

# QUICK PFM ASSESSMENT ON THREE SELECTED MUNICIPALITIES

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*A rapid PFM  
appraisal to  
support law on  
local finance design  
process*

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## ACRONYMS AND ABBREVIATIONS

AMoFTS	Albanian Ministry of Finance Treasury System
CoM	Council of Ministers
CoMD	Council of Ministers Decision
DLDP	Decentralisation and Local Development Programme
HSC	High State Control
HSC	High State Control
I PRO	Immovable Property Registration Office
LGU	Local Government Unit
MC	Municipality Council
MoF	Ministry of Finance
PEFA	Public Expenditure and Financial Accountability
PFM	Public Finance Management
PPA	Public Procurement Agency
SDC	Swiss Agency for Development and Cooperation
TAR	Territorial and Administrative Reform
TDO	Treasury Directory Office / Branch of Treasury at Local area
TSA	Treasury Single Account
WRA	Water Regulatory Authority

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# Quick PFM assessment on three selected municipalities

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*A mini PEFA assessment to support law on local finance design process*

## Summary assessment

This assessment was prepared for three selected municipalities which are project partners with Decentralisation and Local Development Program /dl dp (a program implemented by Helvetas Swiss Interco-operation and financed by the Swiss Agency for Development and Cooperation / SDC). All practices assessed refer to the former centre LGUs based on figures from last available years 2013, 2014, 2015. Practices of current LGUs cannot yet be assessed. The report aims to support with findings and recommendations the preparation of a new law on Local Finances (the Public Finance Management/ PFM part only). The selected municipalities were assessed during February – April 2016, based on 19 PEFA<sup>1</sup> indicators (selected from 7 PEFA pillars) which are relevant to Local Government and can support with key findings and recommendations to the new law on local finance drafting process.

All three municipalities assessed reflect common problems with regard local finance management. Municipalities are scored less than Central Government (CG) compare to last PEFA assessment done in 2011 (in the respective dimensions as identified within PEFA). The best areas scored are (i) procurement monitoring and (ii) budget classification, reflecting extension of Central Government PFM reforms at local level.

## Integrated Assessment of PFM Performance on three selected municipalities

The assessment is referred to 19 PEFA dimensions such as:

1. Aggregate expenditure out-turn;
2. Aggregate revenue out-turn;
3. Budget classification;
4. Budget documentation;
5. Performance plans for service delivery;
6. Performance achieved for service delivery;
7. Public access to fiscal information;
8. Non-fiscal asset monitoring.
9. Recording and reporting of debt and guarantees;
10. Fiscal impact of policy proposals;

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<sup>1</sup>Public Expenditure and Financial Accountability /Framework for assessing public finance management, February 2016

11. Medium- term expenditure estimates;
12. Medium- term expenditure ceiling;
13. Alignment of strategic plans and medium-term budgets;
14. Guidance on budget preparation;
15. Timing of budget approval;
16. Procurement monitoring;
17. Timing of in-year budget reports;
18. Completeness of annual financial reports;
19. Submission of audit reports to the legislature.

**Table 1. Quick Assessment rating for selected municipalities**

No.	Indicator	Dimension	LGU A	LGU B	LGU C
<b>Pillar I. Budget Reliability</b>					
<b>PI-1</b>		<b>Aggregate Expenditure Out-Turn</b>			
1	Dimension (i)	Aggregate Expenditure Out-Turn	D	C	D
<b>PI-3</b>		<b>Revenue Out-Turn</b>			
2	Dimension (i)	Aggregate Revenue Out-Turn	D	B	D
<b>Pillar II. Transparency of Public finances</b>					
<b>PI-4</b>		<b>Budget Classification</b>			
3	Dimension (i)	Budget classification	B	B	B
<b>PI-5</b>		<b>Budget Documentation</b>			
4	Dimension (i)	Budget documentation	D	D	D
<b>PI-8</b>		<b>Performance information for service delivery</b>			
5	Dimension (i)	Performance plans for service delivery	D	D	D
6	Dimension (ii)	Performance achieved for service delivery	D	D	D
<b>PI-9</b>		<b>Public access to fiscal information</b>			
7	Dimension (i):	Public access to fiscal information	D	C	D
<b>Pillar III. Management of Assets and Liabilities</b>					
<b>PI-12</b>		<b>Public asset management</b>			
8	Dimension (i)	Non-financial assets monitoring	C	B	C
<b>PI-13</b>		<b>Debt management</b>			
9	Dimension (i)	Recording and reporting of debt and guarantees	C	N/A	N/A
<b>Pillar IV. Policy-based Fiscal Strategy and Budgeting</b>					
<b>PI-15</b>		<b>Fiscal strategy</b>			
10	Dimension (i)	Fiscal impact of policy proposals	D	D	D
<b>PI-16</b>		<b>Medium-term perspective in expenditure budgeting</b>			
11	Dimension (i)	Medium- term expenditure estimates	C	D	D
12	Dimension (ii)	Medium- term expenditure ceiling	D	D	D
13	Dimension (iii)	Alignment of strategic plans and medium-term budgets	D	C	D
<b>PI-17</b>		<b>Budget preparation process</b>			
14	Dimension (ii)	Guidance on budget preparation	D	C	C
<b>PI-18</b>		<b>Legislative scrutiny of budgets</b>			
15	Dimension (iii)	Timing of budget approval	D	D	D
<b>Pillar V. Predictability and Control in Budget Execution</b>					

No.	Indicator	Dimension	LGU A	LGU B	LGU C
	<b>PI-24</b>	<b>Procurement</b>			
16	Dimension (i)	Procurement monitoring	B	A	A
<b>Pillar VI. Accounting and Reporting</b>					
	<b>PI-28</b>	<b>In-year budget reports</b>			
17	Dimension (ii)	Timing of in-year budget reports	A	A	A
	<b>PI-29</b>	<b>Annual financial reports</b>			
18	Dimension (i)	Completeness of annual financial reports	D	C	C
<b>Pillar VII. External Scrutiny and Audit</b>					
	<b>PI-30</b>	<b>External scrutiny and audit</b>			
19	Dimension (ii)	Submission of audit reports to the legislature	D	D	D

## Opportunities for PFM development

The Albanian Government started a new decentralization reform in 2014 and a reorganization of the local administrative boundaries, concluding to a much smaller number of Local Government Units (LGUs) consisting in 61 municipalities compared to 373 before (municipalities and communes). The reform aims to empower the newly created municipalities by enhancing their capability to provide high quality and timely services to citizens and increasing the efficiency of local governments' resource management. It is expected that the new Territorial and Administrative Reform (TAR) will lead to more professional governance at the local and regional level, more efficient service delivery and more effective collection of taxes and fees by local governments, and greater ability to promote and encourage sustainable local economic development.

The Cross-Cutting Strategy of Decentralization and Good Governance which was revised in summer 2015, expressing the willingness to increase the role and responsibilities of local governments, along with a new law on local self-government and a revised governmental grant distribution formula, are among others the most important policy instruments dedicated to improve the functioning of the local level in Albania, including the management of local finances. In addition, new functions were allocated to local governments since the beginning of 2016.

Currently, a long list of legal acts regulate different aspects of local finances; however, the legal framework is not user-friendly and presents various overlapping leading to confusion and different possible interpretations. The Government of Albania envisages a new law on local finances aiming to provide clarity on financial issues and improve PFM process.

The Decentralization and Local Development Program (dldp) committed itself to provide inputs for supporting the policy makers on designing of a new law on local finances. Based on dldp current experience on local finances, this assessment presents dldp input on identifying issues that are relevant with the view of legal improvements for the PFM part of the new law on local finances.



## Main findings based on rapid PFM appraisal

PFM problems at local level are generally well known and reflecting to some extent issues that are related to sector policies, current regulations and local capacities. Poor management of local finances results in service insufficiencies for the local population.

The results from the Rapid PFM Appraisal, in three dldp partner municipalities (namely: LGU A, LGU Band LGU C), based on 19 PEFA sub-indicators / dimensions, revealed substantial deficiencies in the management of local finances. At least in part, these deficiencies can be explained by a lack of clarity and comprehensiveness of the current legal PFM framework in properly addressing the local level. These findings were confirmed as well by a complementary survey conducted in 53 out of 61 Municipalities.

The PEFA framework states clear and generally accepted objectives for the management of local finances; in particular, these are strategic resource allocation, efficiency, transparency, accountability and fiscal discipline. The model is providing assessment for the entire municipality (municipality administration and all spending units underneath / subordinated institutions. According to this framework, two planning instruments should be used for managing public finances. These are: (i) the strategic development plan, as required by the law on local self-governance and the law on territorial planning, and (ii) a fiscal strategy. For all planning and reporting instruments, these two key documents are used as important source of information. The PEFA framework defines important deadlines for specific budgeting, reporting and oversight processes. In addition, the framework is assessing how are realised some critical PFM processes, such as commitment control, arrears monitoring, external audit, valuation of assets, consolidation, etc. Based on the above the assessment shows that LGUs in Albanian are lacking preparation of key necessary documents and well-articulated processes with regard to budget preparation; approval; scrutiny; monitoring and reporting, etc. More details in findings and suggested recommendation on each PEFA pillar is provided at a different section of this document. Some of the **key findings** are presented below:

- There are big discrepancies between initial budget plan and its execution both in terms of revenues and expenditures;
- There is no relation between local development plans and MTBP;
- The annual budget plan does not reflect the MTBP ;
- Fiscal impact of new policies is not assessed for the annual budget plan and MTBP;
- There are no standards applied for calculating the municipality service costs;
- Aggregate expenditure ceilings not used for MTBP and not disaggregated for the departments/ functions;
- The Key Working Group / strategic team are rarely established and coherently part of the annual and medium term budgeting;
- The budget documentation is incomplete and provides limited information to the municipal council;
- No budget preparation circular (guidance, methodology, instructions) is issued to departments and affiliated units when preparing the annual budget and MTBP document;
- Municipality fails to approve the budget in time and subsidiarity practices are followed to produce solutions. In some cases for almost the entire year was applied the 1/12 previous budget spending provision;

- Timely information on unconditional grants is made available from MoF very late in the process or was misleading in one case; while information on conditional transfer is totally missing;
- External audit is applied only randomly usually by the High State Control (HSC) and totally missing from the Line Ministry and independent licensed auditors hired by municipality or MC.

## **Introduction**

Dldp has prepared the very first PEFA exercise ever done in Albania for the local level in 2014, assessing LGU B Municipality. Until that time PEFA assessment was carried out only at CG level respectively in 2006 and 2011.

### **Objective of PFM quick assessment**

This PFM assessment at three municipalities aims to identify weaknesses in the local PFM system as they are concretely applied at the local level. The three municipalities were selected based on no specific criteria while it was considered that the pool of LGUs should consist of different size in term of financial capacities, administrative boundaries and each of them express full commitment to support this exercise. The assessment is based on evidence and accompanied by justifications (presented as part of Annexes) and is following the PEFA Performance Measurement Framework as of February 2016.

The in depth analysis should contribute with concrete suggestion for improving the legal framework that impacts the PFM part of local finances. This quick PFM assessment was validated with the respective municipalities and is going to be further shared with PFM local experts, Ministry of Finance as well as with donor community that are involved on good governance issues.

### **Process of preparing the quick PFM assessment**

The PFM quick assessment was prepared on three dldp partner municipalities (LGU A, LGU B and LGU C). The assessment was realized by three local experts, each of them involved with assessment of one municipality based on predefined PEFA indicators and one local team leader who was giving guidance on PEFA assessment and checking results and compiling the consolidated report. The assessment was done in strong cooperation with Finance and Budget Directory staff of the municipalities supported by a very well-coordinated process by dldp staff. The local experts conducted the main missions to gather information on the current state of the PFM system at local level, performed the necessary analysis according to the predefined PEFA indicators and respective methodology, and prepared the draft reports for each LGU.

First results were shared into a larger forum (53 municipalities' representative) through a complementary survey, which validated findings and further contributed with ideas and issues that resulted into a final check of the results. The revised results were consulted and shared with local PFM experts, the representatives of the three municipalities, MoF experts, and the key donors involved in the public finance management with a focus on LG issues.

## The Methodology of the preparation of the assessment

This assessment was based on PEFA methodology (February 2016 version). The 19 dimensions (performance indicators) were selected out of 93 in total which application supports the assessment of municipality performance on key areas that are relevant for the new Law on Local Finance. The local experts based their assessment for the last three fiscal years (2013 – 2015), and when impossible to find data for this period, the previous fiscal years (2012-2014) was considered. The assessment is based on concrete official documents produced and approved by Municipality and / or MC. Further verification of the respective data was done based on TDO reports. The documentation is collected and made part of this assessment for further reference. The consultants also conducted interviews with management and key staff from the Municipalities responsible for the performance of the different aspects of public financial management captured by of the individual PEFA performance indicators.

