Report on the Internal Control Pilot in the Ministry of Justice of Ukraine

Free Legal Aid System

2026

EU4PFM
Програма Європейського Союзу (ЄС) з підтримки управління державними фінансами в Україні

CPVA Central project management agency

ПРЯМУЄМО РАЗОМ
ПРОЕКТ ФІНАНСУЄТЬСЯ ЄВРОПЕЙСЬКИМ СОЮЗОМ

CONTENT

1. Executive Summary
2. Context and Rationale
3. Pilot Scope and Objectives
3.1 Objective of the Pilot
3.2 Institutional Scope
3.3 Why the Free Legal Aid System Was Selected
4. How the Pilot Was Implemented
4.1 Pilot Approach
4.2 Baseline Assessment and Initial Diagnosis
5. What the Pilot Found
5.1 Internal Control Foundations Are in Place, but Practical Implementation Remains Uneven
5.2 Risk Management Is Still Developing
5.3 Planning, Budgeting and Performance Are Not Yet Sufficiently Connected
5.4 KPIs Often Focus More on Activities Than Outcomes
5.5 Roles and Cooperation Between Internal Control Functions Need Clearer Definition
6. What Changed During the Pilot
6.1 Practical Tools Were Developed and Refined
6.2 Risk-Based Thinking Improved
6.3 Dialogue Between Functions Became Stronger
6.4 Planning and Budgeting Discussions Improved
6.5 Management Awareness and Ownership Increased
7. Lessons for Wider PIFC Reform
7.1 Practical Implementation Matters as Much as Methodology
7.2 Internal Control Works Best When Linked to Management Processes
7.3 Management Ownership Is Essential and organisational culture matters
7.4 Voluntary Participation Enhance Ownership
7.5 Practical Pilots and Continued Methodological Support Add Value
8. Recommendations and Follow-Up Actions
8.1 Recommendations for FLACC and the Ministry of Justice
8.2 Potential Implications for wider PIFC Implementation
8.3 Recommendations for EU4PFM / Further Methodological Support
8.4 Cross-Cutting Recommendations for Institutionalisation
8.5 Suggested Approach to Monitoring Implementation
8.6 Conditions for Sustainability within MoJ / FLACC
9. Conclusion

1. Executive Summary

This report presents the results of the pilot project on strengthening internal control in the Ministry of Justice of Ukraine (MoJ) with a focus on Free Legal Aid Policy, implemented with the support of EU4PFM and in cooperation with the Ministry of Finance of Ukraine (MoF), including the Central Harmonisation Unit (CHU).

The pilot was developed in response to an issues identified through PIFC implementation experience, annual reporting and international assessments: while the legal and methodological framework for internal control is largely in place, grounded in the COSO 2013 Internal Control Integrated Framework, assessed against SIGMA standards, and translated into Ukrainian regulation through the Budget Code of Ukraine (Article 26), Cabinet of Ministers Resolution No. 1062 of 12 December 2018, and the Methodological Recommendations approved by MoF Order No. 420 of 20 August 2025 MoF Order No. 420, practical implementation remains uneven. Specifically, managerial accountability, risk management, and the integration of planning, budgeting, and performance management continue to require further development.

Strengthening practical implementation of internal control has also been highlighted in SIGMA assessments and is also relevant in the wider context of Public Internal Financial Control (PIFC) reform, which in turn contributes to Ukraine's European integration agenda under Chapter 32 Financial Control

The pilot focused on the Free Legal Aid System, including the Coordination Centre for Legal Aid Provision, regional centres, and selected budget programmes related to the provision of free legal aid services.

Management at different levels, from Ministry of Justice leadership, through Coordination Centre management, to regional managers, was engaged throughout the pilot.

Consistent with the Pilot Concept, the work was structured around three interconnected workstreams: strengthening risk management capacity; enhancing cooperation between the second-line functions responsible for support, oversight, control, assessment and monitoring, and internal audit as the independent third line, while preserving management’s accountability for internal control and the independence of internal audit; and integrating objectives, risks and controls into the management of budget programmes and related planning, budgeting, performance-monitoring and decision-making processes.

The Free Legal Aid System was selected because of its clear operational mandate, national structure, and the demonstrated willingness of the Ministry of Justice and the Coordination Centre to engage actively in practical reform efforts.

The objective of the pilot was not to develop new methodology, but to support the practical application of existing internal control requirements and tools. Attention was given to strengthening risk management practices, improving the link between objectives, risks, controls, key performance indicators (KPIs), and budgeting, and supporting a more practical understanding of managerial accountability. An important principle of the pilot was that internal control should not be seen as a separate compliance exercise, but as a management tool supporting better decision-making and achievement of objectives.

For the purposes of this report, internal control means an organisation-wide, integrated management process carried out by managers and staff to support the achievement of organisational objectives. References to roles or functions supporting or coordinating internal

control do not imply that responsibility for internal control belongs to a separate unit or specialised function: management remains responsible and accountable for its design, implemantation and effectiveness. Internal audit remains functionally independent and provides assurance and advisory services without designing or operating controls or assuming management responsibility for them.

The pilot combined practical activities, including baseline self-assessments, workshops, webinars, coaching sessions, and hands-on support in developing strategic and operational risk registers.

A characteristic feature of the pilot workshops was multi-stakeholder participation, bringing together representatives of the Ministry of Finance, the Ministry of Justice, the Coordination Centre, regional centres and EU4PFM experts in joint discussion of objectives, risks, planning and budgeting. Added attention was given to the relationship between planning, budgeting, KPIs, and internal control arrangements, with the objective of strengthening the practical connection between strategic priorities, operational activities, and available resources.

The pilot demonstrated that the beneficiary already had the foundations in place, including internal procedures, formal responsibilities, compliance with the requirements of the Budget Code of Ukraine (Article 26), Cabinet of Ministers Resolution No. 1062, and taking in to account the Methodological Recommendations of the MoF Order No. 420 and a willingness to improve. At the same time, the pilot activities confirmed some practical impediments. These included limited experience with risk-based management, confusion between problems and risks, insufficiently developed links between planning and budgeting, and a tendency to approach internal control mainly as a formal or compliance-driven requirement rather than as a practical management tool.

However, clear progress was made during the pilot. Strategic and operational risk registers were developed and refined; awareness of risk-based thinking improved; and discussions on objectives, risks, controls, KPIs, and resources became more structured. The pilot also helped strengthen dialogue between involved management of senior and operational level of both institutions, finance units, staff or units responsible for coordinating and supporting internal control, and the functionally independent internal audit units. Importantly, the pilot contributed to greater awareness among participating senior and operational managers of their respective responsibilities for managing risks, operating controls and achieving organisational objectives.

