



Public Expenditure and Financial Accountability (PEFA) assessment of Berat Municipality, Albania

Final Report

Client: SECO

Rotterdam, 20 March 2017

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Jorge Shepherd
Sabina Ymeri

Rotterdam, 20 March 2017



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The quality assurance process followed in the production of this report satisfies all the requirements of the PEFA Secretariat and hence receives the '**PEFA CHECK**'.

PEFA Secretariat,
November 30, 2017

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ECORYS Nederland B.V.
Watermanweg 44
3067 GG Rotterdam

P.O. Box 4175
3006 AD Rotterdam
The Netherlands

T +31 (0)10 453 88 00
F +31 (0)10 453 07 68
E netherlands@ecorys.com
Registration no. 24316726

www.ecorys.nl

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Preface

The consultants wish to express their gratitude to SECO and the Swiss Embassy in Tirana as well as other members of the Oversight Team for their support in planning and directing the mission. In particular, the consultants wish to thank staff of the Ministry of Finance, the Prime Minister's Office and High State Control as well as the Mayor, the Secretary General, the Heads of Finance Directorate, Budget, Tax and Markets Department, Payroll, Human Resources, Procurement Unit, and of Internal Audit Unit and the other officials of Berat Municipality, who made themselves available, generously contributed their observations and opinions, and provided the information needed for the field mission.

Abbreviations

AGFIS	Albania Government Financial Information System
ALL	Albanian Lek
AMG	Automobile Parts Manufacturing
APP	Public Procurement Agency
CA	Contracting authority
CHU	Centralized Harmonization Unit
COFOG	Classification of Functions of Government
COSO	Committee of Sponsoring Organizations of the Treadway Commission
DLDP	Decentralization and Local Development Program
ECE	Economic Centre of Education
ECSD	Economic Centre for Children Development
EPSAS	European Public Sector Accounting Standards
EU	European Union
FMC	Financial management and control
FMIS	Financial management information system
FY	Fiscal year
GFS	Government Finance Statistics
GSM	Group of Strategic Management
GTDF	General Department of Tax
HLG-1	High level of government
HR	Human resources
HRM	Human resource management
HSC	High State Control
IA	Internal audit
IIA	Institute of Internal Audit
INTOSAI	International Organization of Supreme Audit Institutions
IPSAS	International Public Sector Accounting Standards
KfW	Government of Germany's Development Bank (<i>Kreditanstalt für Wiederaufbau</i>)
LGU	Local Government Unit
MoF	Ministry of finance
MoSLI	Ministry of State for Local Issues
MTBP	Medium-term budget programme
NA	Not applicable
NR	Not rated
NU	Not used
OT	Oversight team
PEFA	Public Expenditure and Financial Accountability Program
PIFC	Public internal financial control
PFM	Public Financial Management
PI	Performance indicator
PIM	Public investment management
PLGP	Planning and Local Government Project
PPA	Public Procurement Agency
PPC	Public Procurement Commission
PPL	Public Procurement Law
PPP	Public-private partnership
RDF	Regional Development Fund

SBT	Small business tax
SDC	Swiss Agency for Development and Cooperation
SECO	Swiss Economic Cooperation and Development
STAR	Support to Territorial and Administrative Reform Project
TA	Technical assistance
TAR	Territorial and Administrative Reform
TDO	Treasury District Officer
TSA	Treasury single account
UNDP	United Nations Development Program
UNESCO	United Nations Educational, Scientific and Cultural Organization
USAID	United States Agency for International Development
WB	World Bank
WSC	Water and Sewerage Company

Currency and indicative exchange rate

Local currency unit: Albanian Lek (ALL)

Exchange rates, September 2016:

137 ALL per Euro

125 ALL per USD

Fiscal Year

1 January – 31 December

Executive Summary

Purpose, scope and management of the assessment

This report presents the findings of the first assessment of PFM systems in the Municipality of Berat based on PEFA methodology. It constitutes one of five municipal PEFA assessments being conducted simultaneously by teams of assessors contracted by SECO and USAID. The other municipalities are Fier, Kuçova, Tirana and Tropoja. The objective of the assessment is to gain a better understanding of the strengths and weaknesses of municipal PFM systems as a basis for discussing PFM reform priorities and possible areas of support to the newly restructured municipality.

The assessment is based on the performance of the PFM systems as at September 2016 and any period prior to that as defined by PEFA methodology. It is focused on the amalgamated Municipality following the 2015 merged with former communes as part of the Territorial Administrative Reform (TAR), but covers for a number of issues the period back to FY2013 inclusive. In such cases, scoring of PEFA indicators is done only when information across the years enable firm assessment of performance i.e. is not the result of disruption during the amalgamation. The institutional coverage of the assessment is the central municipal administration, the eleven dependent budget institutions and to a limited extent the one public corporation (water supply company) owned by the Municipality as well as national level institutions forming part of the municipal finance management system. There are no extra-budgetary units and no lower level of government.