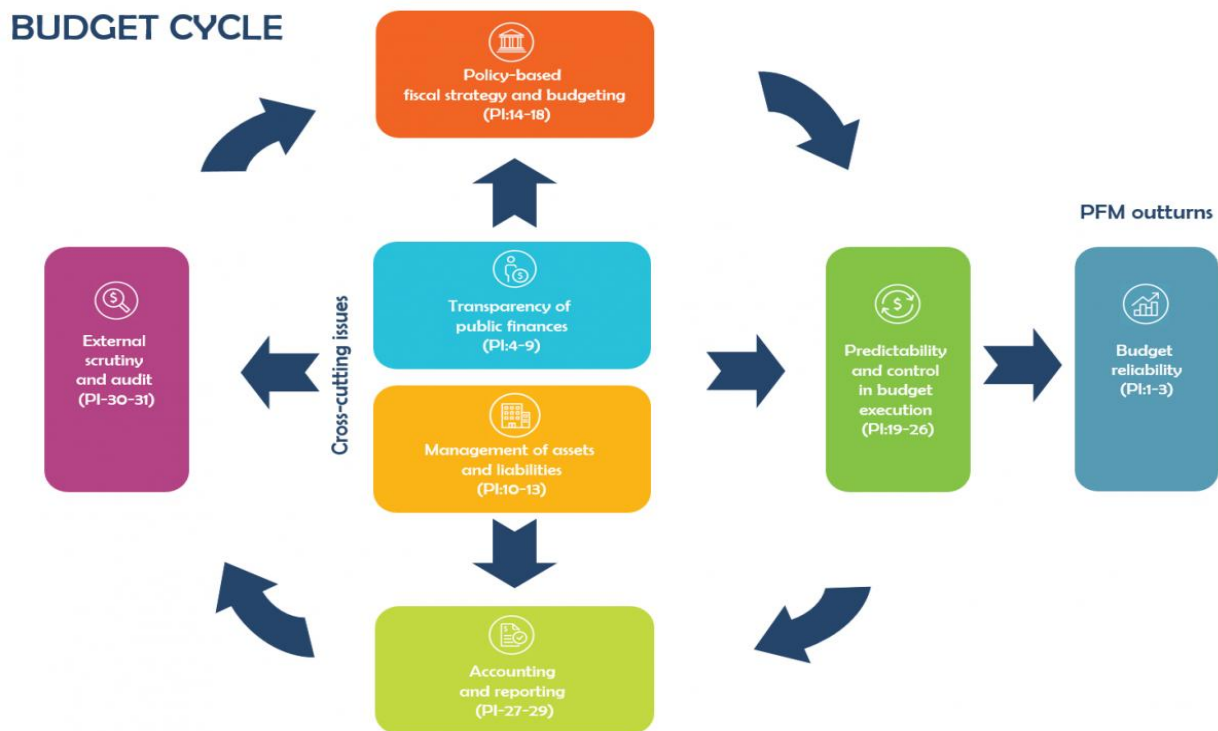


Figure 1. Interrelationship of the seven pillars of the PFM system / PEFA framework

## The scope of the quick PFM assessment

The quick PFM assessment, based on PEFA methodology, is aiming to assess the Municipality PFM system and processes. Municipalities are assessed for their entire institution (municipality administration and all spending units underneath / departments and their related local agencies). Municipality enterprises are excluded from this analysis, except where debt liabilities may be involved at level of Municipality which is not the case here. Below there are listed dimensions assessed within the PEFA pillars.

**Table 2. Selected PEFA indicators for quick assessment**

PILLARS	INDICATORS	DIMENSION
I. Budget Reliability	1. Aggregate expenditure outturn	1.1 Aggregate expenditure outturn
	3. Revenue outturn	3.1 Aggregate revenue outturn
II. Transparency of public finances	4. Budget classification	4.1 Budget classification
	5. Budget documentation	5.1 Budget documentation
	8. Performance information for service delivery	8.1 Performance plans for service delivery 8.2 Performance achieved for service delivery
	9. Public access to fiscal information	9.1 Public access to fiscal information
III. Management of assets and liabilities	12. Public asset management	12.2 Non financial asset monitoring
	13. Debt management	13.1 Recording and reporting of debt and guarantees
IV. Policy-based fiscal strategy and budgeting	15. Fiscal strategy	15.1 Fiscal impact of policy proposals
	16. Medium term perspective in expenditure budgeting	16.1 Medium-term expenditure estimates 16.2 Medium-term expenditure ceilings 16.3 Alignment of strategic plans and medium term budgets
	17. Budget preparation process	17.2 Guidance on budget preparation
	18. Legislative scrutiny of budgets	18.3 Timing of budget approval
V. Predictability and control in budget execution	24. Procurement management	24.1 Procurement monitoring
VI. Accounting and reporting	28. In-year budget reports	28.2 Timing of in-year budget reports
	29. Annual financial reports	29.1 Completeness of annual financial reports
VII. External scrutiny and audit	30. External audit	30.2 Submission of audit reports to the legislature

## Legal and institutional framework for PFM

Currently, the rules/regulations on the local finances are scattered in a significant number of legal acts does; however, the legal framework is not user-friendly. The Government of Albania envisages new legal measures in order to strengthen the local finances. The Ministry of Finance is mandated to prepare a new law on local finances. For this assessment a considerable number of legal acts which are relevant on PFM issues in Albania, subject also to Local Government Units were considered:

- Law on Management system No. 9936/2008 / and new amendments proposed

- Local Self Governance Law No. 139/2015
- Law on Local Government borrowing, No. 9869, date 4.02.2008
- Law on Public Procurement, No. 9643, date 20.11.2006
- Concessions and Public Private Partnership, No. 125/2013
- Law on Financial Management and Control, No. 10296/2010, as amended in 2015
- Law on the Internal Audit in the public sector No. 9720/2007
- Law on Territorial planning and development, No. 107/2015.

Unfortunately, besides the fact of a regulatory abundance, the LG financial issues are not appropriately treated by the Albanian legislation. Almost all of them include provisions which are applicable to the local level finances, such as the Organic Law of Budget (LoB), Law on Local Government Borrowing (LGB), etc. This legislation addresses part of the issues identified in the PEFA framework. In part, current legislation is fully in line with the PEFA model but vast areas are uncovered or incomplete (local level is only considered partially or not clear whether the provisions are also applicable for LGUs) such as: (i) Strategic development plans; (ii) Fiscal strategy; (iii) MTBP; (iv) Budget process and the content of reports; (v) Limits for budget reallocation; (vi) clear and concrete procedures in case of failure to approve the budget timely; (vii) Balance sheet and consolidation; (viii) Resolution of financial problems, etc.

## Conclusion & Recommendations

Overall assessment is not that optimistic, except for the only two indicators PI-24 / Procurement monitoring and PI-4 / Budget classification. All three municipalities are scored low and less than central government (when available assessment from PEFA 2011 done at country level is found). In general all three municipalities present same level of performance. The better performing (in average) municipality is LGU B.

### I. Budget Reliability

This pillar assesses if the municipality budget is realistic and is implemented as intended. This is measured by comparing actual revenues and expenditures (the immediate results of the PFM system) with the original approved (planned) budget. For this exercise there were selected 2 out of 3 indicators (PI-1 and PI-3). Consolidated results show a very low score to all three municipalities.

No.	Indicator	Dimension	National 2011	LGU A	LGU B	LGU C
<b>Pillar I. Budget Reliability</b>						
	<b>PI-1</b>	<b>Aggregate Expenditure Out-Turn</b>				
<b>1</b>	Dimension (i)	Aggregate Expenditure Out-Turn	A	D	C	D
	<b>PI-3</b>	<b>Revenue Out-Turn</b>				
<b>2</b>	Dimension (i)	Aggregate Revenue Out-Turn	D	D	B	D

### Findings

The municipalities are scored at D on both indicators except for LGU B scored higher on revenue out-turn dimension. This proves that local budgets have been constantly different in total actual

versus budgeted during the last three fiscal years (2013-2015). The deviation varies n 20% to 40% annually. In both terms (deviation of revenues and expenditures) the results are due to the low performance on revenue collection from own sources (tax and tariffs) and in one case only (year 2012) because of unconditional transfer from CG (reduced by 29% compare to the initial plan). Some other reasons that have impacted the high deviance between initial plan and actual budgets (in both terms revenues and expenditures) are:

- i. Over-optimistic plans; no solid bases for detailed analysis with regard fiscal burden and consequences to tax payers and lack of concrete measures to improve revenue collection;
- ii. The plan on revenues from families/individuals werebased on civil registry data which arehigher compare to the one from last census;
- iii. The local services are still offered at low level of tariffs. It is a delicate issue for political parties (mayors) to propose increase of tariffs to MC for such basic services as potable water and sanitation; city cleaning etc, which costs is covered by subsidies from municipality and CG as a consequence.
- iv. Lack of revenue collection infrastructure. The transfer of revenue collection from LG to CG authority (tax on small business tax) has impacted the collection of other local revenues from the Municipality.

### **Recommendations**

To improve initial planning process some key information are important to be made available well in advance from the Ministry of Finance and CG in general such as: (i) unconditional transfer and (ii) conditional funds from Line Ministries.

Local budget plans should be supported by solid and detailed analysis based on the proposed fiscal package. Some concrete steps to improve revenue management are:

- Relay on water utility company as a local agent for revenue collection using incentives for sharing a percentage of revenues instead of subsidizing the utility for the service;
- Prepare business plans for improving local services, setting new tariff for the service in some cases is a must to achieve concrete objectives;
- Consolidate taxpayers' database and use more realistic data when available.

## **II. Transparency of Public Finances**

This pillar assesses if the information on PFM is **comprehensive, consistent, and accessible** to the users. This is achieved through comprehensive budget classification, transparency of all government revenues and expenditures including intergovernmental transfers, published information on service delivery performance and access to fiscal and budget documentation. For this exercise were selected 4 out of 6 indicators (PI-4, PI-5, PI-8 and PI-9). Consolidated results show a good scoring on theindicator related with budget classification only,while the rest of the indicators are scored at D mainly for all three municipalities. Also in this case, LGU B proves to have a better performance.

No.	Indicator	Dimension	National 2011	LGU A	LGU B	LGU C
<b>Pillar II. Transparency of Public finances</b>						
	<b>PI-4</b>	<b>Budget Classification</b>				
1	Dimension (i)	Budget classification	A	B	B	B
	<b>PI-5</b>	<b>Budget Documentation</b>				
2	Dimension (i)	Budget documentation	B	D	D	D
	<b>PI-8</b>	<b>Performance information for service delivery</b>				
3	Dimension (i)	Performance plans for service delivery	N/A	D	D	D
4	Dimension (ii)	Performance achieved for service delivery	N/A	D	D	D
	<b>PI-9</b>	<b>Public access to fiscal information</b>				
5	Dimension (i)	Public access to fiscal information	B	D	C	D

## Findings

The budget information is prepared in line with national requirements with regard of classification standards according to functional, economic and administrative categories. This status mirrors the PFM reforms implemented by CG at national level. Compare to CG (which was assessed at A) all three municipalities are scored at B since budget formulation, execution and reporting are using GFS standard that can produce consistent documentation. There is a difference between budget formulation and budget execution level of details. The first one is done on a 3 digit level while the execution on a 7 digit level. Municipalities rely on treasury offices at regional level which are providing reports on specific demands. Further extension of the Albanian MoF Treasury System (AMoFTS) to the municipality level will bring improvement to the reporting standards and timeline as base of analysis for internal decision making process. Until than municipalities will continue to keep internal information on excel and / or Alfa financial software base format reflecting AMoFTS templates and budget classification.

The local budget lags behind in terms of comprehensiveness of information included in budget documentation. Some of the information required in PEFA standards is not made part of the budget document submitted for discussion and approval at MC and then further shared with public. Important information such as macroeconomic perspective for budgeted year, comparison to previous year and MTBP are still not part of budget document. Municipalities are using few template tables as required by MoF, while detailed analysis is missing. The new budget proposal provides comparison only to the last year concluded. Usually the fiscal package is prepared and approved before the new budget plan. Even though the budget document / plan do not reflect / take into account the fiscal impact. Estimations with regard fiscal burden and its impact on taxpayers and revenue collection is not assessed and made part of the new budget proposal. Fiscal policy is not shared with the community ahead. Only in few cases are organized thematic meetings with business community on this purpose.

Based on "Public Information" law the municipalities are sharing the approved budget only when this one is approved by the MC. Municipalities have or are currently drafting the transparency program, but still important documents such as fiscal package and new budget proposal plan are not

made public in due time thus influencing negatively the ability of citizens to participate and monitor effectively in the budget process.

Based on the new law On “Self Government” the municipalities are required to use performance indicators for their budgeting and monitoring of the local services. For this purpose municipalities have to establish their monitoring units and design performance indicators. The MoF is guiding municipalities to prepare MTBP based on performance indicators in order to orient their medium and long term interventions towards measured improvements. Unfortunately all three assessed municipalities failed to prepared set of key performance indicators as base for MTBP programing and further monitoring. They use only few indicators mainly to show their medium term objectives, while no connection is made between real planning and indicators and used for further monitoring. Annual budget plan and execution is totally missing such kind of indicators. We were able to find some performance indicators as part of service contracts in the case of subcontracted services such as city cleaning but the analysis are missing and these indicators are not part of the annual budget or MTBP.

### Recommendations

Extension of the AMoFTS at the municipality is a must. The direct access to AMoFT will facilitate the process of reporting and internal analysis, and not duplicate work of finance staff for records and further consolidations.

Sharing budget and fiscal information ahead of their approval with key stakeholders and communicate should be clearly provided by law. Insuring law implementation, such provisions must be accompanied by penalties.

Annual executive budget proposal should be supported by a set of specific documents before they are submitted for approval to MC. Ministry of Finance might offer to LGUs template documents and provide instructions how to prepare such documents. The set of supporting documents may consist of:

- Executed budget figures for the last three years;
- Macroeconomic forecasts;
- Fiscal package and its burden to taxpayers and impact to the new budget proposal;
- The broad parameters for the executive budget proposal regarding expenditure, planned revenue and debt;
- A clear and simple summary of the executive budget proposal and the enacted budget accessible to the local community.

Performance indicators for local service provision should be designed to support the budgeting and further monitoring process. Such indicators are used from the Water Regulatory Authority (WRA) to monitor the performance of Water and Waste Water Utilities to measure their performance towards objectives set by the regulator by linking this process with new tariff setting / procedure. This experience might be used for all other services provided by the municipality. Initially the performance monitoring units should be established within each municipality and then design the set of performance indicators, further monitor and use as base for annual and MTBP planning.



