"	16.04.2019	6,230,929	5.78
PJSC "Ukrposhta"	*	6,577,500	6.10

Are contingent liabilities and fiscal risks of the public corporation included in the financial report? (Y/N)	Links <i>(financial statement/auditor's report)</i>
Yes/Fiscal risks are assessed using different methodologies.	https://sc-olvia.com/ua/2018_rik
Yes/Fiscal risks are assessed using different methodologies.	http://mpe.kmu.gov.ua/minugol/control/uk/publish/article?art_id=245365095&cat_id=245365039
Yes/Fiscal risks are assessed using different methodologies.	http://surgaya.com.ua/wp-content/uploads/2019/04/Шахта-Сургая-Звіт.pdf
Yes/Fiscal risks are assessed using different methodologies.	
Yes/Fiscal risks are assessed using different methodologies.	
Yes/Fiscal risks are assessed using different methodologies.	https://krasnodolimanskaya.com.ua/wp-content/uploads/2019/04/Звіт-незалежного-аудитора-щодо-фінансової-звітності-за-2018-рік-ДП-ВК-Краснолиманська.pdf
Yes/Fiscal risks are assessed using different methodologies.	http://dkrs.kmu.gov.ua/kru/doccatalog/document?id=147645
Yes/Fiscal risks are assessed using different methodologies.	
Yes/Fiscal risks are assessed using different methodologies.	
Yes/Fiscal risks are assessed using different methodologies.	
Yes/Fiscal risks are assessed using different methodologies.	https://data.gov.ua/dataset/35e8a5e6-84e1-45c6-a07c-cbdd05c80963/resource/6a9ea8eb-8141-479e-8161-e1aa7dac1473
Yes/Fiscal risks are assessed using different methodologies.	http://первомайскуголь.укр/2019/04/26/zvity-za-i-kvartal-2019-roku/
Yes/Fiscal risks are assessed using different methodologies.	
Yes/Fiscal risks are assessed using different methodologies.	
Yes/Fiscal risks are assessed using different methodologies.	
Yes/Fiscal risks are assessed using different methodologies.	
Yes/Fiscal risks are assessed using different methodologies.	
Yes/Fiscal risks are assessed using different methodologies.	https://shrz.com.ua/zvitnist/
Yes/Fiscal risks are assessed using different methodologies.	http://spetm.com.ua/index.php/ua/about-2/finansova-zvitnist
Yes/Fiscal risks are assessed using different methodologies.	https://uhe.gov.ua/sites/default/files/2019-04/Finzvit-zi-zvitom-auditora-BDO-za-2018.pdf
Yes/Fiscal risks are assessed using different methodologies.	https://ukrposhta.ua/pro-pidpriyemstvo/zvitnist-emitenta/

Name of the Public Corporation	Date of audited financial statement	Total expenditure (2018)	As a % of total expenditure of public corporations
Public Joint Stock Company "State JSC – Highways (roads) of Ukraine	26.04.2019	6,628,233	6.14
SOE "statevuglepostach"	29.05.2019	4,918,786	4.56
PJSC "Agrarian Fund"	26.04.2019	6,324,010	5.86
SOE "International Airport "Borispol"	*	2,466,538	2.29
PJSC "Joint Mining and Chemistry Company"	19.04.2019	2,876,085	2.67
SOE Research and manufacturing complex –gas turbin construction	21.02.2018	962,075	0.89
PJSC "TURBOATOM"	*	1,419,470	1.32
SOE Plant named after V.Malyshev	*	1,303,550	1.21
SOE "Lvivvugillya" (coal industry)	*	3,026,791	2.81
SOE "Poligraph Complex "Ukraine" on production of securities	20.06.2019	1,913,342	1.77
Yuzhny Sea Commercial Port	27.04.2018	1,491,120	1.38
SOE "Artemsolt"	26.04.2019	1,059,142	0.98
PJSC "Odessa SeaPort Plant"	25.04.2019	1,060,428	0.98
SOE "Ukrspetsexport"	14.09.2018	673,891	0.62
SOE Research and production complex "Pavlograd Chemical Plant"	*	1,573,475	1.46
SOE Plant #410 Civil Aviation	31.05.2018	422,083	0.39
SOE "Konotop aviarepair plant "Aviakon"	13.08.2018	405,425	0.38
A subsidiary of SOE "Ukrspetsexport" SOE "Ukroboronservice"	24.05.2018	480,589	0.45
Izmail Sea Commercial Port	29.05.2019	552,626	0.51
A subsidiary of SOE "Ukrspetsexport" SOE for foreign trade "Spetstechexport"	27.04.2018	1,669,017	1.55
State Joint Stock Holding Company "Artem"	25.04.2018	593,525	0.55
State mortgage company	14.02.2019	1,120	0.00
SOE "Production Complex "Karpaty"	*	544,587	0.50