During the implementation of the pilot, the MoJ, on its own initiative, updated its internal regulation on internal control to give practical effect at the institutional level to the general regulatory framework described above. In doing so, the Ministry drew on the approaches and lessons emerging from the pilot and took account of its specific mandate, organisational structure and operating context.

One of the key lessons from the pilot is that strengthening internal control is not solely dependent on tools or methodologies. Sustainable progress depends equally on management ownership, organisational culture, practical application, and continued dialogue across organisational levels. Internal control becomes valuable when it helps managers better understand risks, make informed decisions, allocate resources more effectively, and improve the likelihood of achieving objectives.

The experience of the Free Legal Aid System suggests that practical pilots can play an important role in translating internal control requirements into day-to-day management practice. The pilot therefore provides useful lessons not only for the Ministry of Justice, but also for wider PIFC reform efforts in Ukraine, specifically in supporting a more practical implementation of managerial accountability and risk-based management across the public sector.

The report concludes with practical follow-up recommendations aimed at consolidating the achieved results; further embedding risk-based management practices; and exploring opportunities for wider replication in other public sector institutions. The recommendations are organised by responsible institution (Ministry of Justice / FLACC); together with possible implications for future PIFC implementation and methodological support.

The MoF and CHU may, within their existing mandates, draw on the report and the separate package of pilot materials where they consider this useful.

All materials developed during the pilot and referred to in this report, including the risk registers, templates, methodological tools and other practical outputs, will be consolidated in a dedicated folder within the project repository. They will remain available to the participating institutions for future reference, adaptation and practical use.

Finally, the EU4PFM team wishes to acknowledge the individual and collective commitment of MoJ and FLACC personnel, whose openness and engagement throughout the pilot were instrumental in its success.

2. Context and Rationale

Ukraine has made significant progress in developing the legal and methodological framework for Public Internal Financial Control (PIFC), including internal control and internal audit. The Ministry of Finance, through the Central Harmonisation Unit (CHU), has established methodological guidance and regulatory requirements aimed at strengthening managerial accountability, risk management, and internal control arrangements across the public sector.

Ukraine's internal control framework is based on the COSO 2013 Internal Control Integrated Framework[1], an internationally recognised framework for designing, implementing and assessing the effectiveness of internal control systems. The Ministry of Finance has translated the principles of the COSO framework into the Ukrainian regulatory structure, especially through Cabinet of Ministers Resolution No. 1062 of 12 December 2018 and Methodology in the Order No. 420 "On the Approval of Methodological Recommendations on the Functioning of Internal Control by Budget Funds Managers." Strengthening the practical implementation of internal control also supports Ukraine's European integration agenda, as Public Internal Financial Control is an important element of the EU accession process under Acquis Chapter 32 (Financial Control).

However, experience from PIFC implementation, annual reporting, and international assessment reports[2] shows that practical application remains uneven. While formal internal control arrangements are often in place, these do not always function effectively in day-to-day management practice. Areas identified in those wider sources include delegated managerial accountability and practical risk management; the use of performance information. Within FLACC and the selected MoJ activities, the pilot separately examined how risk information, planning, budgeting and performance information were connected in practice.

This issue has also been noted in international assessments. Recent SIGMA assessments concluded that Ukraine has established much of the necessary legal and operational framework for internal control, but implementation still lags in several important areas, particularly risk management and managerial accountability. These external observations provide context for the pilot; they are not presented as findings derived from FLACC alone.

Against this background, the Ministry of Finance and EU4PFM agreed to support a practical pilot designed to strengthen internal control implementation in a selected institution. The intent was to support the practical application of existing requirements and tools and move to translating policy aspirations into day-to-day management practice.

The pilot commenced with a “kick-off” meeting in Kyiv on 27 May 2025, with representatives of the Ministry of Finance, the Ministry of Justice, the Coordination Centre for Legal Aid Provision (FLACC), and EU4PFM experts. During the meeting, participants discussed the objectives, scope, and practical expectations of the pilot, as well as broader issues related to internal control implementation in the Ukrainian public sector. Attention was given to questions connected to risk management, the practical use of risk information in decision-making, as well as stronger links between planning and budgeting and the integration of objectives, risks and controls into management and decision-making processes.

These initial discussions helped refine the scope of the pilot, including the selection of the Free Legal Aid System and the focus on selected budget programs for free legal aid provision. This

[1] Committee of Sponsoring Organisations of the Treadway Commission (COSO), *Internal Control – Integrated Framework* (2013)
[2] OECD/SIGMA (2024), *Public Administration in Ukraine: Monitoring Report* (2023 SIGMA assessment of Ukraine), OECD Publishing, Paris.

created a common understanding among partners of the practical nature of the pilot and the expectation that lessons learned could support future and wider PIFC implementation initiatives.

The Free Legal Aid System under the Ministry of Justice was selected as the pilot institution, with two budget programmes providing the operational context. The system combines a clear operational mandate with a nationwide organisational structure and manages significant public resources for socially important services.

3. Pilot Scope and Objectives

3.1 Objective of the Pilot

The overall objective of the pilot was to support the practical strengthening of internal control within the Free Legal Aid System under the Ministry of Justice of Ukraine. The work was also expected to document lessons learned and experience that might inform future PIFC reform implementation.

The pilot aimed to move beyond formal compliance and support the practical application of existing internal control requirements and methodologies. It focused on managerial accountability, risk management and stronger connections among objectives, risks, controls, planning, budgeting, performance information and decision-making.

Consistent with the pilot Concept, the activities were structured on three interconnected workstreams:

1. Strengthening risk management capacity, moving from a largely reactive, problem-focused approach toward forward-looking, structured risk-based management linked to objectives;
2. Enhancing cooperation between the second line within internal control / compliance and third line (internal audit) functions, improving roles clarity, dialogue and joint working;
3. Using the selected budget programmes to examine connections among objectives, risks, controls, planning, budgeting and performance management.

A key objective was to help translate internal control from a largely methodological or compliance-oriented exercise into a practical management tool supporting the achievement of objectives and more effective use of public resources.

The pilot also aimed to generate practical lessons that could be used by the Ministry of Finance and other institutions in future efforts to strengthen internal control implementation across the Ukrainian public sector.