### III. Management of Assets and Liabilities

Effective management of assets and liabilities ensures that public investments provide value for money, assets are recorded and managed, fiscal risks are identified, and debts and guarantees are prudently planned, approved, and monitored. For this exercise were selected 2 out of 4 indicators (PI-10 and PI-11). Consolidated results show a better scoring for LGU B Municipality (respectively B and C), followed by LGU A and last LGU C. The overall assessment is provided below:

No.	Indicator	Dimension	National 2011	LGU A	LGU B	LGU C
<b>Pillar III. Management of Assets and Liabilities</b>						
	<b>PI-12</b>	<b>Public asset management</b>				
<b>1</b>	Dimension (i)	Non-financial assets monitoring	N/A	C	B	C
	<b>PI-13</b>	<b>Debt management</b>				
<b>2</b>	Dimension (i)	Recording and reporting of debt and guarantees	B	C	N/A	N/A

#### Findings

Municipality assets reported by municipalities mainly consist of: buildings, lands, equipment, machineries, software etc. The asset register do not provide for complete and relevant information. Very few municipalities have received loans / debt from domestic financial market. In only one case, (from our assessed municipalities), the reporting on the respective loans and accumulated debt is done regularly to the Ministry of Finance.

The asset register contains most important / key assets and their net value is partially reflected. Some public assets such as roads, parks, sidewalks etc. are made part of the asset registry. Some old / outdated methods and rates are used for assets depreciation, which do not comply with some preapproved or well-known standards. Municipality assets are not registered at the Immovable Property Registration Office (IPRO). Only LGU A has registered part of their assets (the ones that can be used for economic activities). The assets are not made part of decision-making when new investments projects are planned. In some cases when municipality assets are rent out they are misused and not maintained.

Municipalities are legally entitled to borrow respecting some limitations with regard maximum debt stock and annual debt service. Since limitations are very rigid (4 different limitations for debt stock and annual debt payment and 1 limitation on projection of revenues) and further limitations that MoF has imposed during 2009 – 2013, only few municipalities managed to sign a commercial loan from the domestic market during 2009 – to date. LGU A is one of the municipalities that have contracted a commercial loan in 2010. Based on Ministry of Finance limitations to disburse only up to 5% of the total expenditures, the municipality has started the investment project that was financed by the loan. This procedure created difficulties on tracking loan records. Anyhow based on legal provision the municipality loan payments are recorded monthly as part of TDO report. The reports are submitted at MoF.

There is no debt management practice at the Municipality level. The overall public debt management it's done entirely from Ministry of Finance. The reporting and consolidation of financial information concerning public enterprises controlled and managed by Municipalities has been done independently from enterprises themselves, based on their status as incorporated public companies to local level. Lately the MoF issued instructions on periodic reporting of the so called "public enterprises" which are now obligatory to report on their financial status (assets and liabilities included) to Ministry of Finance every month.

All three municipalities results to have created arrears during years, due to unpaid obligations / invoices to third parties, usually public investments project implemented by private companies. Arrears are created due to lacking commitment control (such as: bills/invoices).

The municipalities are not reporting this arrears to MC or else. Only lately the MoF is intensively working to record and consolidate all the arrears identified at local level. The arrears are reported by TDO and made part of the Municipalities balance sheet.

### Recommendations

Assets should be recorded at IPRO. The process takes time but can initially start with those assets that can be used for economic activity. The MoF should provide for guidance or establish legal obligations to keep full records, where municipalities have to reflect the age and residual values . Depreciation must respect some predefined rates.

Arrears should be part of budget reports. A detailed plan for paying off debt / arrears should be developed and distributed for discussion and approval by the MC. Arrears should be considered as part of the debt stock, probably clear provision within the new law on local finances might be one possibility for clarification in this regard.

MoF must provide assistance in connection with the identification, registration of debt inherited from the previous municipalities and communes. Since funds are not sufficient for payment of the inherited arrears the MoF should assume this in behave of the newly created municipalities.

## IV. Policy-based Fiscal Strategy and Budgeting

The fiscal strategy and the budget are prepared with due regard to government fiscal policies, strategic plans, and adequate macroeconomic and fiscal projections. For this exercise were selected 4 out of 5 indicators (PI-15, PI-16, PI-17 and PI-18). Consolidated results show an overall assessment reflecting more or less same problems in all three municipalities.

No.	Indicator	Dimension	National 2011	LGU A	LGU B	LGU C
<b>Pillar IV. Policy-based Fiscal Strategy and Budgeting</b>						
	<b>PI-15</b>	<b>Fiscal strategy</b>	<b>B+</b>			
<b>1</b>	Dimension (i)	Fiscal impact of policy proposals		D	D	D
	<b>PI-16</b>	<b>Medium-term perspective in expenditure budgeting</b>	<b>C+</b>	<b>D+</b>	<b>D+</b>	<b>D</b>
<b>2</b>	Dimension (i)	Medium- term expenditure estimates		C	D	D

No.	Indicator	Dimension	National 2011	LGU A	LGU B	LGU C
3	Dimension (ii)	Medium- term expenditure ceiling		D	D	D
4	Dimension (iii)	Alignment of strategic plans and medium-term budgets		D	C	D
	<b>PI-17</b>	<b>Budget preparation process</b>				
5	Dimension (ii)	Guidance on budget preparation	N/A	D	C	C
	<b>PI-18</b>	<b>Legislative scrutiny of budgets</b>	<b>B+</b>			
6	Dimension (iii)	Timing of budget approval	N/A	D	D	D

## Findings

Low scoring of municipalities is due to poor capacities at local level to drive the budgeting process based on fiscal policy assessment and medium term perspective.

The calendar of budget approval at municipality level depends on Central Government agenda and respective process this is because up to 50% of the local budget depends from the unconditional transfer. Some key findings from the assessed municipalities are:

- i. The annual budget do not reflect the fiscal policy and makes part as support document when budget proposal is submitted at MC. Capacity to formulate budgetary policy plans for budget formulation is still underdeveloped;
- ii. The fiscal package do not assess impact to tax payers and local economy in general;
- iii. The MTBP process usually is a very generic document and do not involve all key municipality departments; it is usually an exercise prepared by the Finance Directory;
- iv. Budgeting and investment planning the practice and procedures at, are largely influenced from requirements of MTBP at national level, that is, the production of structured forms of information required from MoF.
- v. MTBP do not reflect the most important development documents prepared such as: Strategy for Economic Development; Urban Planning etc.;
- vi. There is no link between annual budget and MTBP;
- vii. There is a special online program designed to prepare Capital Investments plans used by Municipalities. The result is a CIP prepared rather through an isolated process and ad hoc basis. The priority investment list is not approved by the MC.
- viii. Municipality do not provide internal circulars for budget preparation and ceilings to key functional departments. Some ceilings are provided to spending units only;
- ix. Ceilings are not sent for approval to MC before starting the budgeting exercise;
- x. The annual budget only in one case was approved within the timeline. Although the national calendar influences local one the practice in municipality has been the approval of local budget with delays. In one case from this assessment has been approved almost at the end of new fiscal year.

## Recommendations

Legal framework provides for clear regulations with regard budget process and MTBP at national level. The local government somehow is understood to follow the same principles and accommodate the same process at their level. The current legislation should be revised or new provisions might be designed as part of the new law on local finances. The provisions should clearly define some suggestions as below:

- The implementation of the MTBP is monitored annually as part of the preparation of the annual budget, and the monitoring report is published together with the annual budget;
- The MoF supervises compliance of municipalities with the legal provisions with regard MTBP and the annual budget proposal to MC;
- The implementation of the strategic development plan is monitored annually as part of the preparation of the MTBP;
- A clear annual budget calendar is issued by the mayor and communicated to all spending units and Functional departments at the beginning of the budgeting process. The calendar allows budgetary units to prepare their detailed budget request on time;
- The MoF develop an indicative annual budget and MTBP process and calendar for reference to be followed by Municipalities;
- The budget circular is issued by the mayor to all budgetary units covering total budget expenditure for the full budget year. The budget circular includes binding ceilings for the total budget and for each budgetary unit and functional departments of the municipality, together with details of the format for budget requests from budgetary units.
- The legal framework should be amended to provide for clear provision in case of failing to approve the budget within the legal timeline. The MC should decide on the annual budget before the official start of the new budget year, i.e. before the first of January. For example the Government (either CoM or MoF) should reserve the right to decide on new budget document if MC fails to approve in time.

## V. Predictability and control in budget execution

The budget is implemented within a system of effective standards, processes, and internal controls, ensuring that resources are obtained and used as intended. For this exercise only 1 indicator was selected (PI-24). Consolidated results show a high score to all three municipalities were LGU A scores below. The overall assessment is provided below:

No.	Indicator	Dimension	National 2011	LGU A	LGU B	LGU C
<b>Pillar V. Predictability and Control in Budget Execution</b>						
	<b>PI-24</b>	<b>Procurement</b>	<b>B+</b>			
<b>1</b>	Dimension (i)	Procurement monitoring		B	A	A

## Findings

Public Procurement is realised based on the “On line Procurement System” via open tender procedures in the majority of the procurement cases. For non-open tender form there is a clear explanation and argument in written approved from Authorising Officer in line with instructions from MoF and PPA. There is an appealing mechanism in case of complains.

All three municipalities assessed have a dedicated office that deals with procurement. The procurement unit maintain a database where all procurement are recorded with specific files of procurement projects, including data on what has been procured, value of procurement, who has been the awarded contracts, and procurement method used for the specific service or goods procured. The result of the procurement process is made public at the PPA official website. Unfortunately not always the procurement results and respective database are made public at the municipality website. LGU A municipality fail to fulfil requirements on “Transparency program”.

## Recommendations

The rating scores at the maximum level except for LGU A, that need to improve only the publication process. All the procurement data should be made public at the municipality website.

## VI. Accounting, recording and reporting

Accurate and reliable records are maintained, and information is produced and disseminated at appropriate times to meet decision-making, management, and reporting needs. For this exercise were selected 2 out of 3 indicators (PI-28 and PI-29). Consolidated results show almost the same scoring for all the assessed Municipalities. Slightly below is LGU A with regard the completeness of the annual financial reports. The overall assessment is provided below:

No.	Indicator	Dimension	National 2011	LGU A	LGU B	LGU C
<b>Pillar VI. Accounting and Reporting</b>						
	<b>PI-28</b>	<b>In-year budget reports</b>	<b>C+</b>			
17	Dimension (ii)	Timing of in-year budget reports		A	A	A
	<b>PI-29</b>	<b>Annual financial reports</b>				
18	Dimension (i)	Completeness of annual financial reports	A	D	C	C

## Findings

Accounting and recording is the area that benefits the most from daily activity of AMOFTS that reconciles all cash balances at national scale within the same day. The information is consolidated with local Finance Department within the same month allowing accurate records in financial accounts. Annual budget should be compiled based on MoF templates. **In year budget reporting** is prepared from Financial Department, while there is no formal calendar for preparation and further share of this report. The information is provided from Treasury which presents the most important factor that has facilitated the process. Usually the relation between TDO and head of Finance

Department at Municipality are good but the reporting rely strongly on the personal relation of the two. There is no structured and formal process of further sharing this information to internal departments of the municipalities for management purposes. The reports are not shared and discussed with MC or else. Unfortunately the monthly reports are not made part of their internal management decision at all.

The report serves only to the Finance Directory and mayor. The reports are not accompanied by an analysis and commentary on budget execution. They do not include the spending units. The spending units underneath the municipality hierarchy report directly to MoF based on some predefined formats with are also prepared as such from the TDO.

The annual budget execution report by law should be prepared by the municipality and approved by the MC until March 31<sup>st</sup>. The municipalities fail to respect this timeline. Only the budget execution report is shared with MC and made public. The report is missing also detail analysis on the achievements of the budget objectives / targets.

Municipality **Financial reports** by law should be prepared annually and should be accompanied with the approved budget.

All assessed municipalities consolidate and present financial accounts and balance sheets to MoF within time limit specified in the law. There is no evidence of noncompliance with MoF formal requirements or incorrect information. The reports contain full information on revenue, expenditure, and are accompanied by a reconciled cash flow statement in a modified cash system, where every detail or part of the information for the report is held by the TDO / AMoFTS. We were no able to find that all long-term obligations issued to third parties were part of these reports. The reports contain very generic analysis. The comparison between fact and amended plan is done. The report and financial tables are not shared with MC. The reports are not audited by any external audit before submission for approval at MC and official presentation at MoF.

### **Recommendations**

The budget execution reports and financial reports should be accompanied with detailed analysis in order to facilitate internal managerial activity of the municipality. At least quarterly budget execution reports should be shared with MC and made public within the municipality website. The financial reports should include long-term obligations (such as procured but not concluded contracts and unpaid invoices). The related analysis should provide for clear action plan and measures how to improve the situation on specific areas as resulted from the report.

An independent audit should check and sign the report before submission at MC and MoF.

## **VII. External Scrutiny and Audit**

Public finances are independently reviewed and there is external follow-up on the implementation of recommendations for improvement by the municipality. For this exercise were selected only 1 out of 4 indicators (PI-30). All three municipalities got a very low scoring as below:

No.	Indicator	Dimension	National 2011	LGU A	LGU B	LGU C
<b>Pillar VII. External Scrutiny and Audit</b>						
<b>PI-30</b>		<b>External scrutiny and audit</b>	<b>A</b>			
<b>19</b>	Dimension (ii)	Submission of audit reports to the legislature		D	D	D

### Findings

For this assessment we were able to find only High State Control audits as an external audit realized at all three municipalities. The HSC audit has been realized only randomly. An independent auditor was never hired from the MC or Mayor. No audit reports were prepared either by Ministry of Finance (with a focus on unconditional transfers' guidance on use) or other Line Ministries (with a focus on dedicated funds transferred at municipality) and Albanian Development Fund (ADF).

