

Unofficial translation

PUBLIC SECTOR MANAGEMENT AND FINANCE LAW

**CHAPTER ONE
General Provisions**

Article 1. Purpose of the Law

1.1. Purpose of this Law is to regulate relations connected with authorities and responsibilities of state organisations and officials with regard to preparation, approval, spending and reporting of budget, personnel policies and principles of operational management of budgetary bodies, budget control and accountability system.

Article 2. Legislation

2.1. Legislation on management and finance of budgetary bodies shall consist of Constitution of Mongolia¹, this Law, and other legislative acts consistent to the entire Law.

Article 3. Applications of the Law

3.1. This law shall apply to all level organisations financed from state and local budgets, and fully and partly (with ownership participation of 51 per cent and above) state- and local-owned legal bodies.

3.2. Provisions and clauses on General Manager, Performance Agreement, outputs, outputs delivered and not specified in output purchase agreements shall not apply to the budget of intelligence body, and budgets of other organisations specified by Law.

3.3 *Appointment and dismissal of judges of the Constitutional Court and all level of courts, their number, salary and remuneration shall be regulated by relevant laws /Amendment made on 2 January, 2003/.*

Article 4. Terms Used in this Law

4.1. Terms used in this law shall be interpreted as follows:

- 4.1.1. The term "Unified budget of Mongolia" means the total of state and local budgets;
- 4.1.2. The term "State budget" means the total of budget approved by the State Great Hural to be mobilised and executed by the Government, and financial transfers to local governments;

¹ The Constituion of Mongolia, published in "State Official Gazette", No. 1, 1992.

- 4.1.3. The term "Local budget" means the total of local revenues, financial transfers from state budget, and funding from state budget for the purchase of outputs from local bodies;
- 4.1.4. The term "Budgetary body" means an organisation, which provides works and services related to the functions of the state and funded from state or local budget;
- 4.1.5. The term "Strategic Objectives" means medium- and long-term objectives and outcomes to be achieved, which are set by the Government and the budgetary body;
- 4.1.6. The term "Fiscal Framework Statement" means a document approved by the State Great Hural, which defines limitations and balances of indicators that the Government shall follow in preparation of the next year's General guideline of socio-economic development and state budget;
- 4.1.7. The term "Appropriation Estimates" means a proposal on budget revenues and expenditure submitted by the Government to the State Great Hural, which shows allocation of budget resources by appropriation types within the limitations of the Fiscal Framework Statement;
- 4.1.8. The term "Portfolio Minister" means an official who within his/her delegated authorities determines the need for outputs to be delivered by budgetary or other bodies, and who is entitled to conclude output purchase agreement;
- 4.1.9. The term "General Manager" means an official responsible for providing day-to-day management of the budgetary body on a basis of Performance Agreement concluded with the Portfolio Minister;
- 4.1.10. The term "Output" means works and services defined by such criteria specified in the agreement like quantity, timing, quality, and costs, and to be supplied by budgetary or other bodies;
- 4.1.11. The term "Output Class" means a group of similar outputs combined for the purposes of budget allocation;
- 4.1.12. The term "Statement of Intent" means three years` objectives and action plan of fully and partly (with ownership participation of 51 per cent and above) state- and local-owned legal bodies;
- 4.1.13. The term "Other Bodies" means entities, organisations or individuals that supply on contractual basis outputs stated in 4.1.10 of this Law, and to be purchased from state and local budgets;
- 4.1.14. "Accrual Base" means recording process, which recognises revenues, expenses, assets, liabilities, and equity at the time of economic transaction when incurred and that create resource movement notwithstanding timeliness;
- 4.1.15. "Providing an Ownership Interest" means planning and implementation of measures taken by the Government upon the consent of the State Great Hural to ensure that budgetary bodies maintain human, physical and financial resources, and management of possible risks to efficiently and continuously conduct their activities within given authorities.

Article 5. Principles of Fiscal Management

5.1. Budgetary bodies and officials shall conform to the following principles of management and financing:

- 5.1.1. Clearly identify at the beginning of the year objectives and outcomes to be achieved;
 - 5.1.2. Deliver the outputs for the fiscal year on a contractual basis and receive budget funding;
 - 5.1.3. Recruit civil servants only on the basis of their knowledge, education, qualification, experience and professional skills through open and competitive recruitment procedures, and fairly assess their work performance;
 - 5.1.4. Efficiently manage finance and budget, and avoid incurring receivables and liabilities.
- 5.2. The Government shall conform to the following principles in regard to budget:
- 5.2.1. Plan and manage budget on a medium-term basis;
 - 5.2.2. Ensure that average state budget operating expenses for the coming three years should not exceed average operating expenses;
 - 5.2.3. Ensure that annual operating cash flow should be in surplus;
 - 5.2.4. Ensure that in the year when terms of trade are positive the cash flow surplus should be higher than the average of three years;
 - 5.2.5. Determine and maintain appropriate annual level of Government loans upon the consent of the State Great Hural;
 - 5.2.6. Maintain stability of tax rates and taxation system.

CHAPTER TWO

Authorities of Budgetary Bodies and Officials on Fiscal Management

Article 6. Authorities of the State Great Hural

- 6.1. The State Great Hural shall have the following authorities:
- 6.1.1. Discuss/debate and approve upon the Government submission state budget revenues, funding for works and services to be borne by the state, and other revenues;
 - 6.1.2. Review and approve the Fiscal Framework Statement;
 - 6.1.3. On the basis of the Fiscal Framework Statement approve General guideline for socio-economic development, and the State Budget;
 - 6.1.4. Create efficient budget execution and performance reporting system by budgetary bodies ;
 - 6.1.5. Discuss the execution of the unified budget, and approve Financial Statements of the Government and the report on the execution of the State Budget.

Article 7. Authorities of the Government

- 7.1. The Government shall have the following authorities:
- 7.1.1. Implement measures on improving fiscal management relations;
 - 7.1.2. Formulate General guideline for socio-economic development and annual and medium-term aggregate indicators of the annual Appropriation Estimates of the unified budget in conformity with the Government Action

Plan and the principles of fiscal management specified in Paragraph 5.2. of this Law;

- 7.1.3 Formulate in accordance with the Government Action Plan, annual Fiscal Framework Statement and, on its basis, Appropriation Estimates of state budget;
- 7.1.4 Clearly identify financing needs for works and services to be delivered by state budgetary bodies;
- 7.1.5 Issue Government securities upon the approval of the State Great Hural;
- 7.1.6 Provide effective management and use of budget financing, ensure the quality of outputs to be delivered by state budgetary bodies;
- 7.1.7 Oversee state budgetary bodies' performance in relation to budget financing.

7.2 The Government shall submit proposals to the State Great Hural on the establishment of an agency in the following cases

- 7.2.1 Outputs to be delivered by this agency are those that belong to the authorities of the state;
- 7.2.2 If it is specified by Law, and if the Government considers these outputs to be delivered by this agency.

