

Financial reporting of municipalities in Ukraine


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Public Sector Accounting and Reporting Program

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Legislation regulating activities of municipalities and specifics of municipal property management



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❖ Ukrainian Constitution

❖ Law of Ukraine “On Local Self-Governance in Ukraine”



❖ Budget Code of Ukraine

❖ Law of Ukraine “On Accounting and Financial Reporting in Ukraine”



❖ Law of Ukraine “On Lease of Public and Municipal Property”

Structure of municipal budget system



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Municipal budgets include:

the budget of the Autonomous Republic of Crimea

budgets of regions

budgets of districts

budgets of municipalities: budgets of villages, settlements and territorial communities, as well as district budgets in cities (when city is formed of several city-district councils).

There are about 38 000 budget users in Ukraine, and almost 30 000 of them are municipal budget users

Chief municipal budget administrators

Local public administrations, executive bodies and offices of local councils

Lower-level budget users

Hospitals, boarding schools, libraries

Recipients of budget funds

Communal enterprises for heat supply, water supply, housing and utility management companies

Structure of municipal revenues



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Tax revenues

- National taxes and fees (personal income tax, rent fees, tax on profit of municipal enterprises, single tax)
- Local taxes and fees (property tax, rent)

Non-tax revenues

- Part of profits from municipal enterprises
- Administrative fees and payments
- Fines and penalties for violations occurring within relevant territory

Income from capital transactions

- Income from sale of capital assets (fixed assets, land)

Transfers

- Subsidies
- Subventions

Own and fixed revenues: Tax and non-tax revenues, as well as revenues from capital transactions, form municipalities' own revenue base, which serves as a foundation for their financial self-reliance.

Impact of transfers: Transfers from the state budget (subsidies and subventions) play a significant role in filling municipal coffers, especially in regions that have suffered from war, ensuring financing for priority needs.

Impact of martial law: Structure of municipal revenues has undergone significant changes due to amendments to the tax system, as well as to displacement of people and businesses.

Main types of fiscal risks for municipalities



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Revenue risks

Unforeseen decline in local budget revenues due to economic downturns, changes in tax rates, or delays in receiving subventions from the state budget

Expenditure risks

Unexpected expenditure increases, due to emergencies (for example, natural disasters), changes in social standards, or necessity to finance unplanned projects

Liquidity risks

Risk of cash shortage in situations, when local authorities lack liquid assets to meet their obligations to counterparts or investors in a timely manner

Borrowing risks

Risks related to local debt management, such as excessive debt burden, fluctuations in interest rates on loans, or inability to repay debt obligations

Main areas of municipal asset and income management



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Managing municipal property and land

- Conducting inventory and assessment of communal property for its more efficient use
- Leasing, selling or using property for investment projects
- Efficient land resources management to collect rent and other fees

Optimizing of tax revenues

- Regular tax base analysis and ensuring compliance with tax law
- Ensuring timely and full collection of taxes belonging to local budgets (for example, personal income tax)

Increasing non-tax revenues

- Receiving income from municipal enterprises
- Establishing and collecting non-tax payments (for example, rent, fines, service fees)
- Efficient management of funds received from sale of municipal property

Bringing in additional resources

- Active fundraising from the state budget resources in the form of subsidies and subventions (inter-budgetary transfers)
- Opportunities of obtaining credit resources and issuing municipal bonds to finance development projects