This dimension assesses the timelines of audit report on budget execution to the Municipality council and CG institutions for the use of dedicated funds received by them. Unfortunately only few reports were prepared (the ones from HSC only) which were not shared with MC, except for when it was expressly requested by the MC itself. The MC did not provided for further actions to be undertaken in order to reflect HSC recommendations or implement penalties or administrative measures. The HSC reports are made public only at HSC official website, but not further shared by the respective municipality.

### Recommendations

External audits should be realised also from Ministry of Finance and Line Ministries with a clear subject of control and time schedule to be provided ahead at municipality. The law provides for the possibility of independent audit realised with the request of MC or Mayor. The implementation of this provision is a must for making more active the role of the MC members.

The external audit reports should be shared with MC and public. A concrete action plan and measures should be prepared as a follow up and further reporting on implementation of the respective measures at MC have to be realised by Mayor and key staff.

## Annex 1.

### Assessment of the PFM systems, processes and institutions

#### Budget reliability

##### PI-1 Aggregate Expenditure Out-Turn

The extent to which aggregate budget expenditure outturn reflects the amount originally approved, as defined in government budget documentation and fiscal reports.

This indicator assesses the difference between the actual and the originally budgeted primary expenditure for the budgetary Local Government (Municipality Centre), for the last three fiscal years (2013-2015).

***Dimension (i): The difference between actual primary expenditure and the originally budgeted primary expenditure***

Budgeted and actual current and capital expenditure for the years 2012 – 2014 / 2013-2015 is listed in table 3. All figures refer to local municipality of LGU A, LGU B and LGU C and include all expenditures funded from own revenues (local taxes and fees), inherited funds from last year and conditional and unconditional transfers.

***Time period: 2013 -2015 (for LGU A) and 2012-2014 (for LGU B and LGU C)***

According to the Guideline of Ministry of Finance on “Standard Procedures on Budget Preparation”, expenditures of local government budget include: i) expenditures for local government operations (exclusive local); ii) expenditures for common operations (both central/local); and iii) expenditures for delegated operations. For common and delegated operations local government receive grants from central government (conditional grants). These grants, according to manual are considered as transfers from central to local government, expenditures that local government perform on behalf of central government. These expenditures are not part of local government budget approved by the council of municipality.

**Table 3. Deviation in Expenditures including conditional transfers**

Aggregate expenditure outturn (in 000 ALL)			
Year	Planned (approved budget)	Actual (financial report)	Overall Deviation (in %)
LGU A			
2015	809,652.00	665,112.00	-18%



2014	562,492.00	450,251.00	-20%
2013	490,563.00	346,336.00	-29%
<b>LGU B</b>			
2014	1,505,351.00	1,457,283.00	-3%
2013	1,462,528.00	1,164,518.00	-20%
2012	1,358,302.00	1,223,350.00	-10%
<b>LGU C</b>			
2014	3,418,521.00	2,707,175.00	-20.8%
2013	2,187,891.00	1,766,891.00	-19.2%
2012	2,489,416.00	1,848,698.00	-25.7%

Source: Department of Budget and Finance, respectively Municipality of LGU A, LGU C and LGU B

**Table 4. Deviation in Expenditures excluding conditional transfers**

Aggregate expenditure outturn / conditional transfers excluded (in 000 ALL)			
Year	Planned	Actual	Overall Deviation
	(approved budget)	(financial report)	(in %)
<b>LGU A</b>			
2015	426,700.00	322,328.00	-24%
2014	325,920.00	218,895.00	-33%
2013	321,609.00	177,587.00	-45%
<b>LGU B</b>			
2014	784,427.00	745,112.00	-5%
2013	754,728.00	606,795.00	-20%
2012	787,941.00	653,043.00	-17%
<b>LGU C</b>			
2014	1,804,294.00	1,393,343.00	-22.8%
2013	1,521,657.00	1,102,678.00	-27.5%
2012	1,784,273.00	1,155,155.00	-35.3%

Source: Department of Budget and Finance, respectively Municipality of LGU A, LGU C and LGU B

## Performance indicator

**Table 5. Performance indicator PI.1 / Expenditure Out-Turn**

Indicator / Dimension	National Score 2011	Municipality Score 2015			Justification for 2015 Score
		LGU A	LGU B	LGU C	
PI-1					
(i) Aggregate expenditure out-turn	C	D	C	D	High Deviation between initial plan an actual expenditures. Deviation is between 65-88%

To classify for a C score it is requested that Aggregate expenditure outturn to vary between 85% and 115% of the approved aggregate budgeted expenditure in at least two of the last three years. Based on above assessment only LGU B has a deviation within this band. Both LGU A and LGU C

have a higher deviation respectively (i) LGU A has a deviation between 71% and 82% for last three years and (ii) LGU C has a deviation between 74% and 81% for the last three years scoring to the lowest level (D) for this indicator. The deviation gets worse if predictability for operations financed via conditional grants is excluded. In this case all of three LGUs score D.

### PI-3 Aggregate Revenue Out-Turn

This indicator compares actual total local revenue to the originally budgeted domestic revenue for the past three fiscal years (2011-2013).

#### *Dimension (i): Aggregate revenue out-turn compared to Original approved budget*

The data for the indicator had to be pieced together from two sources. A table on “Fiscal Indicators” with estimates of revenue and expenditure is produced by Department of Finance as part of the package of budget documentation going to Council of Municipality for approval. A similar table with actual is produced as part of the approval of the executed annual budget and send for approval to Municipality council.

**Time period:** 2013 -2015 (for LGU A and LGU B) and 2012-2014 (for LGU C)

According to the Guideline of Ministry of Finance on “Standard Procedures on Budget Preparation” based on Law 9936 dated 26.6.2008, "On Budget Management System in the Republic of Albania" revenue of local government budget is considered: (i) own revenue (ii) grants (iii) loans and inherited funds (from previous years) if any. Table 6 (below) provides data on revenue out-turn for the three selected municipalities during the last three years. For the purpose of this exercise external financing through borrowing was not included in the assessment of this indicator (both for initial plan and fact of total revenues of municipalities).

**Table 6. Originally Budgeted and Actual local revenue 2013-2015**

Aggregate revenue out-turn (in 000 ALL)			
Year	Planned	Actual	Overall Deviation
	(approved budget)	(financial report)	(in %)
<b>LGU A</b>			
2015	426,700.00	322,329.00	<b>-24%</b>
2014	325,920.00	218,895.00	<b>-33%</b>
2013	321,609.00	177,587.00	<b>-45%</b>
<b>LGU B</b>			
2014	784,427.00	745,112.00	<b>-5%</b>
2013	754,728.00	751,403.00	<b>0%</b>
2012	787,941.00	653,043.00	<b>-17%</b>
<b>LGU C</b>			
2014	1,804,294.00	1,437,759.00	<b>-20.3%</b>
2013	1,521,657.00	1,219,494.00	<b>-19.9%</b>
2012	1,784,273.00	1,212,577.00	<b>-32.0%</b>

Source: Department of Finances respectively Municipality of LGU A , LGU C and LGU B

## Performance indicator

**Table 7. Performance indicator PI.3 / Revenue Out-Turn**

Indicator / Dimension	National Score 2011	Municipality Score 2015			Justification for 2015 Score
		LGU A	LGU B	LGU C	
PI-3					
(i) Aggregate revenue out-turn	D	D	B	D	High Deviation between initial plans actual revenues collected from municipalities. Deviation is between 65-88%

To classify for a C score it is requested that Aggregate revenue was between 92% and 116% of the budgeted revenues in at least two of the last three years. Based on above assessment only LGU B has a deviation between 95% and 100% scored at **B**(for the last two years). Both LGU A and LGU C have a higher deviation respectively (i) LGU A a deviation between 55% and 75.5% for last three years and (ii) LGU C a deviation between 68% and 80% for the last three years scoring to the lowest level (D) for this indicator.

## Transparency of public finances, management of assets and liabilities

### PI-4 Budget Classification

The Budget classification system applied provides the means to track government spending. This indicator aims to evaluate whether the classification system used for budget formulation, execution and reporting of Local Government Central Government's transactions is compatible with national approved standards and in line with the international ones.

***Dimension (i): The classification system used for formulation, execution and reporting of the local government's budget***

***Time period: 2015***

Budget classification requirements are established by Article 11 of the Law no.9936, dated 26.6.2008, "On Budget Management System in the Republic of Albania". Budget classifications are in compliance with international standards. The compilation methodology underlying the data for the consolidated budget of general government is broadly consistent with the analytical framework of GFS 2001 but the presentation and classification of data are not in the GFS 2001 format. Accounts are compiled on a modified accrual basis. The tables of expenses are compiled on the basis of COFOG. Fixed assets are estimated by historical cost, bonds and loans are recorded by current value. All general governments are subject to the same classification requirements. Budget classifications at a minimum cover:

- a. Administrative classification, which represents the classification of local government overall spending to the level unit;

- b. Economic classification, which represents the classification of transactions by economic nature;
- c. Functional classification, which represents a detailed classification according functions or social and economic objectives, that general government units they aim to meet / reach;
- d. Classification by program, which represents programs, subprograms and projects, in accordance with the objectives of the general government units;
- e. Classification by sources of funding.

The entire budget execution is done through Albanian Government Financial Information System (AGFIS) which performs processes and financial reporting of the State Budget. AGFIS is built in Oracle E-Business Suite platform (Fully live Implementation of the treasury automated system was possible only in 2010). AGFIS includes information on the financial management of the General Government of Albania. Government entities (Central Government, Local Governments and Off-budgetary funds) are established as main financial reporting entities. All financial transactions are recorded in General Ledger in a specific accounting flex field combination in accordance with Albanian Budget Structures and Chart of Accounts. The Chart of Accounts structure supports financial reporting for the Central Government, each local government entity and of-budgetary funds. The Budgetary accounting function in Albania ensures the connection between the budget classification and the general chart of accounts, which are unified. The budget execution is performed in the same budget structure where the budget is planned. Design of Chart of Account is implemented with Oracle Accounting Flex field definition in the following structure:

- ✓ Government Entity (including Central Government, Local Government and non-budgetary funds- in 3 digit level)
- ✓ Line Ministry (2 digit level)
- ✓ Spending unit (7 digit level)
- ✓ Fund Source (Chapter-2 digit level)
- ✓ Functions (5 digit level: function-2 first digit+ subfunctions-3 digit)
- ✓ Economic Accounts (Budget is planned in 3 digit level; execution is done in 7 digit level according to the nature of the financial transaction)
- ✓ Subaccounts (technical code used for representing Bank Accounts, creditors for debt payments- 5 digit level)
- ✓ Treasury Districts (-4 digit level)
- ✓ Projects (7 digit level)

Local government budget execution is done via Treasury Single Account (TSA). After budget approval local government submit to respective Treasury District Office (TDO) the budget in the same standard classification system that central government applies.

All assessed municipalities are planning revenues by Economic Accounts, and expenditures in the following dimensions: (i) Chapter, (ii) Programs (iii) Economic account. The budget, after Council approval, is submitted to the respective TDO and executed in the same budget structure. As stated

earlier, **Budget is planned in 3 digit level; execution is done in 7 digit level according to the nature of the financial transaction.**

Data on revenue and expenditures on the municipality budget execution are maintained in accountability software (Alpha Software) and excel sheets on the same structure as the central government. Monthly reconciliation is performed with respective TDO.

## Performance indicator

**Table 8. PI-4 / Budget classification**

Indicator / Dimension	National Score 2011	Municipality Score 2015			Justification for 2015 Score
		LGU A	LGU B	LGU C	
PI-4					
(i) Budget classification	A	B	B	B	Budget formulation, execution and reporting are based on administrative, economic (at least "Group level of GFD standards – 3 digits), and functional/sub functional classification, using GFS/COFOG standards or a classification that can produce consistent documentation comparable with those standards

### PI-5 Budget documentation

The Budget documentation provides comprehensive information in the annual budget.

***Dimension (i) Annual budget proposal to the legislator provides for solid argumentation and documentation support.***

Annual budget documentation refers to the executive's budget proposals for the next fiscal year with supporting documents, as submitted to the legislature for scrutiny and approval. The set of documents provided by the executive should allow a complete picture of central government fiscal forecasts, budget proposals, and outturn of the current and previous fiscal years.