Article 8. Authorities of the Cabinet Member in Charge of Finance and Budget

8.1. The Cabinet Member in charge of Finance and Budget shall have the following authorities:

- 8.1.1. Manage the state budget performance and performance of budgetary bodies ensuring adherence to the fiscal management principles specified in Article 5 of this Law;
- 8.1.2. Present General guideline for socio-economic development, the Fiscal Framework Statement and Appropriation Estimates of state budget to the Cabinet Meeting, and be responsible for the accuracy of information and calculations;
- 8.1.3. Prepare proposals on improvement of budget management and financing, and submit them to the competent authorities for their approval;
- 8.1.4. Issue mandatory directives and instructions in regard to budget and financial management;
- 8.1.5 Ensure that payments for delivery of outputs are made from the state budget to budgetary and other bodies which comply with provisions of Agreements concluded with Portfolio Ministers;
- 8.1.6 *Effectively manage state assets, state budget resources and risks /Amendment made on 2 January, 2003/;*
- 8.1.7 Make or approve borrowings on behalf of the Government upon the approval of the Government;
- 8.1.8 Vary the terms and conditions of public securities, loan conditions, and prepare proposals to repay loans;
- 8.1.9. Manage loans and aid, and issue loans guarantees upon the Government's decision;
- 8.1.10. Manage state budget investments and debts;

- 8.1.11. Require the provision of information necessary for exercising his/her authorities from budgetary and other bodies.

Article 9. Authorities of the State Administrative Body Responsible for Finance and Budget

- 9.1 The State Central Administrative Body Responsible for Finance and Budget shall have the following authorities:

- 9.1.1 Set accounting policies of budgetary bodies in conformity with International Accounting Standards, and implement these policies;
- 9.1.2 Obtain necessary information from budgetary bodies;
- 9.1.3 Monitor the delivery of outputs to be delivered by state budgetary bodies within the authorities of Portfolio Ministers, and the delivery of outputs to be delivered by local budgetary bodies and to be financed from state budget;
- 9.1.4 Prepare annual Fiscal Framework Statement, Appropriation Estimates of state budget, and the Government's proposal on supplementary State Budget, and be responsible for the accuracy of information and calculations;
- 9.1.5 Prepare whole of Government Financial Statements in conformity with the International Accounting Standards;
- 9.1.6 Prepare consolidated report on the execution of the unified budget;
- 9.1.7 Administer the centralised cash management system of state budgetary bodies in conformity with requirements specified in Article 10 of this Law;
- 9.1.8 Administer bank accounts into which receipts, and from which payments, of the state budget are made;
- 9.1.9 Issue a permission to state budgetary bodies for opening a bank account;
- 9.1.10. Administer all bank accounts of the Government that are components of the centralised cash management system.

- 9.2. The State Central Administrative Body responsible for Finance and Budget may delegate administering of some account transactions on state revenues and expenses specified by Law to other legal bodies with appropriate authorities.

Article 10. Requirements for the Centralised Cash Management System

- 10.1 The centralised cash management system of state budgetary bodies shall meet the following requirements:

- 10.1.1 Provide an incentive for state budgetary bodies to accurately forecast and achieve their cash flows, and optimise their working capital position;
- 10.1.2. Efficiently manage the net position of bank accounts of state budgetary bodies while permitting these bodies to operate in a normal manner.

Article 11. Portfolio Ministers

- 11.1. Following officials shall act as Portfolio Ministers:
- 11.1.1. Head of the Office of the President in relation to the budget of the President;
 - 11.1.2. *the Speaker* of the State Great Hural in relation to the budget of the State Great Hural /*Amendment made on 2 January, 2003*/;
 - 11.1.3. Prime Minister in relation to the budget of organisations within his/her Portfolio specified by Law;
 - 11.1.4. Head of the Cabinet Secretariat in relation to the budget of the Prime Minister, the budget of the Cabinet Secretariat, and the budget of other organisations within his/her Portfolio specified by Law;
 - 11.1.5. Cabinet Member in relation to the budget of the respective State Central Administrative Body and the budget of other organisations within his/her Portfolio specified by Law;
 - 11.1.6. Head of the Constitutional Court in relation to the budget of the Constitutional Court;
 - 11.1.7. General Judge of the Supreme Court in relation to the budget of the Supreme Court;
 - 11.1.8. Chairman of the Judiciary Council in relation to the budgets of the Secretariat of the Judiciary Council, Aimag, Capital City, Soum, inter-Soum, District's and specialised courts;
 - 11.1.9. General Prosecutor in relation to the budget of all level Prosecutor's office;
 - 11.1.10. General Secretary of the National Security Council in relation to the budget of the National Security Council;
 - 11.1.11. Head of the Parliamentary Body in relation to the budget of the Parliamentary Body;
 - 11.1.12. Head of the Presidium of Aimag, Capital City, Soum and District's Assembly in relation to the budget of relevant level Assembly;
 - 11.1.13. Governor of the Capital City in relation to the budget of the Capital City and the budget of the Mayor's office;
 - 11.1.14. Governor of Aimag in relation to the Aimag budget;
 - 11.1.15. Governor of Soum and District in relation to the budgets of Soum and District respectively.

Article 12. Authorities of Portfolio Ministers

- 12.1 Portfolio Ministers shall have the following authorities:
- 12.1.1. Adequately determine the needs for outputs within given authority, revenues and financing required;
 - 12.1.2. Ensure the execution of annual Fiscal Framework Statement and execution of budget;
 - 12.1.3. Appear before the relevant Standing Committee of the State Great Hural to provide necessary information related to his/her Portfolio;

- 12.1.4. Submit proposals to the respective authorities in case if there is a need for state regulation for the implementation of Portfolio strategic objectives;
- 12.1.5. Provide ownership interest of agencies and other budgetary bodies within the Portfolio;
- 12.1.6. Conclude Performance Agreements with General Managers of budgetary bodies within the Portfolio;
- 12.1.7. Monitor the delivery of outputs specified in Strategic Business Plans of budgetary bodies within the Portfolio, and assess financial performance;
- 12.1.8. Make selections from the list of candidates suggested by the State Service Council for the managerial positions listed in Paragraph 45.1 of this Law, and recommend to the competent authorities for appointment.

12.2. Portfolio Ministers may delegate to General Managers some of their authorities in written form. The exercise of such delegation shall not limit the accountability of Portfolio Minister for exercise of those powers.

12.3. Portfolio Ministers have no authority to limit or usurp powers granted by Law to General Managers within the Portfolio.

Article 13. Authorities of State Budgetary Bodies

13.1. State budgetary bodies shall deliver outputs related to the functions of the state, and shall receive funding from the state budget.

13.2. State budgetary bodies shall use budget funding in accordance with Appropriations.

13.3. State budgetary bodies may deliver outputs other than those agreed with the Portfolio Minister, and may earn additional revenues in case if such a delivery is reflected in the Strategic Business Plan.

13.4. State budgetary bodies may engage in non-core activities under the following circumstances:

- 13.4.1. Portfolio Minister gives prior written approval, and non-budgetary resources to compensate the possible loss associated with such activities are clearly specified;
- 13.4.2. Such activities are properly reflected in financial statements and output delivery reports;
- 13.4.3. Such activities do not divert public assets from main use, and do not divert personnel of the budgetary body from their core activities.

13.5. State budgetary bodies may deposit surplus financial resources as part of the centralised cash management system. Interest rate to be paid on deposits shall be determined by the State Central Administrative Body responsible for Finance and Budget upon the agreement with the relevant Bank.

13.6. State budgetary bodies shall pay an annual capital charge for the use of state assets at a rate set by the State Central Administrative Body responsible for Finance and Budget.

13.7. Any savings in the capital charge expense and operating expenses of the state budgetary body may be used for training, re-training, performance incentives and for providing secure operations. However this shall not become a basis for cuts in approving next year budget of the budgetary body concerned.