Are contingent liabilities and fiscal risks of the public corporation included in the financial report? (Y/N)	Links <i>(financial statement/auditor's report)</i>
Yes/Fiscal risks are assessed using different methodologies.	http://www.adu.com.ua/sites/default/files/zvitnist/audyt2018.pdf
Yes/Fiscal risks are assessed using different methodologies.	http://dvp.org.ua/uploads/docs/audit_DVP_2018.pdf
Yes/Fiscal risks are assessed using different methodologies.	http://agrofond.gov.ua/laws/documents/
Yes/Fiscal risks are assessed using different methodologies.	http://kbb.aero
Yes/Fiscal risks are assessed using different methodologies.	https://umcc.com.ua/purchase
Yes/Fiscal risks are assessed using different methodologies.	
Yes/Fiscal risks are assessed using different methodologies.	https://www.turboatom.com.ua
Yes/Fiscal risks are assessed using different methodologies.	
Yes/Fiscal risks are assessed using different methodologies.	http://www.lvug.com.ua/category/finansova-zvitnist/
Yes/Fiscal risks are assessed using different methodologies.	https://pk-ukraina.gov.ua/pro-kompaniyu/#fin
Yes/Fiscal risks are assessed using different methodologies.	http://www.port-yuzhny.com.ua/finansivie-rezultaty
Yes/Fiscal risks are assessed using different methodologies.	http://www.artyomsalt.com/pro-pidpriyemstvo/informatsiya-yaka-opublikovuyetsya-na-vikonannya-vimog-postanovi-1067km/
Yes/Fiscal risks are assessed using different methodologies.	http://www.opz.odessa.net/shareholder/?id=57&c=7&pc=17
Yes/Fiscal risks are assessed using different methodologies.	http://www.ukrspecexport.com/index/page/id/activity/lang/ua
Yes/Fiscal risks are assessed using different methodologies.	http://www.ric-phz.com.ua/index.php?pages=activity_enterprise
Yes/Fiscal risks are assessed using different methodologies.	http://arp410.kiev.ua/doc/reports/
Yes/Fiscal risks are assessed using different methodologies.	https://www.aviakon.com/documents/finansovi-rezultaty/
Yes/Fiscal risks are assessed using different methodologies.	https://uos.ua/zvitnist
Yes/Fiscal risks are assessed using different methodologies.	http://www.izmpart.com.ua/publiczni-dani/
Yes/Fiscal risks are assessed using different methodologies.	http://spetstechnoexport.com/system/documents/attachments/000/000/054/original/Finacial_Report_2017_full.pdf?1533832062
Yes/Fiscal risks are assessed using different methodologies.	http://www.artem.ua/ua/zvitnist
Yes/Fiscal risks are assessed using different methodologies.	http://ipoteka.gov.ua/sites/default/files/hb2018.pdf
Yes/Fiscal risks are assessed using different methodologies.	http://dpkarpaty.com.ua/home/informatsiya-pro-diyalnist

Name of the Public Corporation	Date of audited financial statement	Total expenditure (2018)	As a % of total expenditure of public corporations
Production Association Yuzhny Machine-Building Plant named after A.Makarov	31.05.2019	1,111,532	1.03
A subsidiary of SOE "Ukrspetsexport" SOE for foreign trade "Ukrinmash"	20.07.2018	390,388	0.36
StatePSJC "Construction company "Ukrbud"	25.04.2019	171,426	0.16
SOE Kharkiv machine-building plant "FED"	26.06.2018	255,365	0.24
PJSC "Khartron"	*	291,618	0.27
SOE "Toretskvuhillya	*	694,236	0.64
SOE "National information systems"	*	353,544	0.33
State Research and Production enterprise "Komunar Unity"	31.10.2018	177,492	0.16
SOE "Zhytomyr alcohol and beverage plant"	23.05.2019	230,986	0.21
Enterprise for Special instrument building "Arsenal"	*	115,862	0.11
Berdiansk Sea Commercial Port	*	204,727	0.19
PJSC "Ukrmedprom"	29.03.2019	367,380	0.34
SOE "Special Communication"	*	205,480	0.19
PJSC "State Production and Grain Corporation of Ukraine"	*	9,964,552	9.24
SOE "Antonov"	*	6,520,388	6.04
Total		107,887,848	51.23%