***Time period: 2015 (for LGU A and LGU B) 2014 (for LGU C)***

**Table 9. Available information in the budget documentation**

Documentary Requirement	LGU A		LGU B		LGU C	
	Fulfilled	Support document available	Fulfilled	Support document available	Fulfilled	Support document available
<b>Basic elements in documentation</b>						
1. Forecast of the fiscal deficit or surplus or accrual operating result.	Not applicable for local government		Not applicable for local government	Local budgets by law should be balanced.	Not applicable for local government	Local budgets are balanced budgets
2. Previous year's budget outturn, presented in the same format as the budget proposal.	Not Fulfilled		✓	Budget proposal and budget execution report for 2013 and 2014 use same classification and formats.  Budget proposal for 2014 instead have a more solid documentation respecting MoF templates required	Not available	Data for the outturn of year 2013 are not resented in the same format as the budget proposal document
3. Current fiscal year's budget presented in the same format as the budget proposal. This can be either the revised budget or the estimated outturn.	✓		✓	Amended budget for 2014 document & estimates for 2014 (until the end of the year) are presented in the same format as the budget proposal for 2015 document	✓	Amended budget for 2014 document & estimates for 2014 (until the end of the year) are presented in the same format as the budget proposal for 2015 document
4. Aggregated budget data for both revenue and expenditure according to the main heads of the classifications used, including data for the current and previous year with a detailed breakdown of revenue and	✓		N/A	Budget implementation for 2014 does not compare same items to the budget implementation of 2013. This information is available only for unconditional transfer and some chapters of revenues. On the expenditures side comparison is totally missing. Legal requirement (law no. 9936/2008) to have at least the last two	✓	Table of budget data for both revenues and expenditures with a detailed breakdown of revenue and expenditure estimate it is presented in the budget proposal document.

expenditure estimates. (Budget classification is covered in PI-4.)				years trend for each budget item is lacking.		
<b>Additional elements in documentation</b>						
5. Deficit financing, describing its anticipated composition	Not applicable		Not applicable	By Law Local Budget is balanced	Not applicable	By Law Local Budget is balanced
6. Macroeconomic assumptions, including at least estimates of GDP growth, inflation, interest rates, and the exchange rate	Not Fulfilled		N/A	Main macroeconomic indicators are made available, but no guidance / instructions are offered by MoF how to use them.	Not available	No evidence of such assumption is found
7. Debt stock, including details at least for the beginning of the current fiscal year presented in accordance with GFS or other comparable standard	Not Fulfilled		N/A	No loans are signed or disbursed by municipality. Arrears / unpaid invoices, obligations to third parties are not included as a document support within the budget proposal.  Arrears are to some extent presented at the budget execution report but no consolidated and reliable information and documentation is provided in this case also.	Not available	Some information in the narrative report for the debt / commercial loan disbursement.  Detailed information on debt stock it is not included in budget proposal.
8. Financial assets, including details at least for the beginning of the current fiscal year presented in accordance with GFS or other comparable standard	Not available		Not available	No evidence found. Municipality have no financial assets	Not available	No evidence found
9. Summary information of fiscal risks, including	Not Fulfilled		N/A	No evidence found There is no experience on fiscal risks	Not available	No evidence found

contingent liabilities such as guarantees, and contingent obligations embedded in structure financing instruments such as public-private partnership (PPP) contracts, and so on				development. To some extent the municipality, when drafting the new budget plan, is including some possible effects on tax collection. Based on budget law the municipality has the right to plan a contingency fund when short of liquidities or financial distress. The contingency fund is used based on MC decision but there are no evidences of argumentation / reasons.		
10. Explanation of budget implications of new policy initiatives and major new public investments, with estimates of the budgetary impact of all major revenue policy changes and/or major changes to expenditure programs	Not Fulfilled		N/A	No evidence found  There are no explanations on budget implications of new the policy initiatives and major new public investments, with estimates of the budgetary impact of all major revenue policy changes and/or major changes to expenditure programs.  There are provided only information on tax and tariff level / increase or decrease but no estimates on tax payer effect and impact in budget.  Investment plans / projects do not provide information on future needs for maintenance funds.	Not available	No evidence found
11. Documentation on the medium-term fiscal forecasts	Not Fulfilled		N/A	No evidence found at the budget proposal document.  Municipality claim to make such a forecast on medium term period but this is done just as a requirement of Ministry of Finance.	Not available	No evidence found at the budget proposal document.  Municipality claim to make such a forecast on medium term period but this is done just as a requirement of Ministry of Finance. These estimations are not



						approved by the MC or serve to forecast the budget.
12. Quantification of tax expenditures	No evidence found			No evidence found	No evidence found	

Source: Finance Department of the municipality respectively: LGU A, LGU B and LGU C

## Performance indicator

**Table 10. Performance Indicator PI-5 / Budget documentation**

Indicator / Dimension	National Score 2011	Municipality Score 2015			Justification for 2015 Score
		LGU A	LGU B	LGU C	
PI-5					
(i) Budget documentation	B	D	D	D	From 12 required information required (basic and additional) only 2 (basic documents) are available in Budget Documentation presented to Municipality Council.

### **PI-8 Performance information for service delivery**

This indicator examines the service delivery performance information in the executive's budget proposal or its supporting documentation in year-end reports.

**Time period: 2014, 2015**

#### ***Dimension (i) Performance plans for service delivery***

Assesses the extent to which key performance indicators for the planned outputs and outcomes of programs or services that are financed through the budget are included in the executive's budget proposal or related documentation, at the function, program or entity level for the next fiscal year (2015)

#### ***Dimension (ii) Performance achieved for service delivery***

Examines the extent to which performance results for outputs and outcomes are presented either in the executive's budget proposal or in an annual report or other public document, in a format and at a level (program or unit) that is comparable to the plans previously adopted within the annual or medium-term budget. Outputs and outcomes of the last completed fiscal year (2014) are taken into consideration for all three selected municipalities.

The Albanian legislation provides guidance to public institutions (municipalities are included) on budget preparation and reporting based on performance indicators. The law on management of the budget system is not very precise on this requirement unfortunately, while the new law on Self Governance of Local governments clearly is making this requirement mandatory for all municipalities.

Municipalities are trying to use this indicators to a certain extend. Some performance information is included at the planning stage in the MTBP but not in the annual budget.

It is interested to notice that in all three assessed municipalities we found such kind of indicators as part of service contracts subcontracted with private service providers / companies (city cleaning service).

For example:

LGU A municipality centre in year 2013 has developed a “Strategic Plan for Sustainable Development of LGU A Community 2013- 2030”. Key performance indicators are calculated for year 2013, as base year, and goals to be achieved are set for year 2030 on some of these key performance indicators. No link is associated between these indicators and the budget, even in the 2014 budget proposal. Although in year 2013 key performance indicator on tourism, infrastructure, economy and other areas where calculated, the impact on these indicators by fiscal policy on 2014 budget was not assessed.

## Performance indicator

**Table 11. Performance indicator PI-8 / Performance information for service delivery**

Indicator / Dimension	National Score 2011	Municipality Score 2015			Justification for 2015 Score
		LGU A	LGU B	LGU C	
PI-8					
(i) Performance plans for service delivery	NA	D	D	D	Published Information on a set of performance indicators is totally missing. The municipality do not plan or report based on performance indicators.
(ii) Performance achieved for service delivery	NA	D	D	D	

### PI-9 Public access to fiscal information

This indicator evaluates whether the general public or, at least, the relevant interest groups have access to key information about fiscal plans, position and performance of Local Government in an opportune and simple manner. The evaluation is based on the last fiscal year where documentation is available.

***Dimension (i): Number of the listed elements as presented in table 12 of public access to information that is fulfilled***

The publication of key fiscal information via easily accessible media and in time to be relevant is presented in Table 12 below.

#### **Time period: 2015**

The assessment for all three municipalities was referred to the last completed fiscal year (2015). Fiscal transparency depends on whether information on government fiscal plans, positions, and performance is easily accessible to the general public. The assessment of basic elements and additional elements of information made public in relation to the budget in all three municipalities unfortunately is very limited. The best performer is LGU B that rates better compare to LGU A and LGU C, but still lacking fiscal information sharing to the general public. LGU A and LGU C are making public only budget execution report to the public. Even in this case analyses on the budget execution are missing, providing for general figures on the main budget lines.

**Table 12. Criteria on public access to key fiscal information at local level**

Requirement	LGU A		LGU B		LGU C	
	Status	Comment	Status	Comment	Status	Comment
<b>Basic documents</b>						
1. Annual executive budget proposal documentation. A complete set of executive budget proposal documents is available to the public within one week of the executive's submission of them to the legislature	Not available to public	Budget proposal is made available only to the Council and it is not published  At time of assessment 2016 budget proposal document are not available to the public	✓	The executive budgeted document is published online; the budget document is also available in hard copy.	Not available to public	Available only to MC
2. Enacted budget. The annual budget law approved by the legislature is publicized within two weeks of passage of the law	Not available to public	At time of assessment at LGU A municipality website still budget for year 2015 it is not published	✓	The annual budget document is available in hard copy and online only after the approval from the City council and the District.	✓	Approved budget made available at municipality website
3. In-year budget execution reports. The reports are routinely made available to the public within one month of their issuance	Not available to public	No budget executive reports is found on municipality website	Not available	There are no reports available for the public. Usually the Municipality prepares at least 2 budgeted executions report but only for internal use or only when required by the MC. In year budgeted execution report is published only once during the end of the second of the	Not available to public	Municipality budget reports are not made public at municipality website.

				next year.		
4. Annual budget execution report. The report is made available to the public within six months of the fiscal year's end	Not available to public	No budget executive reports is found on municipality website	✓	The annual budget execution report is made available online and in hard copy / as part of the protocol office only after the approval from the MC and Prefecture (within 6 months of the fiscal year).	✓	The annual budget executing report is published at municipality website only after MC approval.
5. Audited annual financial report, incorporating or accompanied by the external auditor's report. The reports are made available to the public within twelve months of the fiscal year's end	Not available to public	Audit reports are for internal use and are not published	Not available to public	There are two types of reports, the internal and external ones. The internal ones are prepared from the internal audit structure within the municipality. The external reports are prepared from the High State Control (HSC). Both reports are not published by the Municipality.  HSC publishes by itself the reports (online) and are open to the general public.	Not available to public	Audit reports are for internal use and are not published.  These reports are made available to MC only when expressly asked for.  HSC publishes the reports within its official website.
<b>Additional elements</b>						
6. Pre budget Statement. The broad parameters for the executive budget proposal regarding expenditure, planned revenue, and debt is made available to the public at least four	Not available to public	Missing	Not available	No data available. Such statement is not prepared by the municipal staff.	Not available to public	No data available. Such statement is not prepared by the municipal staff.

months before the start of the fiscal year						
7. Other external audit reports. All no confidential reports on local government consolidated operations are made available to the public within six months of submission	Not available	Missing	✓	This information is made public by the HSC.	Not available to public	Not published.  The municipality has been never audited by independent external auditors or Ministry of Finance.
8. Summary of the budget proposal. A clear, simple summary of the executive budget proposal or the enacted budget accessible to the non-budget experts, often referred to as a “citizens’ budget,” and where appropriate translated into the most commonly spoken local language, is publicly available within two weeks of the executive budget proposal’s submission to the legislature and within one month of the budget’s approval	Not available to public	Missing	Not available	No data available. Such document is not prepared by the municipal staff.	Not available	No data available. Such document is not prepared by the municipal staff.
9. Macroeconomic forecasts. The forecasts are available within one	Not available	Missing	Not available	No data available.	Not available to public	No data available Interesting to notice that such

week of their endorsement						macroeconomic indicators are not made available even from CG to LGU before budgeting process starts.
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Source: Finance Department of the municipality respectively: LGU A , LGU B and LGU C

## Performance indicator

**Table 13. Performance indicator PI-9 / Public access to fiscal information**

Indicator / Dimension	National Score 2011	Municipality Score 2015			Justification for 2015 Score
		LGU A	LGU B	LGU C	
PI-9					
(i) Public access to fiscal information	B	D	C	D	Performance for a C score: The municipality makes available to the public four out of five basic elements Performance for a D score: The municipality makes available to the public less than four basic elements (respectively one and two for LGU A and LGU C).

## Management of assets and liabilities

### PI-12 Public asset management

This indicator assesses the management and monitoring of municipality assets and the transparency of asset disposal. Number of listed assets in Table 14 and their classification is used for recording and reporting.

#### *Dimension (ii) Non-Financial assets monitoring*

This dimension assesses the features of nonfinancial asset monitoring. Reporting on nonfinancial assets should identify the assets and their use. The assessment does not require valuation for nonfinancial assets.

**Time period:** 2014 (LGU B); 31 December 2015 (LGU A and C).

Municipality assets (non-financial as well) are part of the financial report. Once a year the report is prepared and signed by Municipality Head of Finance and Head of Treasury. The time lines for preparation and finalisation of the report is set by law. The financial reports usually are not audited or certified by authorized experts. The reports are checked only from the internal audit (if such a structure exists) and HSC.

Some findings on the assessed municipalities show that:

- The non-financial assets are kept into a specific register (LGU B and LGU C) or only part of the financial report (LGU A). In this last case (LGU A) the assets are part of the inventory files since 1994 to date but not part of a consolidated registry;
- Financial reports are submitted every year (during February – March) at the respective TDO, but the time line is not respected by all LGUs;
- Inventory process is conducted once a year at least where financial assets are reflected (part of it). The process includes the municipality administration and subordinated spending units;
- Spending Units operate independently. They have their own balance sheet and their non-financial asset are not part of municipality assets register;
- Not all non-financial assets are made part of the asset registry. Usually new assets as part of new investments are not reflected 100% to the registry;
- There are many nonfinancial asset which cannot be valued and are not register (not captured);



- The assets are not registered at Immovable Property Office (IPRO / ZRPP) for LGU C and LGU B while LGU A has registered only part of them which can be used for economic purposes (as part of USAID – local governance project support in 2010);
- Due to problems on property rights many buildings or other assets are still not property of the municipality and are not register (not captured).
- LGU A municipality has established the Asset Unit in charge with asset registration, monitoring and management.