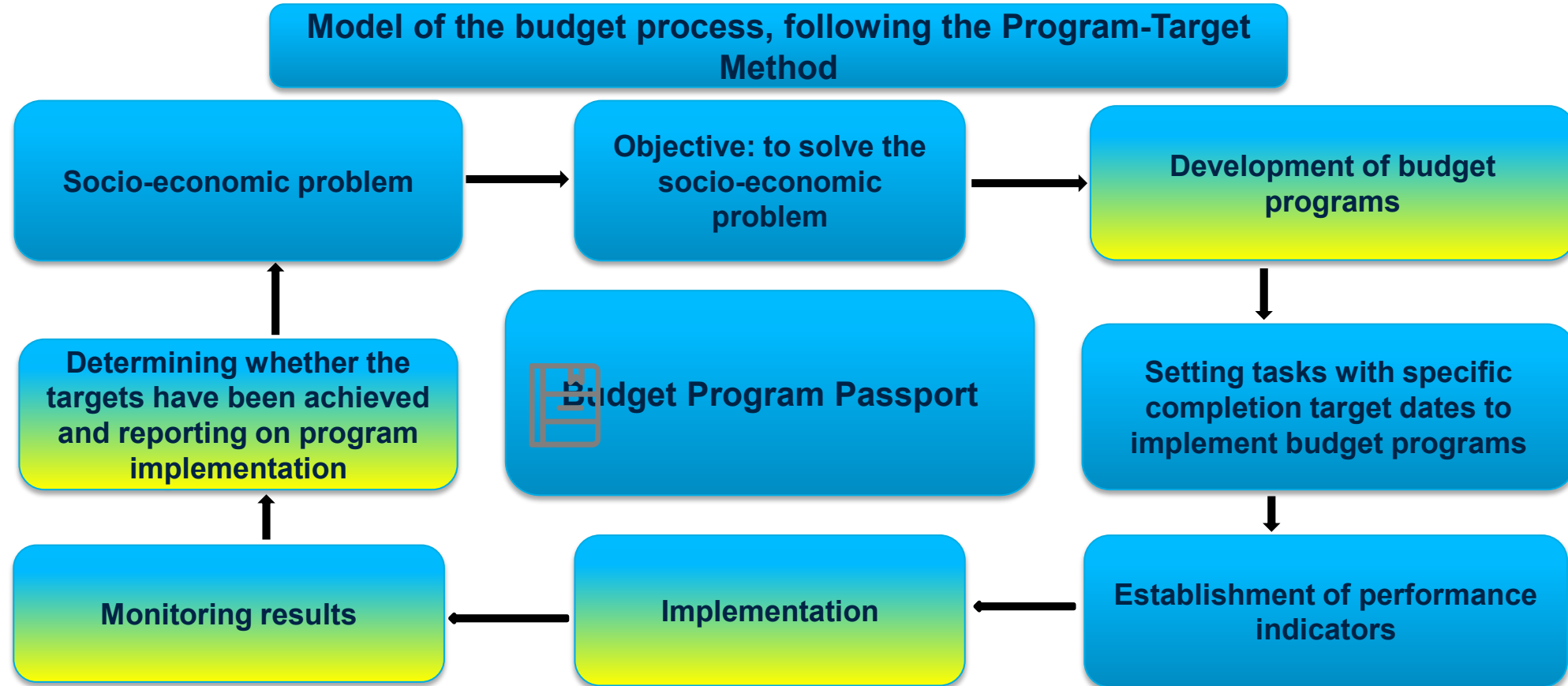
Efficient use of development budget

- Directing development budget funds to implement socio-economic development programs and to reinforce material and financial base of the community
- Infrastructure investments as well as investment projects to create new jobs and generate future income

Program-Target Method of Municipal Budgeting



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During all stages of budget program development, implementation, monitoring and reporting, it is necessary to have transparent and reliable accounting to avoid the risk of budget deficits

Accounting and reporting in municipalities

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For accounting and financial reporting, municipalities apply **uniform legislative norms instituted for all public sector entities**

Law of Ukraine “On accounting and financial reporting in Ukraine”

Procedure for submitting financial statements

National Regulations (Standards) for Accounting in the Public Sector

Chart of accounts for accounting in the public sector

Financial reporting forms

Procedure for filling out financial reporting forms in the public sector

Regulations for Organization of accounting and reporting on the Implementation of state and local budgets in the bodies of the State Treasury Service of Ukraine

Who provides for accounting services in municipalities



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According to requirements of the Law of Ukraine “On accounting and financial reporting in Ukraine”, to ensure proper accounting, each budget institution chooses the form of its organization by:

- establishing accounting service as dedicated structural unit
- or introducing an accounting specialist position (for small budgetary institutions)

contracting accounting services from the centralized accounting department of the supervising budget institution
In this case the supervising budget institution with a centralized accounting department determines the lists of its subordinate budget institutions that can be served by its centralized accounting department, subject to their agreement. The agreement between such institutions stipulates that services are provided on a pro bono basis. This is a very common approach to accounting setup at local level.

Example: the education division of a local public administration has a centralized accounting department providing accounting services for a network of schools and kindergartens, which are subordinate to the education division

Financial reporting at the local level



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Financial reporting forms

Balance Sheet (Form No. 1-ds)

**Statement of Financial results
(Form No. 2-ds)**

**Cash flow statement
(Form No. 3-ds)**

**Statement of Equity
(Form No. 4-ds)**

**Notes to the Annual Financial
Statements (Form No. 5-ds)**

Financial statements are prepared in accordance with the forms specified in the National Public Sector Accounting Regulation (Standard) 101 “Presentation of Financial Statements”

Information disclosure by articles of financial reporting is determined by the Procedure for completing financial statement forms in the public sector, approved by the Order of the Ministry of Finance of Ukraine No. 307 dated 28.02.2017.