Are contingent liabilities and fiscal risks of the public corporation included in the financial report? (Y/N)	Links <i>(financial statement/auditor's report)</i>
Yes/Fiscal risks are assessed using different methodologies.	http://www.yuzhmash.com/about/index/today?id=1
Yes/Fiscal risks are assessed using different methodologies.	http://ukrinmash.com/services/
Yes/Fiscal risks are assessed using different methodologies.	https://www.ub.kiev.ua/finansova-ta-insha-informatsiia.html
Yes/Fiscal risks are assessed using different methodologies.	https://fed.ua/finansova-zvitnist/
Yes/Fiscal risks are assessed using different methodologies.	http://www.hartron.com.ua/uk/content/документи-звітності-подані-державним-органом
Yes/Fiscal risks are assessed using different methodologies.	http://toretskvugillya.com.ua/index.php?id=22
Yes/Fiscal risks are assessed using different methodologies.	https://nais.gov.ua/p/finansova-zvitnist-za-2017-rik
Yes/Fiscal risks are assessed using different methodologies.	http://www.tvset.com.ua/ukraine/tenders/
Yes/Fiscal risks are assessed using different methodologies.	http://lgz.com.ua/ru/главная/
Yes/Fiscal risks are assessed using different methodologies.	http://arsenalcdb.com.ua/images/Баланс_Звіт_про_фінансовий_стан.pdf
Yes/Fiscal risks are assessed using different methodologies.	http://bmtport.com.ua/фінансовий-звіт-за-2017-рік/
Yes/Fiscal risks are assessed using different methodologies.	http://www.ukrmedprom.com.ua/?page_id=525
Yes/Fiscal risks are assessed using different methodologies.	http://dpsz.ua/upload/FinZvit2017k4.pdf
Yes/Fiscal risks are assessed using different methodologies.	https://www.pzcu.gov.ua https://cabinet.smida.gov.ua
Yes/Fiscal risks are assessed using different methodologies.	
Yes/Fiscal risks are assessed using different methodologies.	

Annex 8: Extended assessment of investment

The Ministry of Regional Development, Construction and Housing and Communal Services (MinRegion) finances a significant number of medium and small projects under the State Fund for Regional Development (SFRD). The largest of them are listed in Paragraphs 17-19 of Table 11.2. The Form for such programs and projects was approved by the Order of the Ministry of Regional Development, Construction and Housing and Utilities of Ukraine dated April 24, 2015 # 80, and it does provide for the economic analysis of the projects but there is no evidence projects include it. The value of these projects accounts for 1.3% of the total value of the largest projects (Table 11.1). The applicant should monitor implementation of the investment project within the framework of the SFRD. The report should be published on the web page of the MinRegion on a quarterly basis following a standardized form, however there is no evidence all reports are published.

Some projects are included at the budget without participation in the competitive selection. Their cost was UAH 6.1 billion, or 33% of the total investment expenditures in 2018. The largest of them are listed in Paragraphs 2 and 8 of Table 11.2, and they account for 19.1% of the total cost of the largest projects (Table 11.1). An economic analysis was carried out for one of those projects: “Construction of mine # 10 “Novovolynska” (Par. 8 of Table 11.2), which accounted for 6.4% of the total value of the largest projects.

The rest of public investment project listed in Table A8 were following rules and procedures, described for the main investment project above.

The State Energy Efficiency Fund finances the projects for modernization of heat supply systems and insulation of buildings, such projects are not considered as the largest projects. This Fund was created at the end of 2017 only¹¹⁵ and since the State Budget expenditures for implementation of such projects are 8.2% of all investment expenditures (Table 11.1), it should be noted that their selection is based on established and published criteria, economic analysis, and taking into account evaluation of the project’s life cycle cost. In view of the specifics of such projects, it is not monitoring of their implementation that is carried out, but verification of the completed projects.

Investment projects for which sovereign guarantees are provided are developed following the Template and in accordance with the Procedure approved by Decree of the MoE # 724 of June 19, 2012. Also, a project proposal has to be developed in advance for those projects, on whose basis a preliminary assessment of the most important technical and economic parameters will be carried out. In particular, their economic performance, budget and social performance, and also sources of funding will be assessed. According to Article 15 of the Law of Ukraine # 1560-XII of September 18, 1991 “On Investment Activity”, such projects are subject to a mandatory state expert examination, which is to be conducted in accordance with the Procedure established by the Cabinet. This Procedure determines that the state expert examination of such projects is carried out by the central executive body, which implements public policy in the sector where the investment project is to be implemented. The same procedure establishes that the MoE (an independent body) will assess cost-effectiveness of such projects. The results of the projects’ economic evaluation are not published. Monitoring of projects for whose implementation a sovereign guarantee is granted is carried out by the Ministry of Finance. The results of such monitoring are not published.