3.2 Institutional Scope

The pilot focused on the Free Legal Aid System under the Ministry of Justice of Ukraine, including:

- The Free Legal Aid Coordination Centre;
- Five interregional centres;
- Relevant functions within the Ministry of Justice and FLACC involved in planning, finance, internal control coordination and support, and internal audit.

The pilot focussed on two budget programmes central to the functioning of the Free Legal Aid System:

- **CPCELC 3603020** – Ensuring the formation and functioning of the Free Legal Aid system;
- **CPCELC 3603030** – Ensuring the provision of the Secondary Free Legal Aid and mediation services;

These programmes served as a practical operational environment in which the three workstreams (risk management, cross-functional cooperation, Internal controls–budget integration) could be tested. The choice of two programmes, one covering system formation, one covering service payment, provided the pilot with a structure to examine how internal control arrangements interact with budgetary planning, resource allocation and performance

management.

Throughout the implementation of the pilot, managers at different levels were involved in the work: representatives of the Ministry of Justice, the senior management of the Free Legal Aid Coordination Centre, and managers of the regional centres. Using the selected objectives and processes as examples, this multilevel engagement made it possible to examine how the elements of internal control addressed by the pilot were applied at different levels of management: setting objectives and allocating authority, duties and responsibilities; identifying, assessing and reviewing risks and responding to them; defining and implementing control activities; exchanging information on risks and performance, etc.; and using this information in planning and managerial decision-making. It also helped identify how clearly managerial responsibility and accountability were understood and exercised at different levels and in which areas further improvement of practical approaches was needed.

3.3 Why the Free Legal Aid System Was Selected

The Free Legal Aid System was selected as the pilot environment because it combined certain practical conditions favourable for testing internal control implementation:

- A clear operational mandate under the Ministry of Justice, with a coherent service delivery focus — the provision of free legal aid services to citizens, an area of significant social importance, financed through substantial public resources;
- A structured institutional architecture combining a central coordination function (FLACC), regional centres and local offices (bureaus), allowing the pilot to test how internal control arrangements function across administrative levels;
- Two well-defined budget programmes providing a manageable operational scope and a structured way to examine the interaction between objectives, activities, risks, controls and resources;
- Previous observations from internal audit and self-assessment activities, including discussions at the May 2025 kick-off meeting, pointing to practical implementation challenges in strategic planning, risk management, internal control implementation and the use of performance information — areas where targeted pilot support could add value;
- A demonstrated willingness of the Ministry of Justice and the Coordination Centre to engage actively in practical testing, dialogue and iterative refinement of internal control arrangements.

The initial expectation was that the pilot would not only support improvements within the Free Legal Aid System itself but also provide practical lessons that could later be adapted and used more broadly across other Ukrainian public sector institutions.

Limitations of time and resources available to the pilot team meant that activities were delivered on selected processes and strategic objectives, leaving the FLACC team well-positioned to extend the experience independently to other processes and objectives over time.

4. How the Pilot Was Implemented

4.1 Pilot Approach

The pilot used a hands-on approach combining workshops, webinars, coaching sessions, practical assignments, and continuous dialogue with beneficiary institutions. The intention was to move beyond formal compliance and support the practical use of internal control as a management tool linked to objectives, risks, performance, and resource allocation.

The pilot methodology was informed by existing Ukrainian regulatory requirements, including internal control and risk management guidance issued by the Ministry of Finance, while also drawing on recognised international approaches and good practices related to managerial accountability, risk management, and internal control.

Throughout the pilot, emphasis was placed on practical implementation and gradual learning.

Rather than applying a one-size-fits-all model, activities were adapted to the operational realities of FLACC and practical issues identified through self-assessment, discussion and workshop exercises and focused on identifying workable solutions that could realistically be applied in day-to-day management practice.

Specifically, the pilot project tasks were delivered through a combination of the following activities:

1. Self-assessment tools to establish a baseline for internal control and risk management against the COSO 2013 framework, and to assess how well budget preparation aligned with strategic and operational planning;
2. Guidance and advisory notes on all five COSO components and their 17 principles;
3. Training, coaching, and mentoring on the COSO 2013 framework, the alignment of budgeting with strategic and operational planning, the distinction between problems and risks, and other issues raised during online meetings with the beneficiary;
4. Hands-on support to develop risk registers using templates aligned with the recommendations of the MoF Order No. 420;
5. Guidelines and technical documents on PIFC, COSO 2013, and wider PFM methodological and institutional issues.

4.2 Baseline Assessment and Initial Diagnosis

The first step of the pilot was to establish a better understanding of the starting position of internal control arrangements within FLACC and the selected budget programs. This included identifying existing strengths, practical bottlenecks, and areas where additional support would have practical impact.

To assist this process, self-assessment tools and questionnaires were used to assess current arrangements related to internal control, risk management, planning, budgeting, and performance management. Discussions with management and staff complemented these assessments and helped provide a clearer picture of how internal control functioned in practice.

The baseline assessment, supported primarily by the Internal Control Self-Assessment Questionnaire (ICQ) findings, confirmed that important elements of internal control were already in place. Formal procedures, assigned responsibilities, and existing methodological guidance — including compliance with MoF Order No. 420 — provided a reasonable base for further development. At the same time, the pilot identified some practical implementation challenges.

The ICQ assessed FLACC's maturity against the five COSO components on a five-stage

scale[3].

The results indicated that FLACC was at Stage 1 (Basic / Traditional Administration — Rules-Based Culture) for the Control Environment and Monitoring components, and between Stage 1 and Stage 2 for Risk Management, Control Activities, and Information & Communication.

Specifically, the assessment highlighted limited practical experience with risk-based management; weak links between planning and budgeting: limited use of risk information in management decision-making: and uncertainty regarding the distinction between problems, risks, causes, and control measures. Discussions also confirmed that internal control was still primarily approached as a formal or compliance-oriented requirement, rather than as a practical management tool. These observations influenced the focus of subsequent pilot activities and confirmed the need for practical support, coaching, and structured dialogue on how internal control arrangements could support and improve the achievement of objectives and management decision-making.