Article 14. General Prohibitions of State Budgetary Bodies

14.1 Except as provided by Law, it shall be illegal for state budgetary bodies and officials to:

- 14.1.1. Borrow or lend money, repay or convert existing loans;
- 14.1.2. Open a bank account beyond the centralised cash management system;
- 14.1.3. Issue guarantees or indemnities of far going financial consequences;
- 14.1.4. Except as provided by Law, raise any revenue by levying taxes and charges, by delivering additional outputs in violation of this Law;
- 14.1.5. Spend above the appropriation limits in violation of this Law;
- 14.1.6. Invest in financial and equity instruments other than deposit with the centralised cash management system;
- 14.1.7. Use revenues from sale of assets for financing operating expenses;
- 14.1.8. Unreasonably dismiss employees, and violate provisions of Paragraph 5.3.1 of this Law.

Article 15. State Revenues, Expenses, Assets and Liabilities

15.1. Revenues, expenses, assets and liabilities incurred from works and services provided by state budgetary bodies on behalf of the state shall be accounted for in separate statement of “state revenues, expenses, assets and liabilities”.

The State Great Hural and the Government, upon the consent of the State Great Hural, shall determine state revenues, expenses, assets and liabilities.

15.2. All cash flows relating to revenues, expenses, assets or liabilities specified in Paragraph 15.1 of this Law shall be recorded in a “state revenues, expenses, assets and liabilities” bank account to be managed by the State Central Administrative Body responsible for Finance and Budget.

15.3. Portfolio Minister shall ensure the management of state revenues, expenses and liabilities within his/her Portfolio, as specified in Paragraph 15.1 of this Law.

15.4 Relevant Portfolio Minister may delegate some responsibilities stated in Paragraph 15.3 of this Law to the General Manager as outputs to be delivered by the General Manager through reflecting them in the Performance Agreement of the General Manager concerned. Exercise of such delegations shall not limit the accountability of the Portfolio Minister for the delegation of those responsibilities .

Article 16. General Manager

16.1 Budgetary Bodies shall be managed by General Managers who shall provide these budgetary bodies with efficient operational management and be responsible for their performance.

16.2 Following officials shall act as General Manager:

- 16.2.1. First Deputy Head of the Office of the President in relation to the budget of the President *and the Office of the President /Amendment made on 2 January, 2003/;*
- 16.2.2. *General Secretary* of the Secretariat of the State Great Hural in relation to the budget of the State Great Hural */Amendment made on 2 January, 2003/;*
- 16.2.3. First Deputy Head of the Cabinet Secretariat in relation to the budget of the Prime Minister, and the budget of the Cabinet Secretariat;
- 16.2.4. State Secretary of the State Central Administrative Body /Ministry/ in relation to the budget of the respective body;
- 16.2.5. Head of an agency in relation to the budget of the agency;
- 16.2.6. Head of the Office of the Constitutional Court in relation to the budget of the Constitutional Court;
- 16.2.7. Head of the Office of the National Security Council in relation to the budget of the Council;
- 16.2.8. Head of the Office of the High Court in relation to the budget of this Court;
- 16.2.9. General Secretary of the Judiciary Council in relation to the budget of the Secretariat of the Judiciary Council;
- 16.2.10. Head of the Office of Aimag, Capital City, Soum, inter-soum, District's and specialised courts in relation to the budget of relevant level court;
- 16.2.11. Head of the Secretariat of the General Prosecutor in relation to the budget of all level of Prosecutor's office;
- 16.2.12. General Secretary of the Presidium of Aimag, Capital City, Soum and District Assembly in relation to the budget of relevant level Assembly;
- 16.2.13. Head of the Office of Aimag, Capital City, Soum and District's Governor in relation to the budget of *the Office of relevant level Governor /Amendment made on 2 January, 2003/;*
- 16.2.14. Head (director) of other budgetary bodies in relation to the budget of this budgetary body.

16.3. The State Great Hural shall determine positions who shall act as General Manager of other Parliamentary Bodies.

16.4 General Manager may delegate in a written form some of his/her authorities to relevant official of the budgetary body. This exercise of such delegation shall not limit the accountability of the General Manager for the delegation of his/her authorities.

Article 17. Authorities of General Manager

17.1. General Manager shall have the following authorities:

- 17.1.1. Pay out expenditures subject to the appropriation limits and output purchase agreements;
- 17.1.2. Invest within the Government limits;
- 17.1.3. Open a bank account of the budgetary body upon approval by the State Central Administrative Body responsible for Finance and Budget;
- 17.1.4. Manage the budgetary body's assets in conformity with its Strategic Business Plan;
- 17.1.5. Determine the staffing and salary fund of the budgetary body.
- 17.1.6. Achieve the operational performance of the budgetary body as specified in its Strategic Business Plan;
- 17.1.7. Provide the budgetary body with efficient budget management;
- 17.1.8. Establish an efficient system of internal financial control;
- 17.1.9. Provide efficient investment from state budget and from other sources, and implement control over its realisation;
- 17.1.10. Ensure the integrity of financial statements of the budgetary body;
- 17.1.11. Ensure the provision of information in the form and within the time framework requested by the State Central Administrative Body responsible for Finance and Budget as it is specified in the Chapter 4 of this Law;
- 17.1.12. Observe the principles stated in Paragraph 5.1.3 of this Law in appointing, dismissing, and remunerating staff of the budgetary body;
- 17.1.13. Follow financial instructions and accounting standards and other respective rules and regulations to be exercised in the budgetary body;
- 17.1.14. Other authorities specified in this Law.

Article 18. Performance Agreement of the General Manager

18.1 General Manager of a budgetary body shall act on the basis of performance agreement concluded within the timeframe specified in Paragraph 18.4 of this Law.

18.2 Performance Agreement shall reflect objectives specified in the Strategic Business Plan, General Manager's personal performance objectives, and assessment criteria of the General Manager's performance.

18.3 Performance Agreement shall be concluded in the following way:

- 18.3.1. General Manager of state budgetary body directly with the Portfolio Minister to whom s/he is accountable for;
- 18.3.2. In case of state budgetary body which directly reports to the General Manager of another state budgetary body by the decision of the Portfolio Minister, the General Manager shall conclude Performance Agreement directly with the General Manager of that budgetary body;
- 18.3.3. Head of the Office of Aimag, Capital City, Soum and District's Governor and Head of the local budgetary body shall conclude Performance Agreement with respective level Governor.

18.4 Performance Agreement shall be concluded within one month from the date of the approval of the State Budget by the State Great Hural.

Article 19. Accountabilities of the General Manager of Agencies to the Portfolio Minister

19.1. The General Manager of an agency shall be accountable to the Portfolio Minister for performance of his/her agency unless otherwise stated in Law.

19.2. The responsibility of the General Manager of an agency to the Portfolio Minister shall only be in relation to agency's financial performance and ownership interest.

19.3. Portfolio Minister shall take the responsibility for determining the outputs to be purchased from the agency.

19.4. Where a Portfolio Minister considers it efficient, and with the agreement of the General Manager of the agency concerned, Portfolio Minister can determine that the General Manager of the agency shall be responsible to the General Manager of a Ministry or another agency.

19.5. As it is specified in Paragraph 18.3 of this law, the General Manager of a Ministry or another agency, whom the General Manager of an agency is responsible for, shall undertake the following functions:

- 19.5.1. Each year conclude Performance Agreement in conformity with Paragraph 18.3 of this Law;
- 19.5.2. Implement the Strategic Business Plan of the agency, and spend budget allocations;
- 19.5.3. Ensure consistency of the outputs to be delivered by the agency with the outcomes and strategic objectives for the Portfolio;
- 19.5.4. Monitor the financial performance and other ownership performance of the agency;
- 19.5.5. Review the annual performance of the agency and the personal performance of its General Manager.