**Table 14. Categories of nonfinancial assets recorded and reported**

Categories	Subcategories	Where captured			Comments
		LGU A	LGU B	LGU C	
Fix assets	Buildings and structures	Inventory Process & specific files	Asset registry 1992-2014 (existing and new)	Asset registry / 1992-2014 (existing and new)	Inherited since the creation of the LGU. Are included here municipality building; regional offices transferred at LGU; agriculture market etc.
	Machinery and equipment	Inventory Process & specific files	1992-2014 (existing and new)	2004 2010	Oracle software (for example in LGU C); cars, vehicles, etc.
	Other fix assets	Inventory Process & specific files	1992-2014	1997-2009	Road infrastructure and other public assets.
Inventories	•		Inventory Process 1992-2014 (existing and new)	Inventory Process 1992-2014 (existing and new)	Economic inventory and IT equipment
Valuables	•				NA
Nonproduced assets	Land	Inventory Process & specific files	1992-2014 (existing and new)	1992-2014 (existing and new)	Land from expropriation for cemetery, or public works.
	Mineral and energy resources	Inventory Process & specific files			
	Other naturally occurring	Inventory Process & specific files			
	Intangible non-produced assets	Inventory Process & specific files			

Source: Finance Department of the municipality respectively: LGU A , LGU B and LGU C

## Performance indicator

**Table 15. Performance indicator PI-12 / Public Asset Management**

Indicator / Dimension	National Score 2011	Municipality Score 2015			Justification for 2015 Score
		LGU A	LGU B	LGU C	
PI-12					
(ii) Non-financial assets monitoring	NA	C	B	C	<p>Municipality maintains a register of its holdings of fix assets, and collects partial information on their usage and age; This information it is not published. Usually information is partial in relation with new investments during last few years (such as public buildings, roads and sidewalks, parks and recreation areas). Assets are not registered at Immovable Properties Registration Office (IPRO)</p> <p>In the case of <b>LGU B</b>: The municipality maintains a register of its holdings of fixed assets, land, and (where relevant), including information on their usage and age.</p>

### PI-13 Debt management

This indicator assesses the management of domestic and foreign debt and guarantees. It seeks to identify whether satisfactory management practices, records, and controls are in place to ensure efficient and effective arrangements.

#### ***Dimension (i) Recording and reporting of debt and guarantees***

This indicator assesses the integrity and comprehensiveness of domestic, foreign, and guaranteed debt recording and reporting. Verify information with regard of registration, reporting and monitoring of the municipality debt.

#### ***Time period:***

*At time of assessment March – April 2016, referring to the completed financial information for 2015*

The law 9869 “On Local Government Borrowing” was submitted to the Parliament and adopted in 2008. It completes the administrative and fiscal framework and offers broader fiscal autonomy. Still, it presents limitations on debt. This constraint is imposed by the central government in order to facilitate macroeconomic oversight of the public debt. According to this law, the Ministry of Finance (MoF) is entitled to issue sub-regulatory acts that limit or interdict loan agreements of LGUs.

Based on the provisions of the Law 9869/2008, local governments units can contract loan agreements from the financial market (domestic and foreign) short and long term, either for investment purposes (long term), or to bridge liquidity shortages (short term).

In the case of the short term loan, the local government unit is bound to obtain the ‘negative response’ by the Ministry of Finance that the state budget will not cover liquidity needs. With regard

to long term loan, the Minister of Finance will have the final say on the approval, in case the loan will be obtained in the international markets, or is needed to service the debt of previous loan, or the local government unit is a distressed one that has demonstrated financial difficulties in the past five years. In such case, the approval of the Minister of Finance is decisive.

Based on three municipalities' assessment it results that only LGU A municipality has contracted a commercial loan on 2011 (with several partial disbursements during three consecutive years). It results that reconciliation of debt it is not done in a routine way. At the time of this assessment, reconciliations of debt were done on August 2015 and the last reconciliations were done on March of 2016. No debt monitoring exists. Loan payments are recorded monthly as part of the expenditure reports by TDO.

All three municipalities results to have important arrears. This debt / resulted by arrears is made part of the budget execution report and consolidated finance balance sheet. Arrears consist of total stock created over years by Municipality - mainly unpaid bills for a certain period. The municipality does not report on arrears created to MC, MoF or else.

**Table 16. Criteria on recording and reporting of debt and guarantees**

Requirement	Available			Comment
	LGU A	LGU B	LGU C	
1. Loans contracted (number of loans)	✓	NA	NA	One loan at time of assessment payments of loan are part of monthly report to TDO
2. Debt Stock (to date) from which	✓	NA	NA	
• Principal	✓	NA	NA	It is paid quarterly
• Interest	✓	NA	NA	It is paid quarterly
• Commissions	✓	NA	NA	Paid at the time of first disbursement of the contracted loan.
3. Guarantees	✓	NA	NA	Intercept financing and USAID fund guarantee up to 50% of the unpaid principal
4. Arrears From unpaid invoices / obligations to third contracted parties	✓	✓	✓	At time of assessment arrears consist of total stock created over years by Municipality - mainly unpaid bills (here are also included ex LGUs communes that are now part of the new municipality).

Source: Finance Department of the municipality respectively: LGU A, LGU B and LGU C

## Performance indicator

**Table 17. Performance indicator PI-13 / Debt management**

Indicator / Dimension	National Score 2011	Municipality Score 2015			Justification for 2015 Score
		LGU A	LGU B	LGU C	
PI-13					
(i) Recording and reporting of debt guarantees	B+	C	N/A	N/A	Domestic debt and guarantee debt records are updated annually. Areas where reconciliations require additional information to be completed are acknowledged as part of the documentation records.

## Policy based fiscal strategy and budgeting

### PI-15 Fiscal strategy

This indicator provides an analysis of the capacity to develop and implement a clear fiscal strategy. It also measures the ability to develop and assess the fiscal impact of revenue and expenditure policy proposals that support the achievement of the government's fiscal goals.

#### ***Dimension (i) Fiscal impact of policy proposals***

This dimension assesses the capacity of the local government to estimate the fiscal impact of revenue and expenditure policy proposals developed during budget preparation.

#### ***Time period: 2013-2015***

The municipality prepares the annual and the medium term budgeted proposal and further submits for approval to the MC. Fiscal package is part of the annual budget proposal, usually submitted at MC together with the budget or ahead in order to insure reflection on the budget proposal. In all three assessed municipalities there are done some efforts to prepare budget forecast (in both sides revenue and expenditures) linked with the respective year fiscal policy, but still very simple exercise. Unfortunately the fiscal policy is never prepared as part of the budget proposal per se. Proposing clear implication in the tax base, collection, tax payers and then implication on budget proposal. Usually the fiscal package is presenting only few figures on tax rate, tax base and shared with the group of interests (business community only). The municipality do not calculate implications on the impact on revenue or expenditure, not for the budgeting year, or for the following two years.

The expenditure policy proposals are costed for the new coming budget year and the two following fiscal years (only as a generic projection). The proposals usually provide some level of details only for the current year, using a flat increase (as a percentage) for the coming two years. Local and central proposals are not linked in terms of fiscal policy. Fiscal impact of the National taxes to the local budgets and taxpayers approved by government are not reflected at the local budget proposal. Furthermore even the fiscal package is not part of budget documentation submitted to the MC. Illustratively below there is the fiscal policy proposal for Municipality of LGU A .

**Table 18. Example of fiscal package and impact assessment / Municipality of LGU A**

Local taxes and fees	2013 % or fix amount	2014	2015	Impact assessed Fiscal policy changes compare to 2013
<b>Local taxes from which</b>				
Tax on buildings	150 ALL/m <sup>2</sup>	240 ALL/m <sup>2</sup>	240 ALL/m <sup>2</sup>	No impact assessment on this change. In the 2014 fiscal package 240 ALL/m <sup>2</sup> is highlighted in red only to emphasize the change from 2013 amount. Further explanations are not provided for this change.
Tax on hotel users	5% of room price	3.5% of room price	3.5% of room price	N/A
Parking fee for cars	10,000 per year	25,000 per year	25,000 per year	N/A
Parking fee for buses	30,000 per year	25,000 per year	25,000 per year	N/A
<b>Total revenue changes because of the fiscal policy change (in ALL)</b>	N/A	N/A	N/A	N/A
<b>Local expenditures policy reflecting the fiscal impact policy</b>				
Decrease or increase of expenditures because of fiscal policies	N/A	N/A	N/A	N/A
Specific expenditure items	N/A	N/A	N/A	N/A

Source: Department of Tax and Tariffs Municipality of LGU A

## Performance indicator

**Table 19. Performance Indicator PI-15 / Fiscal Strategy**

Indicator / Dimension	National Score 2011	Municipality Score 2015			Justification for 2015 Score
		LGU A	LGU B	LGU C	
(i) Fiscal impact of policy proposal	B+	D	D	D	The Municipality does not prepare assessment for the fiscal impact of all proposed changes in revenue and expenditures policy for the budget year and/or the following two years.

### PI-16 Medium-term perspective in expenditure budgeting

This indicator examines the extent to which expenditure budgets are developed for the medium term within explicit medium-term budget expenditure ceilings. It also examines the extent to which annual budgets are derived from medium-term estimates and the degree of alignment between medium-term budget estimates and strategic plans.

*Time period: 2015, and medium term projections 2013-2015*

### ***Dimension (i) Medium- term expenditure estimates***

This dimension assesses the extent to which medium-term budget estimates are prepared and updated as part of the annual budget process.

**Time period:** 2015, last budget submitted to the MC.

The annual budget process always starts with approval of fiscal package for the budgeting year, than a working group is established within the municipality to prepare the budget. Medium term perspective it is not included in the budgeting process of municipality.

Drafting the Midterm Budget Program (MTBP) is a legal requirement for all LGUs based on law no.9936, dated 26.06.2008 "On the management of the budget system in the Republic of Albania". In line with this legal provision the Ministry of Finance guideline "On the preparation of local budget"<sup>2</sup> sets out procedures and time lines on preparations of MTBP for local government. The MTBP preparation process starts at the beginning on February of each year. The process starts with the approval by the MC of the Preparatory Ceilings for the next MTBP. It is mandatory that the next budget requirements will be limited within these ceilings. The annual budget is the first year of MTBP. According to the above instruction, the MTBP must be approved by June of actual fiscal year (2015).

Assessing the three pilot municipalities the following was found out:

LGU A: Estimates the MTBP but the document is not submitted for approval at MC. The municipality estimates its own revenues and distributed expenditures by economic classification for the next three years and send it the Ministry of Finance.

LGU B: Has approved the MTBP for the period 2013-2015. The MTB do not provide budget figures reflecting correlations between functions, objectives and products. Therefore the document is lacking the link between the politic objectives and the budget resources allocation, specifically within the program level and its strategic objectives.

The MTBP provides for very generic description the revenues and expenditures for the 3 year period, there is no explanation about the revenue forecast and expenditures. The MTBP is shaped based on functions; each function is break down into economic classification: current expenditures (salaries and operational expenditures) and capital expenditures.

The revenue and expenditure projections in the annual budget document of 2013 which follows the MTB 2013-2015 differ from those approved in (2013-2015), this means that MTBP is not yet considered as a mandatory tool to be developed aiming to improve budget predictability and transparency.

LGU C: The municipality has approved the MTBP for 2013-2015, and also the Economic Development Strategy for 2005-2015. The strategic document and the MTBP are lacking correlation. The MTBP reflects actual figures of budget execution from 2012 and 2011. The first budget year of the MTBP (2013) and annual budget proposal for 2013 are not in line.

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<sup>2</sup>(<http://www.financa.gov.al/al/raportime/buxheti/udhezime/udhezime-per-buxhetin>)

### ***Dimension (ii) Medium- term expenditure ceiling***

This dimension assesses whether expenditure ceilings are applied to the estimates produced by municipality to ensure that expenditure beyond the budget year is consistent with municipality fiscal policy and budgetary objectives. Such ceilings should be issued to municipality spending units before the distribution of the first budget circular at the commencement of the annual budget preparation cycle.

**Time period:** 2015, last budget submitted to the MC.

The MTBP process starts by setting ceilings and getting MC approval on the proposed new medium term budget program. Usually municipalities are providing ceilings as a consolidated part of the MTBP document itself, but not ahead the MTBP planning process. The ceilings consist of a lump sum amount that municipality transfers / dedicate to its municipalities' spending units underneath the municipality administration referring the coming budget year only. Ceilings are not issued for municipally functions within the municipality administration itself. Usually ceilings are issued by the mayor but not approved by the MC. In cases when mayor issues ceiling the official letter / document that proves this is not found as part of the MTBP process. The Ministry of Finance provides the unconditional transfer trend (percentage in change for the next coming years).

### ***Dimension (iii) Alignment of strategic plans and medium-term budgets***

Measures the extent to which approved expenditure policy proposals align with costed municipality strategic plans. Strategic plans should identify resources required to achieve medium - to long-term objectives and planned outputs and outcomes.

**Time period:** 2015, last budget submitted to the MC.

All three assessed municipalities prepares MTBP documents (quality and content are poor), while lacking harmonisation with relevant municipality strategic documents such as City Economic Development Strategy; Urban Development Plan etc. Municipalities dating since 2005 have designed strategic development plans (LGU B 2005-2015; LGU A 2005-2015 and new one 2016-2026 under development; LGU C 2005-2015). Based on donors' support such as SDC, WB and USAID these municipalities have monitored implementation of the respective strategies and proposed update of strategic objectives. This exercise was lacking connection with concrete budget proposals and inflated source of finances estimates.

## **Performance indicator**

**Table 20. Performance Indicator PI-16 / Medium – term perspective in expenditure budgeting**

Indicator / Dimension	National Score 2011	Municipality Score 2015			Justification for 2015 Score
		LGU A	LGU B	LGU C	
PI - 16	C+	D+	D+	D	
(i) Medium- term expenditure estimates		C	D	D	- Annual budget presents estimates of expenditure for the budget year and the two following fiscal years allocated by administrative or economic classification (C score).