Table 1. Overview of Key Pilot Activities

Period	Activity	Main Focus
27 May 2025	Kick-off meeting (Kyiv)	Agreement on scope, objectives and practical focus of the pilot
September2025 - January 2026	Baseline assessment	Internal control self-assessment and initial diagnosis
14 & 16 October 2025	Online workshops	Risk management and practical internal control implementation
29 October 2025	Technical follow-up session	Refinement of risk identification and pilot approach
28–29 January 2026	Risk workshops (Kyiv)	Development of strategic and operational risk registers
9–10 March 2026	Planning & budgeting workshop	Linkages between objectives, KPIs, budgeting and internal control
15 April 2026	Consolidation workshop (Kyiv)	Progress review, lessons learned and next steps
Throughout pilot	Coaching and technical support	Guidance, materials review and ongoing dialogue with FLACC and CHU
June/July 2026	Report drafting	Drafting and consolidation of pilot findings and follow-up actions
July 2026	Online webinar process mapping	Introduction to process-mapping methodology and initial practical work

[3] The ICQ methodology, including the criteria for the five maturity levels, together with the detailed assessment results, is available among the pilot materials collected in a dedicated folder in the project repository

5. What the Pilot Found

The pilot generated some practical observations concerning the functioning of internal control within FLACC and the wider Free Legal Aid System. While the pilot confirmed that important foundations are already in place, it also highlighted several implementation issues that continue to affect the practical functioning of internal control, risk management, planning, and performance management.

The findings in this chapter relate to FLACC, the participating MoJ functions and the two selected budget programmes. References to wider Ukrainian PIFC developments are clearly identified as contextual observations based on external assessments or broader expert experience and are not attributed to the pilot alone.

5.1 Internal Control Foundations Are in Place, but Practical Implementation Remains Uneven

One of the main observations from the pilot was that important foundations for internal control are already in place within FLACC and the wider Free Legal Aid System. Relevant legislation, internal procedures, assigned responsibilities, and methodological guidance, including compliance with the requirements of MoF Order No. 420, exist and provide a reasonable basis for further development.

Internal control is not a new concept for the beneficiary: discussions with management and staff demonstrated awareness of key principles of internal control, risk management, and accountability. Internal control responsibilities had been assigned, and some practical tools, including early elements of risk management and monitoring, were already being used.

However, the pilot confirmed that moving from a formal framework to practical implementation remains challenging. In several areas, internal control was still applied primarily as a formal or compliance-oriented requirement rather than as an active management tool supporting decision-making, prioritisation, and the achievement of objectives. While compliance remains important, the pilot demonstrated that internal control adds significantly more value when managers actively use risk information, performance data, and control arrangements to support decisions and improve outcomes.

This finding is confined to the pilot scope. It is, however, consistent with wider implementation issues identified in external PIFC assessments, which indicate that embedding existing arrangements in day-to-day management is a gradual process requiring sustained management engagement.

5.2 Risk Management Is Still Developing

Risk management emerged as one of the important areas of focus during the pilot. While awareness of risk management concepts existed and elements of practice were in place, the maturity assessment confirmed that practical application was still at an early stage of development (Stage 1–2 on the COSO maturity scale).

A recurring observation was confusion between problems, risks, causes, and mitigation

measures. A risk is a future event that could adversely affect the achievement of an objective and is assessed in terms of likelihood and impact. A problem, by contrast, is something occurring now or that has already occurred. In several cases, issues already occurring within the system were described as risks, while causes and control measures were sometimes mixed into risk descriptions. This is understandable in an environment where risk management is still developing, but it highlighted the need for practical guidance, repeated application, and structured dialogue.

A significant part of the pilot activities therefore focused on strengthening understanding of risk-based management and supporting the practical development of strategic and operational risk registers. Through workshops, coaching sessions, and practical exercises, participants worked on identifying risks linked to objectives, clarifying underlying causes, and discussing possible mitigation measures.

The pilot also highlighted the importance of moving from a largely reactive approach toward a more forward-looking understanding of risk management. Rather than responding only to existing problems, risk management should support management in identifying uncertainties that could affect the achievement of objectives and in taking proportionate action before issues materialise.

A related observation was that high-quality risk management depends on setting SMART (Specific, Measurable, Achievable, Relevant, Time-bound) strategic and operational objectives.

The pilot found that, while strategic objectives existed at a high level, their translation into measurable operational objectives — necessary as the basis for risk identification — was not always sufficiently developed. The distinction between strategic objectives (long-term, multi-year) and operational objectives (short-term, measurable, departmental) was not always clearly applied in practice.

The pilot discussions also illustrated how established administrative practices can influence the way risk management is applied within the participating institutions.

Participants worked in an environment in which compliance with detailed rules is necessarily important and helps ensure clarity, consistency and accountability. However, in some of the examples discussed during the pilot, greater attention was given to completing formal steps than to involving relevant managers and staff in considering uncertainties, priorities and alternative responses. In these cases, some participants showed limited engagement with the detail of performance information and the underlying nature of the identified risks. Responsibility for interpreting this information and determining appropriate responses tended to be regarded as resting primarily with senior management, rather than as part of the responsibilities of managers at each relevant level.

These observations are confined to the institutions, activities and processes examined during the pilot and should not be generalised to all Ukrainian public institutions. Within the pilot, they reinforced the importance of combining regulatory compliance with structured management discussion, stronger ownership of risks at the relevant management levels, effective two-way communication, and the practical use of risk and performance information in planning, prioritisation and decision-making.

A further observation concerned the relationship between objectives, risks, processes and controls. Initial discussions sometimes treated processes as the starting point for risk analysis. The pilot clarified that processes function as control measures — they are not the starting point but should themselves be developed in response to risks to objectives. Processes and controls are designed and adjusted to manage those risks and add value only insofar as they help the organisation become more effective, efficient and economical in achieving its objectives.

Active discussion took place on the appropriate level of detail in the risk register. Review of initial drafts showed that some entries contained excessive detail in risk descriptions, causes, and mitigation measures. The pilot recommended more focused wording and the beneficiary supported these suggestions. By the end of the pilot, strategic and operational risk registers[4] had been substantially refined and discussions on risks had become more structured, and participants demonstrated a stronger understanding of how risk management can support management decision-making. Risk registers completion is not an end point: responsible managers should review them periodically, update assessments and responses, and use them in planning, prioritisation and performance discussions.

5.3 Planning, Budgeting and Performance Are Not Yet Sufficiently Connected

A consistent observation throughout the pilot was that stronger links are needed between planning, budgeting, performance, and internal control arrangements.

During the pilot, the Ministry of Justice and the Free Legal Aid Coordination Centre conducted a self-assessment of strategy–budget alignment using a dedicated questionnaire. The results of the self-assessment and subsequent workshop discussions indicated that available resources were not always adequately considered when setting strategic and operational objectives, while identified risks, priorities and expected results were not always sufficiently reflected in budget discussions.