19.6. Portfolio Minister shall be accountable to the State Great Hural for the agencies within his/her Portfolio for matters stated in Paragraph 19.5 of this Law.

Article 20. Fully and Partly State-Owned Legal Bodies

20.1. Purpose of a fully and partly state-owned legal body shall consist in efficiently delivering outputs which private sector entities are not interested in producing or are not allowed to produce.

20.2. The Law on State and Local Property², and the Company Law³ shall regulate all relations not covered by this Law.

20.3. All commercial trading activities of the state shall be carried out by fully and partly state-owned legal bodies.

² The Law on State and Local Property, published in "State Official Gazette", No. 11, 1996.

³ Company Law, published in "State Official Gazette", No. 34, 1999.

20.4 If any state budgetary body is delivering outputs in a commercial trading environment, and there are justifiable reasons why that function should not be privatised, the Government shall either establish a state enterprise to carry out those activities, or transfer those activities to an existing state enterprise.

Article 21. The Board of Partly State-Owned Enterprise

21.1. The Board of partly state-owned legal body shall have the following responsibilities in addition to other responsibilities specified by Law:

- 21.2.1. Conclude Performance Agreement with the General Manager;
- 21.2.2. Monitor the performance of the General Manager;
- 21.2.3. Make key policy decisions concerning the operation of the enterprise.

21.2. While appointing Members of the Board, the State Property Committee shall select from those nominees selected by the State Service Council in conformity with the requirements of Article 45 of this Law, and who meet the following requirements:

- 21.2.1. Have the expertise necessary to fulfil the duties of the member of the Board;
- 21.2.2. Are free from any conflict of interest in relation to being the member of the Board.

21.3. The Board shall be responsible for providing relevant bodies in due time with statements and any other information specified in this Law.

21.4. If a civil servant is appointed as a member of the Board, s/he shall not be entitled for remuneration, reward or incentive except salaries set by competent bodies for fulfilling the duties of the member of the Board.

21.5. The Board shall implement authorities stated in Article 76 of the Company Law unless otherwise stated.

Article 22. Implementation of State Representation in Fully and Partly State-Owned Legal Bodies

22.1 The Cabinet Member in charge of Finance and Budget shall monitor the overall financial performance of fully and partly state-owned legal bodies as a Portfolio, for their impact on the public sector as a whole, its financial position and cash flows. The State Property Committee shall be responsible for monitoring their performance.

22.2 The role of the Representatives of the state as a shareholder shall be to agree on Statement of Intent with the Board of partly state-owned legal body, and monitor achievement of those strategies. The Representatives are prohibited from being involved in the operational management of the enterprise.

22.3. State shareholders are prohibited from issuing or reducing shares without an official decision of the Government.

22.4. State shareholders shall make proposals in written form to the Board on sizes of dividends to be paid by fully and partly state-owned legal bodies.

Article 23. Purchase of Outputs by Portfolio Minister

23.1. Portfolio Minister shall adequately determine the need for necessary outputs within the Portfolio, and shall purchase outputs from budgetary bodies, fully and partly state- and local-owned legal bodies and other bodies through output purchase agreement within given authority. Output purchase agreement shall specify terms of delivery of outputs and prices to be paid from the budget.

23.2. Parliamentary bodies shall provide the Portfolio Minister with the following outputs:

- 23.2.1. Policy advice, including regulatory advice;
- 23.2.2. Other services required by the State Great Hural within appropriation authority.

23.3. State Central Administrative Bodies shall provide the Portfolio Minister with the following outputs:

- 23.3.1. Policy advice, including regulatory advice;
- 23.3.2. Advice on performance agreements with agencies and other bodies within the Portfolio, negotiation of draft agreements with related bodies, and monitoring delivery of outputs and achievement of financial performance as specified in the agreement;
- 23.3.3. Other outputs to be delivered by the State Central Administrative Body.

23.4. Agencies shall provide the Portfolio Minister with outputs in accordance with their functions.

23.5. Where the Portfolio Minister wishes to purchase outputs from other bodies, these relations shall be regulated by relevant legislation.

Article 24. Purchase of Assets, Goods and Services by Budgetary Body

24.1. Rules on purchase of assets, goods and services by budgetary body shall be regulated by the Law on Regulations on Purchase of Goods and Services at the Expenses of State and Local Owned Budgets⁴.

CHAPTER THREE Budget Preparation and Approval

Article 25. Submission of the Fiscal Framework Statement to the State Great Hural and Its Approval

⁴ Law on Regulations on Purchase of Goods and Services at the Expenses of State and Local Owned Budgets, published in "State Official Gazette", No. 17, 2000.

25.1 The Government shall submit to the State Great Hural the Fiscal Framework Statement for the following year no later than the 1st of May.

25.2. The Fiscal Framework Statement shall include the following:

- 25.2.1. Government's medium term objectives;
- 25.2.2. Government objectives on level of operating expenses and revenues, public investment plans, total and recurrent balance, forecast balance sheet and cash flow for the budget year and for the two following years;
- 25.2.3. Estimates of indicators stated in Paragraph 25.2.2 of this Law and other macroeconomic indicators, and their explanations;
- 25.2.4. An assessment of the consistency of the planned fiscal indicators with fiscal management principles specified in this Law.

25.3. The State Great Hural shall complete the review and accept the Fiscal Framework Statement at its Spring session.

Article 26. Formulation of Strategic Business Plan

26.1. Strategic Business Plan of a budgetary body shall form the basis for preparation and approval of its budget.

26.2. The plan shall contain the following information for the forthcoming three financial years:

- 26.2.1. Strategic objectives of the budgetary body for the forthcoming three years;
- 26.2.2. Outputs to be delivered during the next financial year and specified by category, quantity, quality and costs;
- 26.2.3. Forecast financial statements prepared on the basis of the same indicators as the budgetary body's annual report;
- 26.2.4. Other ownership objectives.

26.3. Cost of outputs shall be determined on the basis of full accrual cost of production, including management overheads and capital charges.

Article 27. Submission of Strategic Business Plan

27.1. State budgetary body shall submit draft Strategic Business Plan to the Portfolio Minister no later than the 1st of July, the Portfolio Minister to the State Central Administrative Body responsible for Finance and Budget no later than the 15th of August, respectively.

Article 28. Submission of Statement of Intent

28.1. The management of fully and partly state-owned legal bodies shall prepare and submit a draft Statement of Intent to the State Property Committee no later than the 1st of July.

28.2. Statement of Intent shall contain the following information for the forthcoming three financial years:

- 28.2.1. Strategic objectives of the state enterprise for the forthcoming three years;
- 28.2.2. The nature and scope of activities to be undertaken;
- 28.2.3. Explanation of the accounting policies followed by the enterprise;
- 28.2.4. Forecast financial statements including an estimate of anticipated profits;
- 28.2.5. Anticipated dividend to be distributed to the budget;
- 28.2.6. Proposed investments.

28.3 The State Property Committee shall review draft Statement of Intent of fully or partly state- and local-owned legal bodies and submit them with its proposals to the State Central Administrative Body responsible for Finance and Budget no later than the 15th of July.

28.4 The State Property Committee shall include comments of the Cabinet Member in charge of Finance and Budget, negotiate and finalise with the management of these enterprises no later than the 1st of August.

28.5 The State Property Committee shall submit the final version of the Statement of Intent of fully and partly state- and local-owned legal bodies to the State Central Administrative Body responsible for Finance and Budget.

28.6. The Cabinet Member in charge of Finance and Budget shall table the Statement of Intent to the Government and the respective Standing Committees of the State Great Hural.