Consolidation of financial statements by municipalities



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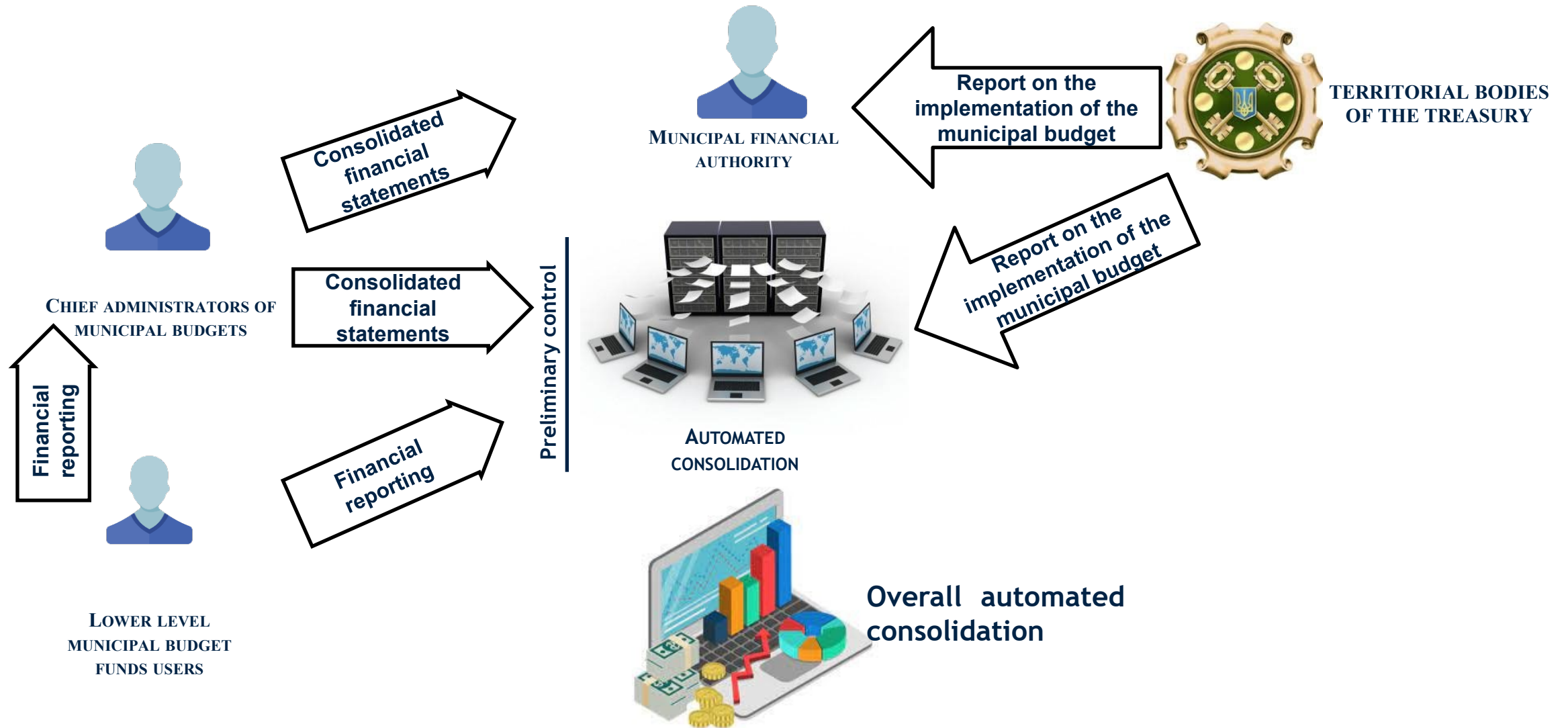
Consolidated financial statements are prepared by municipal controlling entities in accordance with the forms specified in National Public Sector Accounting Regulation (Standard) 101 “Presentation of Financial Statements” by:

- Adding financial reporting indicators of controlled entities in the public sector to similar financial reporting indicators of the controlling entity in the public sector
- Mutual exclusion of certain indicators that are not subject to consolidation:
 - ✓ Balances and transactions between public sector entities within an economic group and unrealized income received as a result
 - ✓ Unrealized losses resulting from transactions within the economic group, except where they can be recovered
 - ✓ **In the financial statements of the controlling public sector entity, contributions to the capital of state-owned or municipal enterprises are recognized as financial investments**

Submission of financial statements and consolidated financial statements by municipalities



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Legislative framework for Overall consolidated financial reporting at the state level

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Overall consolidation is carried out by the Treasury

National Public Sector Accounting Regulation (Standard) 102 “Consolidated Financial Reporting”

Prescribes forms for consolidated financial statements and the procedure for their preparation

Methodological recommendations for the preparation of overall consolidated financial statements by the Treasury (Order of the Ministry of Finance of Ukraine No. 204 dated 15.05.2019)

Prescribes the procedure for preparation of overall consolidated financial statements by the Treasury, including the mutual exclusion of indicators that are not subject to consolidation (transfers, subventions, control over intra-departmental settlements)