					- The MTBP provides generic description of the revenues and expenditures for the 3 year period; there is no explanation about the revenue forecast and expenditures. The annual budgeted refers only to the upcoming year ( <b>D</b> score).
(ii) Medium- term expenditure ceiling		<b>D</b>	<b>D</b>	<b>D</b>	Aggregate expenditure ceiling for the budget year and the two following fiscal years are not issued for the municipality administration and spending units' underneath and approved by the mayor / MC before the first budget circular is issued (score <b>D</b> ).
(iii) Alignment of strategic plans and medium-term budgets		<b>D</b>	<b>C</b>	<b>D</b>	- Medium term strategic plans are prepared for some strategic sectors / functions. Some expenditure policy proposals in the annual budget estimates align with the strategic plans ( <b>C</b> score).  - No alignment of strategic plans and medium-term budgets ( <b>D</b> score).

### PI-17 Budget preparation process

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

#### **Dimension (ii) Guidance on budget preparation**

This dimension assesses the clarity and comprehensiveness of top-down guidance on the preparation of budget submissions. It examines the budget circular(s), or equivalent, to determine whether clear guidance on the budget process is provided, including whether expenditure ceilings or other allocation limits are set for spending units or local administrative units or functional areas.

**Time period:** Last budget submitted to the MC (2015)

According to the budget system management law and bylegal acts that define the methodology of budgeted preparation the municipality is responsible for the annual budget preparation process. The budget should reflect the macroeconomic, fiscal, and expenditure and revenue policy priorities.

Usually the MoF circulates the budget preparation guideline by end of February specifying:

- The macro economic and fiscal framework forecasts (mainly economic real growth rate and average rate of inflation; main currencies exchange rates);
- Trend of unconditional transfer from CG to LGUs (percentage increase compare to last budget year).

The municipality according to the Ministry of Finance budgeted guidelines has to prepare a detailed budget calendar in line with the MTBP process.



Some steps for budget preparation are listed below. The mayor is the head of the Management group where main budget program policy and coordination of the process is assured. The group issues the calendar for MTBP (where annual budget have to coincide with the first year of the midterm program).

- Establishment of the Strategic Management Group (SMG) and Directors of Program Management (program managers);
- Review of program policies;
- Forecast of expenditures financing the identified programs;
- Capital investment planning management;
- MTBP ceilings;
- Analyse the budgeted requests;
- Monitoring and evaluation.

The MTBP is a comprehensive process that includes: High LGU officials, main LGU departments / representing functions; groups of interest, citizens and MC.

**Table 21. A template MTBP process calendar suggested to LGU by MoF**

MTBP Process	Time line
1. Approval of the macroeconomic framework for the three following years (prepared by department of finance and approved by the head of the local unit)	January
2. Submission of guidelines for the planning process: a) Expenditure ceilings b) Planned revenues (from intergovernmental transfers and local taxes and tariffs) c) MTBP preparation procedures and time lines	February
3. Establishment of the Group on Strategy, Budget and Integration GSBI. Defining main programs. Appointing members of the GSBI The head of local unit is the Chairman of the GSBI	January – February
4. MC approval of MTBP ceilings for each program	March
5. Estimation of Revenues	January – March
6. Review of program policies (involving MC members also)	February – March
7. Planning of program Expenditures	March – April
8. Preparation of program budget request and draft MTBP	Up to May 15th
9. Submission of the MTBP to SMG and MC	Up to June 15th
10. Submission of the MTBP draft to the MoF (only the two tables on revenues and expenditures projection)	Up to June 1st
11. Discussion of the MTBP document at MC	June
12. Guideline for MTBP revision	Up to July 10th
13. Review and update MTBP	July – August
14. Public Hearings on MTBP	August – October
15. Submission of the MTBP for approval to the municipal Council	November
16. Approval	November/ December
17. Publication	December

It is supposed that annual budget design, discussion and approval are part of the entire MTBP process. Meaning that the process starts in January and is finalized with submission at MC in November (hopefully approved there) and published in December.

Assessing three pilot municipalities it results that all of them do not make part of the MTBP process the annual budget design, discussion and approval. Usually the process starts very late, giving little time for accurate planning, impact assessment, discussion and inclusion of citizens into the process. Some facts from three municipality assessment:

**LGU A:** The process is very chaotic. The timelines and responsible structures / people are not defined. No budgets circular are issued to budgetary units (spending units). The only information provided to the spending units is a lump sum ceiling witch the spending unit has total right to divide into expenditure items without any limitation or guidance from the municipality. The spending unit are free to decide how to further allocate the ceilings.

**LGU B:** The municipality has established the SMG since January 2015. (Mayors’ Order no. 6, date 7.01.2015). The deputy mayor is leading the SMG. The MTBP preparation is not defined clearly, the annual budget was not made part of the process. The working group relies mainly to 2-3 structures (people). Ceilings were never submitted for approval at MC. The program policy review was never discussed within the municipality or at MC.

**LGU C:** the annual budget was not part of the MTBP process. The budget process started only in November (Mayors’ order Nov. 2015). Based on this order the budget process stipulates the following:

- Budget requests from spending units to be submitted until 10.11.2015
- Each director should submit main objectives, projects and related products
- The revenue forecast and related plan
- Expenditures should be planed based on economic classification.
- The organizational structure and respective number of staff remains the same as in 2014.

## Performance indicator

**Table 22. Performance Indicator PI-17 / Budget preparation process**

Indicator / Dimension	National Score 2011	Municipality Score 2015			Justification for 2015 Score
		LGU A	LGU B	LGU C	
PI-17					
(ii) Guidance on budget preparation	NA	D	C	C	<p><b>C</b> score - A budget circular is issued to budgetary units, including ceilings for administrative and functional areas. Total budget expenditure is covered for the full fiscal year. The budget estimates are approved by Mayor / MC after they have been completed in every detail by budgetary units.</p> <p><b>D</b> score – No budget circular is issued to budgetary units and functional departments.</p>

### PI-18 Legislative scrutiny of budgets

This indicator assesses the nature and extent of legislative scrutiny of the annual budget. It considers the extent to which the legislature scrutinizes, debates, and approves the annual budget, including the extent to which the legislature's procedures for scrutiny are well established and adhered to. The indicator also assesses the existence of rules for in-year amendments to the budget without ex-ante approval by the legislature.

#### **Dimension (iii) Timing of budget approval**

This dimension assesses the timeliness of the scrutiny process in terms of the legislature's ability to approve the budget before the start of the new fiscal year. In other terms this dimension gives indication on timing when the annual budget was approved for the last three fiscal years.

**Time period:** Last three completed fiscal years (2013-2015)

According to Law no. 9936, dated 26.6.2008, "On Budget Management System in the Republic of Albania") Budget Year for all general government units starts on January 1<sup>st</sup>.

**Table 23. Budget approval dates**

Municipality	Budget year	Date of approval by MC	Comment
<b>LGU A</b>			
LGU A	2015	May 29, 2015	MC Decision no. 30 date 29.05.2015
	2014	April 04, 2014	MC Decision no. 9, date 04.04.2014
	2013	April 12, 2013	MC Decision no. 38, date 12.04.2013
<b>LGU B</b>			
LGU B	2015	February 2015	MC Decision no. 5, date 25.02.2015
	2014	January 2014	MC Decision no. 5, date 31.01.2014
	2013	December 2012	MC Decision no. 168, date 28.12.2012
<b>LGU C</b>			
LGU C	2015	February 2016	Decision no. 329, date 16/02/2016
	2014	February, 2014	MC Decision no. 180, date 10/02/2014 Prefecture approval on 16/02/2014
	2013	October, 2013	MC Decision no. 157, date 22/10/2013 Prefecture approval on date 22/10/2013
	2012	May, 2012	MC Decision no. 56, date 31/05/2012 Prefecture approval on date 12/06/2012
			- The official letter of draft budget document for discussion and approval to MC was not found as part of procedure. - After final approval the budget document is published on municipality website

Source: Municipality Council Secretary, respectively LGU A, LGU B and LGU C

Assessment on three pilot municipalities shows that:

- The legal obligation was not met by approving the budget within end of December each year;

- The budget is approved not earlier than two months from the beginning of the year (except for LGU B only once at end of December 2012 approving the budget for 2013);
- The team of local experts was not in all three municipalities able to assess the time between budget submission and budget approval in order to create an idea on time available for MC members to check the respective document and debate upon. In the case of LGU A, the time between submission and approval was quite long, while explanations reveals that this is due to MC decision to put the budget document on its agenda and not because consultations with interested groups;
- The approved budget usually is published on municipality web site, but only after approval. This indicates for no consultations ahead with citizens on key issues the new budget is going to address;
- Since the budget is approved with delays the municipality is obliged to spend 1/12 of the previous budget per month. This is decreasing municipality services performance and postponing new investment decisions and respective procedures related with them;
- The annual budget exercise was never made part of the MTBP process, there for lacking coherence with it;
- The approved budget by MC is sent for further approval at Prefecture, who should check the legal binding of the budget document and related process. It results that in the case of LGU C the Prefectures' approval has been decided very quickly while in case of LGU A took up to 2 months.

## Performance indicator

**Table 24. Performance Indicator PI - 18 / Legislative scrutiny of budgets**

Indicator / Dimension	National Score 2011	Municipality Score 2015			Justification for 2015 Score
		LGU A	LGU B	LGU C	
PI-18					
(iii) Timing of budget approval	NA	D	D	D	The municipality council failed to approve the annual budget within at least one month of the start of the year in two or more of the last three fiscal years.

## Predictability and control in budget execution

### PI-24 Procurement

This indicator examines key aspects of procurement management. It focuses on transparency of arrangements, emphasis on open and competitive procedures, monitoring of procurement results, and access to appeal and redress arrangements.

#### **Dimension (i) Procurement monitoring**

Assesses the extent to which prudent monitoring and reporting systems are in place within government for ensuring value for money and for promoting fiduciary integrity. Completeness refers to information on contracts awarded. The accuracy and completeness of information can be assessed by reference to audit reports.

**Time period** Last completed fiscal year. (2015)

The procurement process is regulated by the Law No. 9643 / 2006 on Public Procurement. The law sets out clear procedures on procurement process. The Public Procurement Agency (PPA) is the central institution responsible for the well-going of the public procurement system, concessions/public private partnership and public auction.

At the beginning of each week (usually on Monday), PPA makes public new procurements processes / requests for specifically: (i) procedures, concessions/public private partnership and public auctions, (ii) the list of economic operators excluded from participation in these procedures, (iii) and any other specific information. The PPA includes information for local governments' plans and results on previous procedures.

LGUs are preparing every year the procurement plan that comprises information on goods; services; civil works and major equipment investment plan such as:

- Object of the procurement,
- Funds
- Source of financing
- Type of procurement procedure
- Time line of procurement

The information as such is submitted at PPA and made public. At the end of the year each unit has to prepare and publish the accomplish procurement register.

Assessment from pilot municipalities provides for:

- All three municipalities prepares annual procurement plan as required by law
- The plans are submitted at PPA and made public
- All municipalities are publishing at PPA at the end of the year the procurement register that provides data on number of contracts issues; awarded contract; specifications on tender results such as technical and financial data.

Besides procurement agency website the municipalities are publishing their procurement register into their official website. We found data on procurement during 2015 only for LGU B municipality while LGU C and LGU A last update on procurements was made public for the year 2014.

**Table 25. Criteria on Recording and reporting on municipality procurement**

Requirement	Available			Comment
	LGU A	LGU B	LGU C	
1. Contracts issued	✓	✓	✓	The municipality has a procurement register and documentation of all awarded contracts. At time of this assessment Procurement was under audit process by the Supreme Audit Authority
2. List of procurement plans	✓	✓	✓	Available
• Values	✓	✓	✓	Available
• Technical specifications	✓	✓	✓	Available
• Time line	✓	✓	✓	Available
3. Awarded contracts	✓	✓	✓	Available

Source: Finance Directory, respectively Municipality of LGU A, LGU B and LGU C

## Performance indicator

**Table 25. Performance indicator PI - 24 / Procurement**

Indicator / Dimension	National Score 2011	Municipality Score 2015			Justification for 2015 Score
		LGU A	LGU B	LGU C	
PI-24					
(i) Procurement monitoring	N/A	B	A	A	Score <b>B</b> -- Databases for records are maintained for contracts including data on what has been procured, value of procurement and who has been awarded contracts. The data are accurate and complete for <b>most</b> procurement methods for goods, services and works. Score <b>A</b> – all

## Accounting and reporting

### PI-28 In-year budget reports

This indicator assesses the comprehensiveness, accuracy and timeliness of information on budget execution. In-year budget reports must be consistent with budget coverage and classifications to allow monitoring of budget performance and, if necessary, timely use of corrective measures.

#### **Dimension (ii) Timing of in-year budget reports**

This dimension assesses whether this information is submitted in a **timely** manner and accompanied by an **analysis** and **commentary** on budget execution.

**Time period** Last completed fiscal year. (2015)

The treasury branches (TDO) perform the budget execution of Municipalities. Every month all budget institutions (municipalities included) reconcile their revenues and expenditures data with their respective TDO. Budget execution reports are prepared by the TDOs and submitted to the Ministry of Finance as required by the Law.

The municipality is required to report by law to MC (quarterly), and once within the **first quote** of the year on annual budget execution, and every time on specific issues as required by MC. The municipality also should report to MoF monthly on budget execution and data consolidation (through treasury TDO), on debt status quarterly at domestic debt department of MoF and to all other CG institutions / Line Ministries at least annually with regard use of dedicated funds.