Article 29. Portfolio Appropriation Estimates

29.1 Appropriation Estimates of the Portfolio Minister shall be compiled on the basis of Strategic Business Plans of state and local budgetary bodies, and Statements of Intent of fully and partly state- and local-owned legal bodies.

29.2 The State Budget Proposal shall specify by each Portfolio the budget for services to be provided by the state.

29.3 Budget appropriations for all budgetary bodies shall be included in one of Portfolio Appropriation Estimates.

Article 30. Requirements for Portfolio Appropriation Estimates

30.1 Appropriation Estimates for each Portfolio Minister shall meet the following requirements:

- 30.1.1. Be consistent with the State Budget Proposal;
- 30.1.2. Reflect for the Portfolio the Government's short and medium-term strategic objectives;
- 30.1.3. Specify the authorities/bodies administering the appropriations;

- 30.1.4. Specify each class of outputs to be purchased within the Portfolio, relevant bodies to supply these outputs, and expenses to be incurred in purchasing those outputs;
- 30.1.5 Explain consistency of Portfolio Appropriation Estimates with the Government Action Plan;
- 30.1.6 Specify proposed expenses on each category of allowances, benefits and other transfers within the Portfolio;
- 30.1.7 Specify proposed expenses to be incurred for each category of ownership expenses;
- 30.1.8 Identify proposed amount on each category of investment;
- 30.1.9 Specify purpose and importance of each appropriation other than appropriations for the purchase of output;
- 30.1.10 Determine total forecast budget revenue to be generated within the Portfolio and its classification;
- 30.1.11 Where relevant, compare budgeted and estimated actual figures for the previous appropriation period for each of the items specified above.

Article 31. Submission of Portfolio Appropriation Estimates to the Government

31.1 The State Central Administrative Body responsible for Finance and Budget shall compile Portfolio Appropriation Estimates and submit them to the Government no later than the 15th of September.

31.2. The Government will discuss the Appropriation Estimates for each Portfolio Minister.

Article 32. Submission of the State Budget Proposal to the State Great Hural

32.1 The Government shall submit to the State Great Hural the following state budget documents no later than the 1st of October preceding the fiscal year:

- 32.1.1 Draft General guideline for socio-economic development;
- 32.1.2 The State Budget Proposal and its (explanation) report;
- 32.1.3 Appropriation Estimates for each Portfolio Minister.

32.2. The State Budget proposal shall detail the Government's financial performance objectives by the following indicators:

- 32.2.1 Criteria necessary for assessment of implementation of fiscal management principles;
- 32.2.2 Financial statements including indicators of state revenue and expenditures, state assets and liabilities, cash flows for the forthcoming financial year and the forthcoming two financial years;
- 32.2.3. A statement of specific fiscal risks of the Government including any contingent liabilities and any potential additional expenses or revenue shortfalls that have not been incorporated into the forecast financial statements but which could result from decisions already taken by the Government;

32.2.4. A statement of consistency of Budget figures with those in the Fiscal Framework Statement, and explanation of inconsistency, if it is the case.

32.3 The Law will set classification of State Budget revenues specified in Paragraph 32.2 of this Law, and relationships between state and local budgets.

32.4 State Budget expenditure categories shall be consistent with categories of Portfolio Appropriations specified in Paragraph 33.2 of this Law .

Article 33. Approval of Appropriation Estimates

33.1 The State Great Hural shall review and approve budget documents and Appropriation Bill specified in Paragraph 32.1 of this Law.

33.2. Portfolio Appropriation Estimates shall contain the following categories of appropriations:

- 33.2.1 Outputs to be purchased from state and local budgetary bodies, fully and partly state-owned legal and other bodies by each class;
- 33.2.2 Budget allowances, benefits, and other transfers by each category and class;
- 33.2.3 Ownership expenses by each category;
- 33.2.4 investments to be financed from the state budget by each investment project.

33.3 In approving Appropriation Estimates, the State Great Hural shall ensure that they are consistent with the Fiscal Framework Statement approved earlier other than the major changes occurred beyond the Government's control.

33.4 All amendments to the budget documents proposed by the State Great Hural should not change the taxation system.

33.5 The State Great Hural shall debate and approve the State Budget no later than the 1st of December.

Article 34. Fiscal Year

34.1 The fiscal year shall start on the 1st of January, and finish on the 31st of December.

Article 35. Period of Appropriations

35.1 The annual appropriation authority of the Portfolio Minister to use budget resources shall lapse at the end of the fiscal year.

CHAPTER FOUR

Budget Execution and Reporting

Article 36. Pre-election Statement

36.1 The State Great Hural shall publicly report on the national socio-economic condition, and financial position of the Government no later than one month prior to the announcement of elections of the State Great Hural. The report shall include the following information:

- 36.1.1 Key economic indicators:
 - 36.1.1.1. labour force and employment;
 - 36.1.1.2. allowances, benefits and average wages of civil servants;
 - 36.1.1.3. indicators of real changes of GDP;
 - 36.1.1.4. consumer price index;
 - 36.1.1.5. exchange rate of national currency to USD, and indicators of cash flows;
 - 36.1.1.6. Investment;
 - 36.1.1.7. net reserves of foreign currencies and indicators of gross revenues and expenditures;
 - 36.1.1.8. balance of trade, debt and loans.
- 36.1.2 Forecast financial statements for the year during which elections are being held;
- 36.1.3 A statement of fiscal risks of the Government, including all Government decisions involving fiscal risks, any additional expenditures, revenue shortfalls and all other circumstances which may have effect on the fiscal and economic outlook and which have not been incorporated into the forecast financial statements.

Article 37. Reporting the Execution of the Unified Budget

37.1 The State Central Administrative Body responsible for Finance and Budget shall produce report on execution of the unified budget, and prepare Government's annual financial statements in conformity with International Accounting Standards.

37.2. Financial statements shall include the following:

- 37.2.1. Operating statement;
- 37.2.2. Balance sheet;
- 37.2.3. Statement of cash flows;
- 37.2.4. Statement of changes in net assets.

37.3. Financial statements shall be accompanied by the following additional attachments:

- 37.3.1 Statement of commitments;
- 37.3.2 Statement of contingent liabilities;
- 37.3.3 Statement of in-appropriated costs or expenses;
- 37.3.4 Statement of accounting policies;

- 37.3.5 Statement of responsibility signed by the Prime Minister and the Cabinet Member in charge of Finance and Budget confirming the accuracy and completeness of financial statements;
- 37.3.6 Comparison of the annual budget and indicators of appropriation estimates;
- 37.3.7 Reports by each Portfolio Minister as specified in Article 39 of this Law.

37.4. The Government shall table to the State Great Hural financial statements with audit opinion specified in Paragraph 38.1 of this Law within one week of the audit opinion being issued.

37.5. The State Great Hural shall debate and approve the report on the execution of the unified budget during its Spring session.

Article 38. Audit Opinion

38.1 The Cabinet Member in charge of Finance and Budget shall submit the budget execution report and whole of Government annual financial statements to the State Audit Body for audit opinion no later than the 20th of March of the forthcoming year. The State Audit Body shall issue audit opinion within one month of receiving financial statements.

38.2 State budgetary bodies shall submit their annual financial statements to the State Audit Body no later than the 15th of February of the forthcoming year. The State Audit Body shall issue audit opinion within one month of receiving financial statements.

38.3. Annual financial statements of fully and partly owned state legal bodies shall be audited before the 1st of March of the forthcoming year.