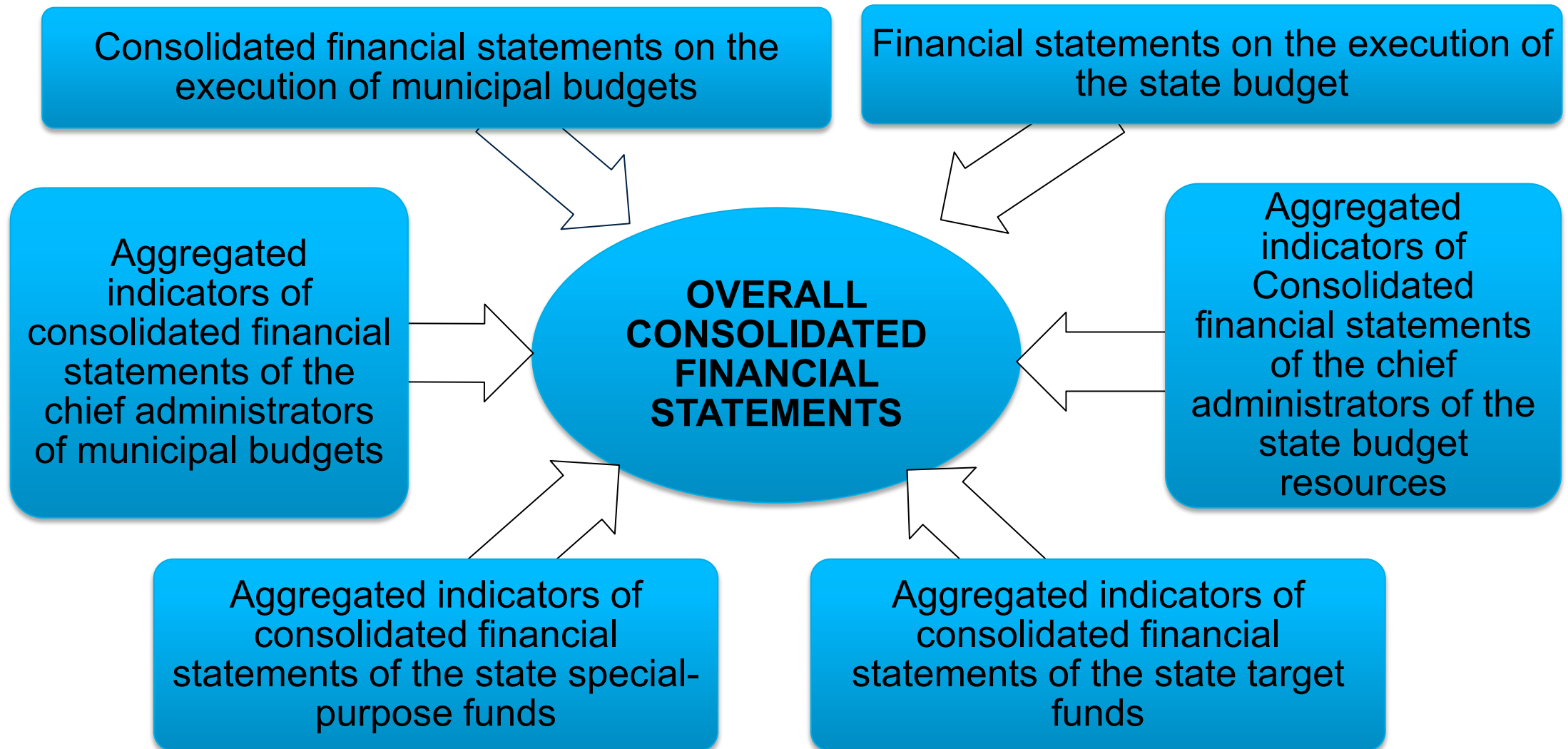
Methodological recommendations for the preparation of financial reporting forms by the bodies of the State Treasury Service of Ukraine (Order of the State Treasury Service of Ukraine No. 28 dated 25.01.2019)

Defines the procedure on how the Treasury bodies should prepare financial statements on execution of the state budget, as well as aggregated indicators within consolidated financial statements of the chief administrators of state budget and municipal budgets, budgets of the state funds for mandatory social and pension insurance, and their executive bodies

PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS



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Objectives of Financial reporting and Consolidated financial reporting of municipalities

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Information on sources of funds and directions of their use

Information on performance in terms of efficiency and achievement of activity objectives

Information on compliance with financial discipline by public sector entities

Information on participation in the capital of enterprises, acquisition, sale and ownership of securities

Information on purposeful use of budget funds

Information for budgeting and determination of the level of resources needed to continue operations; information about resources that may arise as a result of continuing operations, as well as the associated risks and uncertainties

Information on the assessment of management quality, and assessment of ability to fulfill own obligations in a timely manner



Thank you for your attention!