Internal control becomes significantly more meaningful when objectives, risks, activities, KPIs, and available resources are considered together rather than separately. The pilot increasingly emphasised the importance of viewing internal control as part of an integrated management cycle linking objectives, risks, controls, performance indicators, and resources.

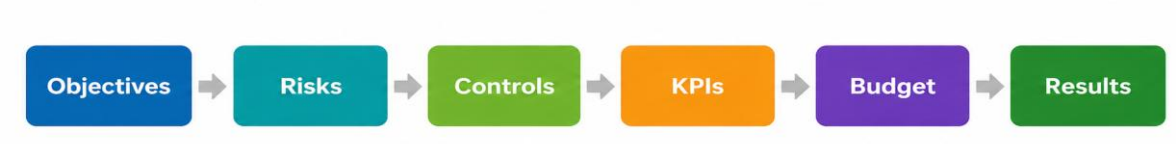


Figure 1. Illustrative relationship between objectives, risks, controls, KPIs, budgeting and results

The pilot therefore placed considerable emphasis on strengthening understanding of these linkages. Discussions focused on how internal control could support more realistic planning, stronger prioritisation, and better-informed resource allocation.
The principle of alignment can be summarised as follows: annual plans define what an organisation aims to achieve, while budgets determine what it can realistically deliver. When planning and budgeting are aligned, strategic priorities are properly resourced, funding is

[4] The risk register format used for this exercise was based on the template proposed in the Methodological Recommendations approved by Order No. 420 of the Ministry of Finance of Ukraine dated 20 August 2025.

linked to measurable results, and leaders avoid unfunded or unrealistic commitments. Effective alignment also means that KPIs are properly costed, outcome targets are realistic, performance improvements are backed by budget, and efficiency gains are tracked and reinvested. This reflects a core principle of results-based management and forms a closed performance loop linking objectives, resources, performance and reporting.

The pilot results confirmed the importance of strengthening the practical links between strategic and operational planning, budgeting, risk management and performance assessment. At the same time, this issue extends beyond PIFC and forms part of the broader public financial management reform, the implementation of which requires co-ordinated action by the authorities and organisational units responsible, inter alia, for strategic and budget planning and for the methodological co-ordination of internal control and internal audit, within their respective mandates. Such alignment provides an important foundation for strengthening managerial accountability, ensuring sound resource allocation and supporting effective internal control. It is also relevant in the context of the SIGMA recommendations and Ukraine's commitments under negotiating Chapter 32, "Financial Control".

5.4 KPIs Often Focus More on Activities Than Outcomes

The pilot highlighted that performance indicators are frequently focused on measuring activities or outputs rather than intended results or outcomes. A typical example would be a KPI defined as "deliver five PIFC training courses for 125 people", if the courses are delivered and the participation target is met, the KPI is considered achieved. However, this approach does not capture the activity's impact or outcome, the measurable effect that achieving (or failing to achieve) a KPI has on strategic objectives, service outcomes, stakeholders, or resource use.

Impact or outcome is not the activity itself, but the resulting change in performance, quality, efficiency, or public value.

To make impact measurable, KPIs should usually be phrased to show change, using words such as "increase," "decrease," or "reduce", so that the difference between baseline and result can be clearly demonstrated. KPIs should measure value, not just activity.

During the pilot, discussions therefore focused on strengthening the relationship between objectives, KPIs, and expected results. Attention was given to how performance information could better support management decision-making and help demonstrate whether public resources contribute to intended outcomes.

5.5 Roles and Cooperation Between Internal Control Functions Need Clearer Definition

Internal control is a shared management responsibility carried out by managers and staff. Effective implementation nevertheless requires practical clarity about who owns objectives and risks, who operates controls, who coordinates or supports reporting and methodology, and how internal audit provides independent assurance and advice.

The pilot used a three-lines perspective as a practical discussion aid, adapted to the institutional context. Operational managers own objectives, risks and controls. Specialist or coordination roles may support methodology, compliance, risk information and reporting without taking over management responsibility. Internal audit independently assesses governance, risk management and control and may provide advice, but does not design or operate controls on management's behalf.

A separate roles table supplied to FLACC described the participating actors and possible responsibilities. It did not propose a mandatory internal control coordination unit or assign planning and budgeting responsibilities to such a unit. The table and related guidance are available in the pilot-materials folder.

Joint sessions enabled managers, planning and finance staff, staff with coordination or support roles, internal audit and regional representatives to discuss objectives, risks, controls and implementation issues together. This dialogue improved shared understanding while preserving each participant's institutional responsibilities.

Participation by the MoF and CHU supported methodological consistency.

Although cooperation between functions can be strengthened, the pilot demonstrated that practical dialogue and joint reflection can significantly support internal control development and management ownership.

6. What Changed During the Pilot

The pilot was designed as a practical implementation exercise. While its duration and scope did not allow for full institutional transformation, it did contribute to visible developments in how internal control, risk management, and related management processes were understood and applied within FLACC and the wider Free Legal Aid System.

Progress should be viewed realistically. The pilot did not aim to fully resolve existing implementation bottlenecks, but rather to support practical improvements, strengthen management understanding, and test approaches that could gradually be embedded into day-to-day practice. At the same time, several tangible developments could already be observed during the implementation period. The table below summarises the main areas where progress or change was observed during the pilot.

Table 2. Summary of Main Changes Observed During the Pilot

Area	Situation at Start	Development During the Pilot
Risk management	Limited practical application	Strategic and operational risk registers developed and refined as working management tools
Internal control focus	Mainly compliance-oriented understanding	Stronger understanding of internal control as an integral part of management
Planning & budgeting	Weak connection to risks and performance	Greater awareness of linkages between objectives, risks, performance and resources
Cooperation	Relevant roles and discussions were often handled separately	More structured dialogue among participating managers and specialist functions
Management ownership	Management participation in risk discussion was still developing	Greater awareness of management ownership of objectives, risks and controls
Internal regulatory environment	Existing normative and methodological documents available	Updated MoJ instruction informed by pilot materials as an enabling framework for practical application of the pilot results across the Ministry.
Wider relevance	Limited institution-specific practical examples	Bilingual tools and lessons documented for possible consideration and adaptation

6.1 Practical Tools Were Developed and Refined

One of the most visible outcomes of the pilot was the development and refinement of practical internal control tools. Using the initial guidance provided by the experts, participants completed the templates for the strategic and operational risk registers. The registers were then progressively refined through facilitated discussions at both senior management and operational levels, supported by workshops and further coaching. The completed registers are intended to serve as working management instruments rather than final products. Their value

will depend on periodic review by the responsible managers, reassessment of the likelihood and impact of risks, monitoring of risk responses, and regular use of the registers in planning and decision-making.