38.4. Governors shall submit the compiled annual financial statements to the Aimag and Capital City audit Bodies before the 20th of February of the forthcoming year. Aimag and Capital City audit Bodies shall issue audit opinion within one month of receiving financial statements.

38.5. Those bodies that apply for audit services shall pay audit fees at the rates set by the State Central Administrative Body responsible for Finance and Budget. Audit fees shall be transferred to the state and local budgets.

Article 39. Reporting by Portfolio Minister

39.1 At the end of the fiscal year, Portfolio Minister shall prepare performance and budget execution reports and submit them to the Cabinet Meeting along with the audit opinion of the State Audit Body in accordance with provisions of Article 38 of this Law.

39.2 The annual report of the Portfolio Minister shall include:

- 39.2.1 Portfolio strategic objectives and level of implementation;

- 39.2.2 Description and costs of outputs purchased, and explanation of any variance with those specified in Appropriation Estimates;
- 39.2.3 Description and costs of allowances, benefits and other transfers provided, and explanation of any variance with those specified in Appropriation Estimates;
- 39.2.4 Description and costs of each category of ownership expenses and explanation of any variance with those specified in Appropriation Estimates;
- 39.2.5 Description and costs of each category of investment and explanation of any variance with those specified in Appropriation Estimates;
- 39.2.6 Total budget revenue generated within the Portfolio and explanation of any variance with those specified in Appropriation Estimates.

Article 40. Reporting by State Budgetary Body

40.1 State budgetary bodies shall prepare financial statements on semi-annual and annual basis.

40.2 The annual report shall include annual financial statements for the state budgetary body, prepared in conformity with International Accounting Standards, including:

- 40.2.1 A balance sheet reporting assets, liabilities and equity of the budgetary body;
- 40.2.2 An income statement reporting revenue, expenditure, and operating surplus or deficit of the budgetary body;
- 40.2.3 A statement of cash flows reporting the operating, investing, and financing cash flows of the budgetary body;
- 40.2.4 A statement of changes in net assets showing changes of assets of the budgetary body.

40.3. The following additional information shall be attached to financial statements:

- 40.3.1 A statement of the budgetary body's commitments;
- 40.3.2 A statement of contingent liabilities of the budgetary body including any guarantees and indemnities;
- 40.3.3 A statement of any inappropriated expenditure in relation to appropriations administered by the budgetary body;
- 40.3.4 A statement of actual expenses incurred against each category of appropriation administered by the budgetary body;
- 40.3.5 A statement of accounting policies;
- 40.3.6 Other information necessary to fairly reflect the financial operations of the budgetary body and its financial position at the end of the year;
- 40.3.7 For each applicable statement, actual figures for forecast indicators as contained in the Strategic Business Plan;
- 40.3.8 For each applicable statement, comparative actual figures for the previous financial year;
- 40.3.9 A statement signed by the General Manager and chief accountant confirming the accuracy and completeness of information contained in the financial report.

40.4. State budgetary bodies shall prepare annual and semi-annual output delivery reports by each category of outputs reflecting quantity, quality, costs and timeliness.

40.5. State budgetary bodies shall submit annual financial statements to the Portfolio Minister and the State Central Administrative Body responsible for Finance and Budget within one week of the audit opinions being issued by the State Audit Body as specified in Article 38 of this Law.

Article 41. Monthly and Quarterly Reporting by State Budgetary Bodies

41.1 The General Manager shall submit monthly financial report to the Portfolio Minister, and quarterly output delivery reports to the Portfolio Minister and the State Central Administrative Body responsible for Finance and Budget.

41.2. Statements specified in Paragraph 41.1 of this Law shall be prepared in a form approved by the Cabinet Member in charge of Finance and Budget.

41.3. Quarterly reports shall include the following information

41.3.1 The progress of delivery of budgetary body's outputs;

41.3.2 Any other information necessary to assess the progress towards assessing the General Manager's Performance Agreement.

Article 42. Reporting by Fully and Partly State-Owned Legal Bodies

42.1 Fully and partly state-owned legal body shall provide annual financial statements and annual performance reports in accordance with the provisions of the Accounting Law⁵ and the Company Law.

42.2 The annual report of fully and partly state-owned legal body shall be presented in the form compatible with the Statement of Intent and contain indicators necessary to assess it against the Statement.

42.3 Fully and partly state-owned legal body shall submit to the State Property Committee its annual report and financial statements along with the audit opinion within one week of the audit opinion being issued.

CHAPTER FIVE

The State Service Council and Personnel of Budgetary Bodies

Article 43. The State Service Council

43.1. The State Service Council shall select the nominee for the senior executive managerial position of budgetary bodies in accordance with principles stipulated in Paragraph 5.1.3 of this Law.

⁵ Accounting Law, published in "State Official Gazette", No. 1, 2002.

43.2. The Law on Government Service⁶ shall regulate organisational structure and activities of the State Service Council.

Article 44. Authorities of the State Service Council

44.1 The State Service Council shall have the following authorities apart from that specified in the Law on Government Service:

- 44.1.1. Control the implementation of human resource policy in state and local budgetary bodies;
- 44.1.2. Receive and require from state and local budgetary bodies information concerning the implementation of human resource policy;
- 44.1.3. nominate candidates for the managerial positions specified in Paragraph 45.1 of this Law;
- 44.1.4. *ensure the observance* of a code of conduct to ensure ethical behaviour of civil servants /*Amendment made on 2 January, 2003*/;
- 44.1.5. Compile a list of skilled candidates to work for positions listed in Paragraph 45.1 of this Law and for state and local budgetary bodies, and provide budgetary bodies with the relevant information.

44.2 The State Service Council shall have office staff necessary for performing its functions.

Article 45. Procedures on Nomination for Managerial Positions of Budgetary Bodies and Fully and Partly State-Owned Legal Bodies

45.1 The State Service Council shall nominate 3-5 candidates and suggest them to competent authorities for the following positions:

- 45.1.1. First Deputy Head of the Office of the President;
- 45.1.2. *General Secretary* of the Secretariat of the State Great Hural; First Deputy Head of the Cabinet Secretariat;
- 45.1.3. State Secretary of the the State Central Administrative Body;
- 45.1.4. General Manager of the Parliamentary body;
- 45.1.5. *Head of an agency /except police, intelligence and armed forces. Amendment made on 2 January, 2003/*;
- 45.1.6. Head of the Secretariat of the General Prosecutor's Office;
- 45.1.7. Head of the Office of Aimag, Capital City Governor;
- 45.1.8. Chairman and members of the Board of partly state-owned legal body.

45.2 Before preparing the list of candidates, the State Service Council shall publicly advertise the vacancy at least 21 days in advance of the selection process.

45.3 Political forces, the President of Mongolia, the Speaker and Members of the State Great Hural, the Prime Minister, other Portfolio Ministers, shareholders and members of the Board of partly state-owned legal bodies shall not influence the State Service Council in the selection process of candidates for the positions specified in Paragraph 45.1 of this Law.

⁶ Law on Government Service, published in "State Official Gazette", No. 28, 2002.

45.4. After providing the list of nominees to the Portfolio Minister or Board, the State Service Council shall publish the list of recommended candidates together with a description of selection process.

45.5. *The nominating authority shall select one candidate from a list of nominees provided by the State Service Council /Amendment made on 2 January, 2003/.*

45.6. *The nominating authority shall have the right to reject nominees of the State Service Council only once /Amendment made on 2 January, 2003/.*

45.7. General Manager of Parliamentary bodies, State Central Administrative Bodies and agencies shall be appointed for three years but the term may be extended for two years as many times as required depending on their performance unless otherwise stated.