Unfortunately all pilot municipalities assessed on this dimension do not prepare reports that are accompanied by a thorough analysis and commentary on budget execution or fund execution to the respective authorities. The reports are mainly prepared as part of the annual budget execution containing no detailed analysis, submitted to MC usually within the **first half of the year** (in one case even later / LGU C) and monthly reports submitted from TDO at MoF. The budget execution reports are not made public. It is important to notice that In-Year budget execution reports do not provide information on conditional transfers from CG / MoF and Line Ministries and only the annual budget execution report provides consolidated data on spending units underneath the municipality.

**Table 26. Criteria on budget reports timing**

Requirement	Available			Comment
	LGU A	LGU B	LGU C	
<b>1. Reports submitted to Municipality Council</b>	✓	✓	✓	<ul style="list-style-type: none"> <li>• <u>LGU A</u> 2 times / biannual</li> <li>• <u>LGU B</u> 1 report</li> <li>• <u>LGU C</u> 1 report / as part of budget execution</li> <li>• Yearly budget executions report is approved by Municipality Council</li> <li>• Budget execution report do not present analysis and commentary</li> </ul>
<b>2. Reports submitted to Ministry of Line</b>				No reports are submitted to any line ministry from LGU A, LGU B and LGU C.
• Ministry of Transport	Missing	Missing	Missing	Municipality do not report to Line Ministries on Conditional Funds
• Ministry of Social Affairs	Missing	Missing	Missing	
• Ministry of Education	Missing	Missing	Missing	
• Etc. .../ all Line Ministries that dedicate funds to LGUs	Missing	Missing	Missing	
<b>3. Reports submitted to MoF</b>	✓	✓	✓	<p>12 times / every month</p> <p>Budget execution reports are prepared by TDO and submitted to MoF monthly/quarterly/yearly according to Law</p> <p>The reports do not provide analysis and commentary on budget execution</p> <p>The reports are submitted at MoF by TDO directly and not by the Municipality itself.</p>

Source: Protocol office, respectively Municipality of LGU A, LGU B and LGU C

Report	Contents	Data Source	Date and audience	Sub
<b>Monthly revenue &amp; expenditure municipality execution report</b>	Revenue and expenditures items only for Municipality administration / Spending units submit same reports directly to MoF and not to Municipality	TDO & Finance municipality department	Date 5 of the next month Ministry of Finance	MoF
<b>Biannual Budget execution report</b>	Revenue and expenditure items	TDO & Finance municipality department	No date line defined by law / No. 139/2015	Municipality Council

<b>Annual budget execution report</b>	Revenue and expenditure items	TDO & Finance municipality department	Within 31 of March of the next year	Municipality Council
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## Performance indicator

**Table 27. Performance Indicator PI - 28 / In-year budget reports**

Indicator / Dimension	National Score 2011	Municipality Score 2015			Justification for 2015 Score
		LGU A	LGU B	LGU C	
PI-28					
(ii) Timing of in-year budget reports	N/A	A	A	A	Budget execution reports are prepared monthly, and issued within one week from the end of each month. However we have to note here that reports are not accompanied by an analysis and commentary on budget execution; The reports are not made public.

### PI-29 Annual financial reports

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

#### **Dimension (i) Completeness of annual financial reports**

This dimension assesses the completeness of financial reports. Annual financial reports should include an **analysis providing for a comparison of the outturn with the initial government budget**. Financial reports should include full information on revenue, expenditure, assets, liabilities, guarantees, and long-term obligations. This information can be either incorporated into financial reports in a modified cash or accrual-based system, or presented by way of notes or ad hoc reports, as is often done in a cash-based system.

#### **Time period: 2014**

Local government units / as part of general government institutions are required by law to prepare and submit annual financial reports within the first half of the year. The reports are submitted to the respective TDO.

In all assessed municipalities for this purpose it was found out that reports are prepared using data from TDO covering information for municipality administration and subordinated spending units (case of LGU B and LGU C) or only information with regard Municipality administration (case of LGU A, where spending units submit independently reports to MoF). The municipality report does not



present a consolidated document with subordinated spending units at municipality level). The consolidated financial reports include information with regard:

- Municipality operations including:
  - Revenues (taxes, social contributions, grants and other revenue);
  - Expenditures (compensation, goods and services, capital investment, interest for loans, subsidies, grants, social benefits and other expenses);
  - Gross and Net operating balance, Net acquisition of financial assets, Net lending, and Net acquisition of financial assets (domestic and foreign)
  - Financial assets and Liabilities (currency and deposits, securities other than shares, loans, shares and other equity, and other accounts payable)
- Cash flow:
  - Cash receipts from operating activities (by revenue type)
  - Cash payments for operating activities (by expense type)
  - Net cash inflow from operating activities
  - Net cash outflow for investments in non-financial assets
  - Cash surplus/deficit
  - Net acquisition of non-cash assets
  - Net incurrence of liabilities
  - Net cash inflow from financing activities
  - Net change in total cash flow.

The financial reports provide comparison of actual budget execution related items as described above with amended budget plan over the year approved at MC (case of LGU C and LGU B) while no comparison at all in case of LGU A.

The minimum requirement for assessing this indicator is that financial report should be comparable with the initial plan. The initial budget plan consists of only revenues and expenditures and do not provide with information on the other components that financial report / balance sheet consist of. The other issue is that the initial budget plan consist of municipality administration and spending units, while the balance sheet provides data only for the municipality administration and not for the entire LGU (including spending units, which from their side submit their financial report to Ministry of Finance).

**Table 28. Criteria on completeness of annual financial reports / balance sheet**

Requirement	Annual financial reports			Comment
	LGU A	LGU B	LGU C	
Report include full information on:				
• Revenues	Partial	Partial	Partial	Revenues refer only to municipality administration and not to spending units underneath the municipality. The part of municipality provides comparison with the initial annual budget plan document
• Expenditures (included investment and source of financing)	Partial	Partial	Partial	Expenditures refer only to municipality administration and not to spending units underneath

				the municipality. The part of municipality provides comparison with the initial annual budget plan document
• Assets	N/A	N/A	N/A	Assets are part of the report. Issues with information and registration are presented under Indicator PI-12 (i). We cannot compare this item with the initial plan since budget plan document does not provide information on the assets
• Liabilities	✓	✓	✓	Liabilities are part of the balance sheet but cannot be compared with the initial plan since the annual budget document does not provide this info.
• Guarantees	✓	✓	✓	Guarantees are part of the balance sheet but cannot be compared with the initial plan since the annual budget document does not provide this info.
• Long Term obligations	✓	✓	N/A	Long Term Obligations are part of the balance sheet but cannot be compared with the initial plan since the annual budget document does not provide this info.
• Cash statements	✓	✓	✓	Cash Statement is part of the balance sheet but cannot be compared with the initial plan since the annual budget document does not provide this info.
Report contain analysis providing for a comparison of the outturn with the <b>initial Municipality budget</b>	N/A	N/A	N/A	The report contains very generic analysis. The comparison between fact and amended plan is done. The report and financial tables are not shared with MC.

Source: Protocol office of the municipality respectively: LGU A, LGU B and LGU C

## Performance indicator

Table 29. Performance Indicator PI - 29 / Annual financial reports

Indicator / Dimension	National Score	Municipality Score 2015	Justification for 2015 Score
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PI-29	2011	LGU A	LGU B	LGU C	
(i) Completeness of annual financial report	A	D	C	C	<p>- Score <b>C</b> - Financial reports for the municipality are prepared annually and are comparable with the new amended plan of budget and further approved by MC. They include information on revenue, expenditure and cash balances.</p> <p>- Score <b>D</b> - Financial reports for the municipality administration only (does not include subordinated spending units) are prepared annually and are comparable with the new amended plan of budget and further approved by MC. They include information on revenue, expenditure and cash balances.</p>

## External scrutiny and audit

### PI-30 External scrutiny and audit

This indicator examines the characteristics of external audit.

#### ***Dimension (ii) Submission of audit reports to the legislature***

This dimension assesses the **timeliness of submission** of the audit report(s) on budget execution to the Municipality Council, or those charged with governance of the audited entity, as a key element in ensuring timely accountability of the mayor / municipality administration to the MC and the public.

**Time period:** Last three completed fiscal years. 2013-2015

This dimension requires delays in submission of audit reports to be measured from the end of the period covered when there is no financial audit of the report or from the date of the external auditor's receipt of the relevant unaudited financial reports when a financial audit is involved. Where audit reports are made separately on different units of local government, the overall delay may be assessed as a weighted average of the delays on the respective units, weighted by the higher of their income or expenditure.

If financial reports provided to the external auditor are not accepted, but are returned for completion or corrections, the actual date of submission is the date on which the external auditor considers the financial reports complete and available for audit.

Based on these preconditions for assessment of the three pilot municipalities it was found out that:

- HSC is the only external auditor that provides reports on audited budget years to all three assessed municipalities;
- The report is shared with the municipalities, which from their end provide comments, objections etc. and take measures as suggested by HSC;
- The report is usually presented at MC, in some cases this happens only if MC request specifically as such (LGU B, LGU A). The report was never made public on municipality website or subject of discussion at MC.

- No other external audits are realized. Legally the MC may ask / request such kind of audits but this was never realized in all three pilot municipalities
- The Ministry of Finance by law can realize audits through its Financial Inspectorate aiming to control the use of CG transfers to LGUs, but no cases where found;
- Line Ministries can realize audits aiming to control the use of the dedicated transfers to LGUs. No cases where found of such audit in all three pilot municipalities.

**Table 30. Criteria on submission of audit reports to municipality council**

Requirement	Available			Comment
	LGU A	LGU B	LGU C	
1. Report from High State Control (HSC)	✓	✓	✓	HSC audit once in two years the activity of the municipality. The report is usually submitted just for information but not discussed at MC.
Details on HSC audits	<p>- <b>No audit reports</b> prepared for 2013 – 2015. The most current one is still on preparation phase:</p> <ul style="list-style-type: none"> <li>- Audited period: 1.1.2013 – 31.12.2015 / focus all LGU structure</li> <li>- Audit object: audit of legal and financial procedures</li> <li>- Sent for comments by HSC at LGU on 29.01.2016.</li> <li>- Final report not yet approved by HSC</li> </ul>	<p>- <b>2 audits realised by HSC during 2013-2015</b></p> <ul style="list-style-type: none"> <li>- Audited period: 1.1 2011 – 31.12.2013 / focus only on Tax --- Department – revenues from tax and fees</li> <li>- Approved by HSC order no. 112, dt 12.09.2014</li> <li>- Made public by HSC only</li> <li>- Audited period: 1.1.2012 – 31.12.2013 / focus all LGU structure (except revenue dep). - - Audit object: audit of legal and financial procedures</li> <li>- Approved by HSC order no. 171, dt. 3.10.2014.</li> <li>- Made public by HSC only</li> </ul>	<p>- <b>2 audits realised by HSC during 2013-2015</b></p> <ul style="list-style-type: none"> <li>- Audited period: 1.1 2011 – 31.12.2012 / focus only on Tax --- Department – revenues from tax and fees</li> <li>- Approved by HSC order no. 178, dt 31.12.2013</li> <li>- Made public by HSC only</li> <li>- Audited period: 1.1.2013 – 31.12.2014 / focus all LGU structure (except revenue dep). - - Audit object: audit of legal and financial procedures</li> <li>- Approved by HSC order no. 75, dt. 30.06.2015.</li> <li>- Made public by HSC only</li> </ul>	
2. Report from Independent Auditor (external hired by MC)	No practise	No practise	No practise	
3. Report from Line	No practise	No practise	No practise	

Ministries' auditors

Source: Protocol office of the municipality respectively: LGU A , LGU B and LGU C

## Performance indicator

**Table 31. Performance Indicator PI - 30 / External scrutiny and audit**

Indicator / Dimension	National Score 2011	Municipality Score 2015			Justification for 2015 Score
		LGU A	LGU B	LGU C	
PI-30					
(ii) Submission of audit reports to the legislature	A	D	D	D	Audit reports are not submitted to MC within a predefined period of time. Usually reports are not submitted only if this is specifically asked as such from MC. The reports are never made public by LGU.

## Annex 2.

### LGU A Support documents used for the assessment

1. Draft Budget 2015
2. Approved Budget 2013, 2014, 2015
3. Balance Sheet 2013, 2014, 2015
4. Fiscal Package 2013; 2014; 2015
5. Strategic Plan LGU A 2013-2030
6. Chart of Accounts (Public Entity)
7. Procurement Register 2014
8. Analyses of Actual Budget 2015 (send to the Municipality Council)
9. Municipality website

### LGU B Support documents used for the assessment

1. Audit Reports from the Supreme Audit Court.
2. Financial document.
3. Med term budgeted for 2013-2015.
4. Annual budgeted for 2012-2015 (plan and actual).
5. Strategic plan.
6. Public procurement register (plan and actual).
7. Mayor decision for the establishment of the GMS group.
8. Fiscal package 2013-2015.
9. Municipality and TDO consolidated data on budget execution and respective reports.
10. Council decisions for MTBP, annual budgeted, fiscal package and budgeted executions.
11. Non-financial asset register for 2014.

## **LGU C Support document used for the assessment**

1. Approved annual budget document by MC for the period 2012, 2013, 2014 and 2015
2. MC Decision on Annual budget execution for the period 2012, 2013, 2014 and 2015
3. Municipality and TDO consolidation act of Municipality balance-sheet for 2012, 2013, 2014 and 2015
4. MC Decision on Fiscal Package approval 2012-2014
5. Municipality PBA 2012-2015
6. Municipality Strategic Development Plan 2010-2015
7. Mayors' order on annual budget preparation plan and internal process 2012-2015
8. Internal audit report and HSC report 2012-2015
9. Municipality asset register 2014
10. Procurement database and respective contracts for 2015
11. Municipality website