In addition, the pilot provided practical guidance and supporting materials related to risk management, planning and budgeting linkages, internal control self-assessment, and the use of KPIs. Rather than introducing new requirements, the pilot focused on helping participants better understand and apply existing methodologies within their own operational context.

The tangible outputs—including the registers, ICQ, maturity descriptions, Strategy–Budget Alignment tool, roles guidance and process-mapping materials—are maintained in a separate bilingual pilot-materials folder. The report summarises their purpose without reproducing each tool in full.

An important added value of the pilot was that tools were not developed in isolation. Discussions focused on how these instruments could realistically support management processes and decision-making within FLACC and the wider Free Legal Aid System. Specifically, registers should inform periodic review of objectives, priorities and responses; the alignment tool should support planning and budget preparation; and self-assessment should guide targeted improvement.

6.2 Risk-Based Thinking Improved

Throughout the pilot, participants demonstrated an increasingly structured understanding of risk management and its practical application.

At the start of the pilot, discussions frequently reflected uncertainty regarding the distinction between problems, risks, underlying causes, and mitigation measures. Over time, participants became more confident in discussing risks in relation to objectives and demonstrated a stronger understanding of how risk information could support managerial decision-making.

The development of strategic and operational risk registers contributed to more structured discussions regarding uncertainties, priorities, and control measures. While risk management practices continue to require further development, the pilot demonstrated visible progress in strengthening risk awareness and practical application.

6.3 Dialogue Between Functions Became Stronger

The pilot contributed to stronger dialogue between the different functions involved in internal control and management processes.

Workshops and joint discussions created opportunities for management, planning, finance, internal control, internal audit, and regional representatives to jointly reflect on objectives, risks, controls, and implementation challenges. In several cases, discussions that had previously taken place separately became more integrated and structured.

The Strategy vs Budget Webinar and the Strategic Sessions on risk register development brought together representatives of the Ministry of Justice, the Coordination Centre, regional centres, the Ministry of Finance, and EU4PFM experts in joint discussion, a format that proved particularly valuable for building shared understanding of objectives, risks, and resource

allocation. The involvement of the Ministry of Finance, including the CHU, helped strengthen methodological consistency and encouraged wider reflection on how practical lessons from the pilot could inform broader PIFC implementation efforts.

Although further efforts will be required to strengthen cooperation across functions, the pilot demonstrated the value of structured dialogue and practical joint problem-solving.

6.4 Planning and Budgeting Discussions Improved

Another visible development during the pilot was a stronger awareness among participants of the connections among objectives, risks, planning, budgeting and performance information.

Discussions increasingly focused on how this elements should be considered together rather than through separate processes. While this remains, an area requiring further institutional development, the pilot helped strengthen understanding of why stronger integration between planning and budgeting is important for effective managerial accountability and internal control.

The pilot also encouraged greater reflection on how budget programmes can be used as a practical entry point for strengthening internal control and performance management.

6.5 Management Awareness and Ownership Increased

The pilot contributed to greater awareness among management of different levels regarding their role in internal control and risk management processes.

Throughout the discussions, increasing attention was given to the role of managers in identifying risks, discussing priorities, and ensuring that internal control arrangements support the achievement of objectives. Internal control was increasingly discussed not only as a formal requirement, but also as a management responsibility.

Before the pilot, the beneficiary had relevant normative documents from the Ministry of Finance and the Ministry of Justice but lacked a practical understanding of how to use them in day-to-day management. In this sense, the pilot served as an accelerated learning process, helping participants move from simply having the documents to applying the instruments in practice. The updated MoJ internal control instruction drew on pilot materials and may provide an enabling framework, but its adoption alone is not evidence of effective implementation.

For participants with some prior knowledge and experience of internal control concepts, the pilot was not a fresh start but provided support, validated existing approaches, and deepened understanding of the reform logic behind internal control.

At the same time, the pilot confirmed that strengthening managerial ownership is a gradual process. Sustainable change will depend on continued management engagement and the practical use of internal control arrangements in day-to-day decision-making.

7. Lessons for Wider PIFC Reform

The direct findings of the pilot concern Free legal aid system, participating MoJ functions and the selected budget programmes. Consistent with the Pilot Concept, this chapter identifies possible implications that may merit consideration in other PIFC implementation work. They require adaptation and further validation and should not be read as system-wide conclusions.

7.1 Practical Implementation Matters as Much as Methodology

Within the pilot, existing rules and guidance provided an adequate starting point, while the principal demand from participants concerned practical application. This experience suggests that methodology may be most effective when accompanied by examples, facilitated discussion, coaching and repeated use.

This does not imply that methodology is complete in every area or that the same implementation gap exists in every institution. It indicates only that practical support can complement the legal and methodological framework.

The focused scope—selected objectives, activities and programmes—made practical engagement possible. Future initiatives may likewise benefit from a realistic scope, clear ownership and recognition of what must be addressed in later phases.

7.2 Internal Control Works Best When Linked to Management Processes

The pilot illustrated internal control as an integrated management process encompassing objectives, risk assessment, controls, information, monitoring and related planning and budgeting decisions.

Where these elements are considered separately, compliance documentation may be completed without fully supporting management decisions. The pilot's joint discussions demonstrated a practical way to consider objectives, risks, controls, KPIs and resources together.

For wider PIFC implementation, this experience may support continued dialogue among the competent policy areas while respecting their respective mandates.

7.3 Management Ownership Is Essential and organisational culture matters

The pilot reinforced the importance of management ownership for effective internal control implementation.

Internal control cannot be delegated solely to internal control coordinators, finance units, or internal audit. Sustainable progress depends on managers actively engaging in discussions on objectives, risks, priorities, and mitigation measures and taking ownership of decision-making.

A specific insight that emerged during the pilot was the "40/60" observation: technical tools and registers account for approximately 40% of internal control effectiveness, while management culture, awareness, and leaders' willingness to use those tools effectively account for the remaining 60%. Sustainable progress therefore depends not only on improving instruments, but equally on building leadership engagement and creating an organisational culture in which internal control is valued as a management tool rather than a compliance burden.