Article 46. Submission of Proposals

46.1. The State Service Council shall submit recommendations on remuneration for officials specified in Paragraph 45.1 of this Law to the following authorities :

46.1.1. to the Portfolio Minister on the remuneration of First Deputy Head of the Office of the President, *General Secretary* of the Secretariat of the State Great Hural, and First Deputy Head of the Cabinet Secretariat */Amendment made on 2 January, 2003/;*

46.1.2. to the Portfolio Minister on the remuneration of State Secretaries of State Central Administrative Bodies and *Heads* of agencies */Amendment made on 2 January, 2003/;*

46.1.3. to the State Great Hural, in consultation with the relevant Standing Committees, on the remuneration of General Managers of Parliamentary bodies;

46.1.4. to the Portfolio Minister on the remuneration of the Head of the Secretariat of the General Prosecutor's Office;

46.1.5. to the Governor of Aimag and Capital City on the remuneration of the Head of the Office of Aimag, Capital City Governor;

46.2. In making recommendations on remuneration, the State Service Council shall consider that the level of remuneration shall relate not only to the position, but also the performance of officials and pursue the following principles:

46.2.1. set the same level of salaries consistent with the position;

46.2.2. consider the level of responsibility associated with the position;

46.2.3. take into account the level of experience and skills required for the position.

46.3. In determining salaries of General Managers, Portfolio Minister shall take into consideration recommendations of the State Service Council and shall consider the actual performance of the General Manager and implementation of the Performance Agreement.

46.4. Working conditions and guarantees for civil servants shall be provided in accordance with the principles specified in the Law on Government Service and this Law.

Article 47. Assessment of Performance Agreement

47.1. The State Service Council shall issue rules and directives on concluding and assessing Performance Agreements between Portfolio Ministers and relevant officials, between the General Manager and employees of budgetary bodies, and administer implementation of those rules and directives.

47.2. The General Manager's annual performance shall be assessed by the Portfolio Minister on the basis of the quarterly and annual statements and reports of the budgetary body and the opinion issued by the State Central Administrative Body responsible for Finance and Budget and the State Service Council.

47.3. In case of the General Manager's unsatisfactory performance assessed as specified in Paragraph 47.2 of this Law, the Portfolio Minister may make decision on his/her dismissal or make suggestion to the competent authorities.

Article 48. Appointing Staff to Budgetary Bodies

48.1. When appointing staff of state and local budgetary bodies, the General Manager shall adhere to the principles based on knowledge, education, qualification, experience, and professional skills required for the particular position.

48.2. Following the appointment of a candidate to any managerial position, the General Manager shall provide a written report to the State Service Council on the criteria used to make the appointment. The State Service Council shall make a copy of that report available to general public.

48.3. The State Service Council has no authority to interfere with employment authorities of General Managers.

Article 49. Payment of Performance Bonuses to Employees

49.1 The General Manager shall have the authority to pay performance-related bonuses to employees of the budgetary body.

49.2. Following criteria shall be considered in determining performance-related bonuses:

- 49.2.1 personal contribution made by particular employee towards delivering outputs and improving his/her own performance or performance of other employee/s accountable for him/her;
- 49.2.2 overall financial performance of the budgetary body and the amount of current surplus.

49.3 The General Manager shall determine the category and amount of the bonuses.

CHAPTER SIX

Local Government

Article 50. Authorities of the Assemblies in Relation to Budget and Management

50.1. Assemblies of Aimag, Capital City, Soums and district shall have the following authorities:

- 50.1.1. Debate, approve and monitor the implementation of the Governor's Action and Strategic Business Plan;
- 50.1.2. Debate and approve local budget for the financial year, and monitor budget execution;
- 50.1.3. specify and approve the outputs to be delivered from local budgets, conclude output purchase agreements with the Governor, and ensure its implementation;
- 50.1.4. Review draft Governor's agreements on delivery of outputs to be financed from state budget, and make proposals on the quantity, costs, criteria and procedures for assessment of agreements.

50.2. Chairman of the Presidium of Assembly shall conclude, on behalf of the Assembly, output purchase agreement with the Governor.

50.3. Aimag and Capital City Assemblies shall determine the responsibility for delivering core outputs specified in paragraph 52.2 of this Law to Aimag, Capital City, Soum and districts on four-year basis.

50.4. Assemblies of Aimag, Capital City, Soum and districts shall approve rules on regulation of management and financial relations of fully and partly owned local enterprises in accordance with the provisions of Articles 22, 28.1 and 42 of this Law.

50.5. All other relations of fully and partly owned local enterprises that are not covered by this Law, shall be regulated by the Law on State and Local Property.

50.6. Assemblies shall have their own budget.

Article 51. Authorities of Aimag, Capital City, Soum and District's Governor

51.1 Aimag, Capital City, Soum and District's Governors shall have the following authorities to:

- 51.1.1. Develop an action program, and a strategic business plan;
- 51.1.2. Prepare budget proposal;
- 51.1.3. Manage activities of local budgetary bodies in accordance with the Action Program and the Strategic Business Plan approved by the respective level Assembly;
- 51.1.4. Make optimal selection of outputs to be delivered by local budgetary and other bodies, and conclude output purchase agreements;
- 51.1.5. Provide use, protection and safety of local assets;

- 51.1.6. Select and appoint General Managers of local budgetary bodies and partly local-owned legal bodies through competitive processes similar to those applying to the appointment of General Managers of state budgetary bodies and partly state-owned legal bodies, and conclude Performance Agreement;
- 51.1.7. Monitor delivery of outputs and financial performance of local budgetary bodies and fully and partly local-owned legal bodies, as it is stated in Performance Agreements with General Managers of these bodies;
- 51.1.8. Aimag and Capital City Governors shall conclude agreements on delivery of outputs to be funded from the state budget with relevant Portfolio Minister, other level Governors with higher level Governors respectively;
- 51.1.9. Conclude agreements with Assemblies on delivery of outputs to be funded from local budget, organise and report on actual delivery of those outputs;
- 51.1.10. Raise revenues from local sources to carry out responsibilities specified by this Law.

Article 52. Responsibilities of Aimag and Capital City Governors

52.1. Aimag and Capital City Governors, in addition to the authorities specified in Paragraph 51.1 of this Law, shall have the following responsibilities:

- 52.1.1. Deliver core local outputs specified in Paragraph 52.2 of this Law within the revenue derived from locally mobilised taxes and non-tax revenues and transfers from the state budget;
- 52.1.2. Deliver to the Government outputs to be financed from the central budget (education, health and other services) on contractual basis.

52.2. Aimag and Capital City Governors shall deliver the following core local outputs:

- 52.2.1. Measures on public hygiene; waste removal, treatment and disposal;
- 52.2.2. Local environmental conservation and protection, gardening, renewal and maintenance;
- 52.2.3. Pest eradication and control;
- 52.2.4. Local road maintenance;
- 52.2.5. Provide normal operations of water, sewerage and drainage systems;
- 52.2.6. Flood prevention and soil protection;
- 52.2.7. Fire prevention, protection and mitigation;
- 52.2.8. Outputs associated with local public infrastructure facilities;
- 52.1.9. Measures on fight and prevention of infectious livestock and animal diseases and diseases transferable from livestock to humans;
- 52.1.10. Others.

52.3 Aimag and Capital City Governors are prohibited from exceeding budget and appropriation limits, allowing the bank account to be in overdraft, and use funding resources for the delivery of contracted outputs on other purposes.