¹¹⁵ Decree of the Cabinet of Ukraine dated December 20, 2017, # 1099.

Table 11.2. Compliance of the largest investment projects implemented in 2018 with the good practices at main stages of project life-cycle

#	Main Spending Unit/ Project Name	Economic Analysis	Selection	Costing	Monitoring	Project cost, Min UAH	Structure, %
Total Costs						86,886.1	100.0
State Road Agency of Ukraine						48,938.5	56.3
1	Development of highway N-31 Dnipro – Tsarichanka – Kobelyaki – Reshetilivka	+/-	+	+/-	+/-	17,746.8	20.4
2	Improvement of the public road condition on routes: Lviv –Ternopil – Uman; Bila Tserkva – Odesa – Mykolayiv – Kherson	-	-	-	-	8,800.0	10.1
3	Construction of the motorway across the Dnipro River in Zaporizhyya	+/-	+	+/-	+/-	8,042.6	9.3
4	Bringing the condition of motorway Kyiv – Sumy – Kharkiv (within the boundaries of Chernihiv and Sumy regions) to the modern technical standards	+/-	+	+/-	+/-	7,795.0	9.0
5	Improvement of public roads condition in the Lviv region	+/-	+	+/-	+/-	2,892.2	3.3
6	Development of border infrastructure on approaches to the border-crossing checkpoints on the Ukraine – Poland border	+/-	+	+/-	+	2,231.8	2.6
7	Development of border infrastructure on approaches to the border-crossing checkpoints on the Ukraine – Hungary border	+/-	+	+/-	+/-	1,430.1	1.6
Ministry of Energy and Coal Industry of Ukraine						4,475.2	5.2
8	Construction of mine # 10 “Novovolynska”	+/-	-	+/-	-	4,475.2	5.2
Ministry of Health of Ukraine						5,412.2	6.2
9	“Construction of the modern treatment and diagnostic complex of the National Specialized Hospital for Children “Okhmatdit”	+/-	+	+/-	+	3,934.0	4.5
10	Reconstruction and extension of the National Cancer Institute at 33/43 Lomonosov str., Goloseyevsky district, Kyiv	+/-	+	+/-	+	1,478.2	1.7
National Academy of Medical Sciences of Ukraine						20,242.5	23.3
11	Construction of the treatment and rehabilitation department of the state institution “Amosov National Institute of Cardiovascular Surgery of NAMSU»	+/-	+	+/-	+	2,837.7	3.3
Ministry of Ecology and Natural Resources of Ukraine						5,432.0	6.3
12	Implementation of the Commissioning Stage # 2 of the new safe confinement and disassembling of unstable structures of the “Shelter” facility	+/-	+	+/-	+/-	1,700.0	2.0
13	Implementation of the stage of final shutdown and preservation of units # 1, 2, 3 of the State Specialized Enterprise “Chornobyl NPP”	+/-	+	+/-	+/-	1,512.4	1.7
14	Rehabilitation of hydraulic structures of protective facilities of the Dnieper reservoirs	+/-	+	+/-	+	1,289.0	1.5

#	Main Spending Unit/ Project Name	Economic Analysis	Selection	Costing	Monitoring	Project cost, Mln UAH	Structure, %
15	Construction of facilities of the state system of radioactive waste management in the territory of the Exclusion Zone	+/-	+	+/-	+/-	930.6	1.1
State Affairs Administration						1,470.0	1.7
16	Restoration and renovation of the Mariinsky Palace at 5a Grushevskoho St., Kiev	+/-	+	+/-	+	1,470.0	1.7
Ministry of Regional Development, Construction and Housing and Communal Services of Ukraine						915.7	1.1
17	Construction of a secondary school with a swimming pool in Osokorky residential area, microdistrict 10, plots 65, 66 in the Darnytsky district of Kyiv	-	+	+/-	+	410.7	0.5
18	Completion of the main building of the Clinical Emergency Hospital at 68 Kyivska str., City of Vinnitsa	-	+	+/-	+	255.0	0.3
19	Reconstruction of facilities of the first stage of Bortnitskaya aeration station at 1a Collectorna str. in Darnytskyi district of Kyiv	-	+	+/-	+	250.0	0.3