The pilot showed that practical dialogue and management involvement are essential for moving internal control from a compliance-oriented obligation toward a practical management instrument.
The broader implication is that implementation support should address both technical instruments and the management routines through which they are used.

7.4 Voluntary Participation Enhance Ownership

Voluntary participation by the beneficiary institution increased commitment and motivation throughout the pilot. FLACC's willingness to engage actively, raise practical questions, and apply pilot materials in its own work was a significant factor in the progress achieved. This suggests that future practical pilots may benefit from selecting beneficiaries based on a demonstrated willingness to engage, rather than through assignment. At the same time, it should be recognised that institutional priorities and available capacity, including constraints arising from martial law, may affect the ability to participate.

7.5 Practical Pilots and Continued Methodological Support Add Value

Participants valued the combination of practical exercises, technical discussion and iterative refinement. This suggests that institutions seeking implementation support may benefit from practical examples, peer learning and coaching tailored to their context.

The FLACC experience provides one example of such support. Decisions on wider application should be based on institutional need, mandate, readiness, capacity and available resources.

The pilot does not establish new responsibilities for the MoF or pilot institution. It offers materials and experience that the competent institutions may use where relevant within existing mandates.

The separate pilot-materials folder can facilitate such consideration by providing concrete examples rather than additional mandatory requirements.

Any future pilot should define its scope, expected outputs, institutional ownership and follow-up arrangements in advance.

8. Recommendations and Follow-Up Actions

The pilot demonstrated that strengthening internal control requires both institutional commitment and continued practical support. While important progress was made during the pilot, further efforts will be needed to consolidate results, strengthen management ownership, and embed internal control arrangements into day-to-day management processes.

The recommendations in Section 8.1 concern FLACC and the MoJ. In line with the objectives of the Pilot Concept, Sections 8.2–8.4 present proposals for the possible dissemination and adaptation of the pilot experience, together with support options that may be needed for this work. These proposals are provided for consideration and do not require the MoF, the CHU or any other institution to take specific action.

8.1 Recommendations for FLACC and the Ministry of Justice

1. Continue the Practical Development of Risk Management
The strategic and operational risk registers developed during the pilot should be further refined and regularly updated as part of normal management processes. Risk discussions should become a routine management activity linked to planning, prioritisation, and decision-making.

Attention should be given to ensuring that risks are clearly linked to objectives, that underlying causes are properly identified, and that mitigation measures remain realistic, proportionate, and assigned to responsible managers.

A periodic review process, for example linked to annual planning or quarterly management discussions, may help ensure that risk management remains dynamic rather than becoming a static reporting exercise.

2. Strengthen the Link Between Planning, Budgeting and Internal Control
The pilot demonstrated the importance of stronger integration between objectives, risks, activities, KPIs and available resources as connected elements of the management cycle.

FLACC and the Ministry of Justice should continue efforts to strengthen discussions on how objectives, risks, activities, KPIs, and available resources are related.

The Strategy–Budget Alignment self-assessment tool developed during the pilot could be applied in the 2027–2029 budget declaration cycle. Budget discussions should increasingly take account of identified priorities, implementation risks, and expected results.

Using budget programmes as an entry point for discussing risks and performance may provide a practical way to strengthen managerial accountability and internal control arrangements.

3. Further Strengthen Management Ownership
Sustainable internal control depends on active management ownership.

Managers at different levels should continue to play an active role in identifying risks, discussing priorities, reviewing mitigation measures, and monitoring implementation. Internal control should increasingly be viewed not as the responsibility of a specific coordination unit

alone, but as an integral management responsibility.

Continued management engagement will be essential to maintaining momentum after completion of the pilot.

4. Continue Practical Cooperation Between Functions
The pilot demonstrated clear added value from stronger cooperation between planning, finance, coordination and support of internal control, internal audit, and operational management.

It is recommended that regular cross-functional discussions continue, particularly during planning, budgeting, and performance review periods. These discussions can help ensure greater consistency between objectives, resources, risks, and internal control arrangements.

Internal audit should continue to support these developments through independent assurance and advisory engagement, while maintaining its autonomy and avoiding operational ownership of controls.

5. Continue Learning Through Practical Application
The pilot highlighted that practical implementation and repeated use are essential for building confidence and capability. FLACC may therefore benefit from continuing practical exercises related to risk management, process mapping, KPI refinement, and internal control self-assessment. Attention could be given to one or more key operational processes to further test and strengthen practical implementation.

6. Improve preparation of an Annual Assurance Statement
Drawing on the advisory guidance issued in January 2026, FLACC and the Ministry of Justice could pilot the introduction of an Annual Assurance Statement as a recurring Level 1 reporting mechanism. This would help formalise the link between internal control arrangements, management practice, and reporting to senior leadership.

7. Complete Process Mapping for 3603020 and 3603030
The pilot established a solid foundation for process mapping: a theoretical webinar introduced the methodology to the team, and first practical mapping steps were undertaken for both budget programmes. Completing this work would help demonstrate the value of internal control as a practical management tool rather than an additional compliance burden. By making workflows, responsibilities, handovers and potential bottlenecks more visible, process mapping can help identify where risks arise, assess whether existing controls address those risks appropriately, reveal control gaps or unnecessary procedures, and clarify responsibilities. It can also highlight opportunities for simplifying and standardising processes and support management decisions aimed at improving service delivery. Building on the progress achieved, completing the process mapping is therefore recommended as a near-term priority, ideally with continued methodological support.

8.2 Potential Implications for Wider PIFC Implementation

In line with the pilot concept, the pilot results may inform further PIFC implementation and, following appropriate adaptation, may also be used by other institutions. The points below outline possible ways of sharing the pilot experience and options for further support. They

should not be interpreted as system-wide conclusions or as assigning new functions to the MoF, the CHU or other institutions.

1. Practical Support as a Complement to Methodological Guidance
The pilot showed that the practical application of existing requirements and methodological guidance can be strengthened through examples tailored to the context of individual institutions, facilitated workshops, coaching and opportunities to test relevant tools in practice. Such support should complement the existing methodological framework rather than introduce additional requirements.

The CHU may draw on the pilot results as part of its annual monitoring of the functioning of internal control and internal audit, including when considering the practical use of risk-management tools, management engagement and the links between objectives, risks, performance and resources. This would enable the practical lessons from the pilot to contribute to identifying broader trends within the CHU's statutory mandate.

2. Use and Dissemination of Practical Pilot Outputs
The risk registers, self-assessment tools and materials on strategy–budget alignment, roles and process mapping developed during the pilot complement existing methodological guidance with examples of its practical application. Competent institutions may use these materials as practical examples, subject to their adaptation to the institutions' own responsibilities, structures and capacities.