Article 53. Responsibilities of Soum and District Governors

53.1 Soum and District Governors, in addition to the authorities specified in Paragraph 51.1 of this Law, shall have the following responsibilities:

- 53.1.1. Deliver core local outputs specified in Paragraph 52.2 of this Law within the revenue derived from locally mobilised taxes and non-tax revenues and *transfers* from Aimag and Capital City;
- 53.1.2. Deliver outputs specified in paragraph 52.1.2 of this Law to be purchased by the Government (education, health and other services) on the basis of output purchase agreements with Aimag and Capital City Governors.

Article 54. Management of Local Budgets

54.1. Articles 13.1-13.4, 13.7, 14, 15, 17, 26, 27, 40, 47 of this Law shall be applied to local budgetary bodies.

Article 55. Local Government Assets and Possession and Use of State Assets by Local Government

55.1. State and local government assets possessed and used by Aimag, Capital City, Soum and District budgetary bodies, and which are required for delivery of core local outputs, shall be accounted for on balance sheet of the relevant local budgetary body.

55.2. Aimag, Capital City, Soum and District budgetary body shall be responsible for maintenance and use of assets on their balance sheets.

55.3. General Manager of Aimag, Capital City, Soum and District budgetary body shall have authorities to use and manage assets accounted for on balance sheet of the relevant local budgetary body.

55.4. Local budgetary bodies shall pay to the local budget capital charge for use of local assets possessed by them.

Article 56. Borrowing by Local Governments

56.1. Aimag and Capital City Governors may borrow from state budget for local needs.

Article 57. Intergovernmental financial relationships

57.1. Local Assemblies shall appropriate and approve financial transfers from the state budget to local budget in the same way as local budgets.

57.2. The Government may purchase outputs from local budgetary bodies on contractual basis. In this case the Government shall provide necessary funding.

57.3. In case of local budget deficit the Government, within its authority, may provide financial assistance (grant) to local governments.

57.4. The Government may transfer some part of services and outputs financed from state budget to local authorities.

Article 58. Submission and Approval of Local Government Budget

58.1 The Governor shall submit a budget proposal to the appropriate level Assembly no later than the 1st of December of the year preceding the fiscal year.

58.2 Local budget proposal shall include the following:

- 58.2.1. Short and medium term strategic objectives of local government;
- 58.2.2. Classes of outputs to be purchased, organisations that shall deliver outputs, and costs for purchase;
- 58.2.3. An investment plan;
- 58.2.4. Other ownership objectives including the maintenance of physical and financial assets and human capital;
- 58.2.5. Forecast financial statements prepared in the same form as the annual financial statements;
- 58.2.6. Explanation of the consistency of the classes of outputs with the strategic objectives;
- 58.2.7. Compared budgeted and estimated actual figures for the previous period.

58.3 The relevant level Assembly shall debate the budget proposal submitted by the Governor, and approve it within one-month time.

58.4 Aimag and Capital City budgets shall be submitted to the State Central Administrative Body responsible for Finance and Budget within one week of being approved.

Article 59. Reporting by Local Governments

59.1 The Governor shall report on the execution local budget within 20 days after completion of the fiscal year in conformity with the provisions of Articles 37 and 38 of this Law.

59.2 The Governor and Chief Accountant of local budget shall sign financial statements and performance report certifying their accuracy.

59.3 The Governor shall submit to the relevant level Assembly annual financial statements along with audit opinion issued by local Audit Body within one week from audit opinion specified in 38.4 of this Law being issued. Financial statements shall be submitted to the State Central Administrative Body responsible for Finance and Budget within one week upon its approval.

CHAPTER SEVEN

Audit

Article 60. Authorities of the State Audit Body

60.1. The State Audit Body, in addition to authorities specified in the Law on State Auditing⁷, shall conduct certification audits of the annual financial statements of budgetary bodies, fully and partly state-owned enterprises.

60.2. Budgetary bodies and state-owned legal bodies specified in Paragraph 60.1 of this Law shall provide information required for undertaking attest audit.

Article 61. Responsibilities of the Auditor-General

61.1 The Chairman of the State Audit Body shall be the Auditor-General of Mongolia.

61.2. The Auditor-General of Mongolia shall have the following responsibilities:

- 61.1.1. Approve the standards and procedures for conducting audits of budgetary bodies and ensure that audits of financial statements meet the International Auditing Standards;
- 61.1.2. Ensure the auditors are independent of the entity being audited;
- 61.1.3. Ensure that all audits are carried out in a competent manner and with due professional care;
- 61.1.4. Be accountable to the State Great Hural for the accuracy of the audit opinion.

Article 62. Auditing on Contractual Basis

62.1. The State Audit Body may contract out some proportion of its work to other audit companies.

62.2. The State Audit Body shall be responsible before the State Great Hural for the quality of work produced by independent auditors.

Article 63. Auditing of the State Audit Body

63.1 A competent, professionally qualified independent auditor selected through open competition and appointed by the Speaker of the State Great Hural shall perform audit of the annual financial statements of the State Audit Body.

Article 64. Internal financial inspection of the Government

64.1. The Government shall conduct financial inspection in state and local budgetary bodies.

⁷ Law on State Auditing, published in "Official Gazette", No. 4, 1995.

64.2. Internal financial inspection of the Government shall be made by *the State Professional Inspection Agency /Amendment made on 2 January, 2003/*.

64.3. Financial and business activities of state administrative bodies and other governmental organisations, partly owned state and local enterprises shall be covered by financial inspection.

64.4. Financial inspection shall be conducted as follows:

- 64.4.1. Implementation of legislation related to finance, budget and accounting and Government decisions, instructions and regulations issued by State Central Administrative Bodies;
- 64.4.2. Revenue estimation, collection, use of budget funding;
- 64.4.3. Use, spending, storage and safety of assets;
- 64.4.4. Results of financial performance and efficiency;
- 64.4.5. Use and spending of budget investments;
- 64.4.6. Initial and accounting records and financial statements;
- 64.4.7. Use and spending of foreign assistance and loans from international organisations, Government loans and assistance;
- 64.4.8. Use and spending of state budget funding on the refundable basis;
- 64.4.9. Spending of financial transfers provided from upper level budgets;
- 64.4.10. Implementation of obligations specified by Law by the accountant of the budgetary body.

64.5. Financial inspection may be conducted at the request of organisations or by the decision of upper level bodies.

64.6. State financial inspector shall assess the production, economic performance, estimation and spending of budget funding, and financial and accounting activities of organisations.

64.7. State financial inspector shall draw up statements of performance results, frauds identified during the inspection and measures to be taken and statement of penalties, payments for civil servants for each violation of budget, financial and accounting legislation.

Article 65. Penalties

65.1 Any organisation or an individual may advise the State Service Council of information and evidence on the breach of the Public Sector Management and Finance Law.

65.2 The State Service Council shall undertake such investigations, and if the breach does not qualify as a criminal and administrative case, the following procedures shall be applied to:

- 65.2.1. Act immediately to ensure remedial action is taken;
- 65.2.2. if necessary, propose to the competent authority to dismiss the General Manager;

- 65.2.3. Take account of the breach when assessing General Manager's Performance Agreement and when recommending his/her remuneration;
- 65.2.4. Propose to the management of the budgetary body to take relevant sanctions against an official responsible for the breach other than the General Manager.

65.3. Violation of provisions of Article 14 of this Law shall be the basis for dismissal of the official concerned.

Article 66. Entry Into Force

66.1 This Law shall enter into force on the 1st of January, 2003.

SIGNATURE