3. Strengthening Links Between Management Processes
The pilot demonstrated in practice the importance of considering objectives, risks, activities, KPIs and available resources as interconnected elements of the management cycle. As these matters fall within the responsibilities of different authorities and organisational units, the pilot experience may support further professional dialogue among them while respecting the established division of responsibilities.

4. Keeping Management Responsibility at the Centre of Internal Control
The pilot confirmed that internal control is an integral part of management and that managers and staff share responsibility for its effective functioning within their respective roles. Further support should promote managers' practical engagement in setting objectives, managing risks and making decisions, so that internal control is recognised as a useful management tool rather than an additional formal compliance burden.

5. Possibility of Further Practical Pilots
Similar pilots may provide a useful means of testing and adapting methodological approaches and enabling institutions to gain practical experience. The possibility of conducting further pilots should be considered in light of institutional needs, priorities, readiness, capacities and available resources, as well as constraints arising from martial law. Each future pilot should define its scope, expected results, institutional ownership and follow-up arrangements in advance.

8.3 Recommendations for EU4PFM / Further Methodological Support

The pilot suggests several areas where continued EU4PFM engagement could add value in supporting wider PIFC implementation across the Ukrainian public sector:

Widening Scope to Additional Ministries. Building on the FLACC experience, EU4PFM

Phase III could support similar practical pilots in 2–3 candidate ministries selected for management commitment and operational readiness.

- **Technical Assistance to CHU.** If requested and agreed, EU4PFM could support practical dissemination, peer learning or methodological dialogue within the CHU's established mandate, drawing on practical lessons from the pilot.

- **Continue the Bilingual Production Model.** Producing pilot outputs in both English and Ukrainian has proved valuable for immediate beneficiary use and future replication. This model should continue.

8.4 Cross-Cutting Recommendations for Institutionalisation

Several recommendations cut across institutional boundaries and are relevant to multiple partners:

- **Align Future Pilots with the Budget Cycle.** Future practical pilots could benefit from alignment with the annual and medium-term budget planning calendar (MoF circular cycle).

- **Maintain the Bilingual Production Model.** Materials should continue to be produced in both English and Ukrainian to support both domestic use and replication.

- **Preserve the Voluntary Participation Model.** Selection of pilot beneficiaries based on demonstrated willingness to engage has proven valuable and should be retained in future pilots.

8.5 Suggested Approach to Monitoring Implementation

The recommendations above represent areas where the pilot suggests further attention. It is for the Ministry of Justice, and other partners to develop their own implementation plans based on these recommendations.

Following the discussion of the pilot results, FLACC developed an action plan for the further implementation of the approaches and recommendations developed during the pilot. Implementing this plan could be an important next step in consolidating the results achieved and ensuring their sustainability.

To support effective monitoring of progress, the following indicators may be useful to track over time:

- Number and frequency of risk register reviews per year (suggested: at least quarterly);
- Coverage of Strategy–Budget Alignment self-assessment across MoJ budget programmes (suggested target: extended to additional programmes by 2027);
- Number of joint cross-functional meetings during planning and budgeting cycles;
- Progress on next-phase process mapping;
- Status of MoJ and FLACC IC Instruction implementation.

Progress reviews could usefully be aligned with the IC reporting cycle and discussed in joint MoJ–MoF–CHU meetings on a regular basis.

8.6 Conditions for Sustainability within MoJ / FLACC

The pilot demonstrated that practical progress is possible, but sustainability of results depends

on several conditions remaining in place over time:

- Leadership commitment at MoJ and FLACC level to maintain internal control as a management priority;
- Dedicated capacity within FLACC to support continued risk management, KPI work, and next-phase process mapping;
- Embedded routines for risk register review, cross-functional discussions, and the eventual Annual Assurance Statement cycle;
- Continued coordination with relevant MoJ functions and, where appropriate, methodological dialogue with the MoF and CHU within their existing mandates;

Table 3. Recommended Follow-Up Actions

Area	Recommendation	Lead Actor	Timing
Risk management	Continue periodic review and refinement of strategic and operational risk registers	FLACC / MoJ	Short-term (3-6–12 months)
Planning & budgeting	Strengthen integration between objectives, risks, KPIs and budget discussions	FLACC / MoJ	Medium-term
Process mapping	Finalise process mapping	FLACC / MoJ + EU4PFM	Short/Medium-term
Management ownership	Maintain structured management discussions on priorities and risks	FLACC / MoJ	Ongoing
Cross-functional cooperation	Continue regular dialogue between planning, finance, IC and IA	FLACC / MoJ	Ongoing
Future implementation	Consider similar practical pilots in other institutions	MoF / CHU + partners + EU4PFM	Medium-term

9. Conclusion

The pilot demonstrated that important foundations for internal control already exist within FLACC and the Free Legal Aid System. Applicable legislation, methodological guidance, assigned responsibilities and institutional commitment provided a basis for practical development. Within the selected activities, the main opportunity was to strengthen how these arrangements are used in day-to-day management.

Internal control is an integral management process carried out by managers and staff. It adds value when information on objectives, risks, controls, performance and resources is used to support decisions, monitoring and improvement—not when implementation is measured only by the existence of documents.

The pilot supported more structured risk discussions, refined working registers, stronger awareness of planning–budget connections and clearer dialogue among participating managers and specialist functions.

The updated MoJ internal control instruction is one enabling output informed by the pilot. It should not be treated as evidence of completed implementation. The more significant test will be whether managers periodically review risks and responses, use performance and resource information, and adjust activities and controls where necessary.

The experience of FLACC also demonstrated the value of practical implementation support. Workshops, coaching, technical discussions, and gradual refinement of tools helped translate methodological requirements into operational practice. This suggests that practical implementation approaches can play an important role in supporting wider PIFC reform efforts.

However, the pilot should be viewed realistically. Strengthening internal control is a gradual process that requires continued management engagement, practical application, and reinforcement over time. Sustainable change cannot be achieved through methodology alone, but depends equally on leadership, organisational culture, and willingness to use internal control arrangements as part of normal management processes.

The pilot therefore represents not an end point, but an important step in strengthening managerial accountability, risk-based management, and internal control implementation within the Ministry of Justice system. The lessons generated may also provide useful practical insights for the Ministry of Finance and the CHU in supporting wider PIFC implementation across the Ukrainian public sector.