Main findings of the assessment

The main findings of the assessment are focused on whether the Municipality has got appropriate systems in place to assist it in achieving the three main fiscal/budgetary outcomes (aggregate fiscal discipline, strategic allocation of resources and efficiency in use of resources for service delivery). However, a summary of findings on the individual elements of the PFM systems – indicator by indicator - can be found in section 4.1 of the report and is reflected in the table of scores at the end of this executive summary.

It is important to note that conditional or earmarked transfers from the state budget to the municipality – including those for delegated functions and Regional Development Fund (RDF) projects – have been treated as extra-budgetary at the municipality level.

Implications of PFM performance in the main budgetary outcomes

Aggregate fiscal discipline is not well supported by the lack of good quality of and timely financial reporting and of fair aggregate expenditure and revenue out-turn compared to the original approved budget. Achieving fiscal discipline is overall affected by the relatively significant amount of earmarked grants-related extra-budgetary operations and by the lack of oversight of aggregate fiscal risk of locally-owned public enterprises. The Municipality's strength of operating a bulk of public funds under a Treasury Single Account (TSA) system is undermined by the inability of the Municipality to achieve a prudent and disciplined use of available public resources and to assess the combined fiscal risks of the Municipality and the Water and Sewerage Company (WSC). The **strategic allocation of resources** is negatively affected by planning and budgeting processes not well aligned and articulated to policy objectives, and resource allocation decisions made on the basis of financial reports lacking elements of substance and quality. The process of allocating resources strategically is strongly affected and weakened by a high variance in expenditure

composition, low predictability in the release of substantive funds, the absence of costed program strategies and no active role played by the local council in the scrutiny of the draft budget law and audit reports.

The efficient delivery of basic public services is undermined by ineffectiveness of the internal control framework. It is also weakened by the absence of proper cash and procurement planning and programming.

On balance, the Municipality of Berat has PFM systems with strengths in medium-term budgeting, treasury and internal audit. Other strengths pertain to a standardized budget classification and more recently to expenditure arrears and management of payroll and personnel changes now under relatively good control. On the other side, however, the PFM systems and financial internal controls are operate with low effectiveness and a great margin for improvement such as those relating to fiscal planning, monitoring of the overall fiscal risks, contractor management, cash flow forecasting, and the absence of costed medium-term plans for various municipal programs. The authorities are well aware of the situation and are committed to make the necessary efforts to improve the overall performance of the local PFM systems with MoF and donor assistance to improve the efficiency of local service delivery in general.

Ongoing and planned PFM reform agenda

The Municipality of Berat has not embarked on any major reform process of PFM, but focused mainly on enforcing the law and issuing warnings and reprimanding or penalizing those public officials held responsible for irregular and wasteful expenditure and financial malpractice. The municipality is taking steps towards improving transparency of financial management by integrating the Open Data application to its website, which presents all the treasury transactions of the municipality. Within 2017 the official website aims at integrating a new budget transparency application which presents user-friendly budget data.

Ministry of Finance's CHU-FMC and CHU-IA are providing strategic and technical guidance to the Municipality's efforts aimed at strengthening budgeting and planning, accounting and financial controls and furthering a more independent role by the Internal Auditor. These actions are embodied in a PFM reform strategy 2014-2020, steered within MOF and partially funded by external donors and covering the central government and local governments. The primary objective of the reform strategy is to improve fiscal and expenditure policies, systems, capacity and outcomes to support economic and social development nationwide. There is no comprehensive PFM reform action plan or capacity development program developed for the Berat territory, with the exception of a few specific technical capacities being built under MoF assistance.

Municipality of Berat - Summary Assessment 2016 ratings							
PFM Performance Indicator		Scoring Method	Dimension Ratings				PI Score
			i.	ii.	iii.	iv.	
Pillar I: Budget reliability							
HLG-1	Transfers from a high level of government	M1	A	D	A		D+
PI-1	Aggregate expenditure out-turn		D				D
PI-2	Expenditure composition out-turn	M1	C	B	A		C+
PI-3	Revenue out-turn	M2	D	D			D
Pillar II: Transparency of public finances							
PI-4	Budget classification		A				A
PI-5	Budget documentation		D				D
PI-6	Central government operations outside financial reports	M2	A	A	NA		A
PI-7	Transfers to sub-national governments	M2	NA	NA			NA
PI-8	Performance information for service delivery	M2	C	D	C	D	D+
PI-9	Public access to fiscal information		D				D
Pillar III: Management of assets and liabilities							
PI-10	Fiscal risk reporting	M2	D	NA	C		D+
PI-11	Public investment management	M2	D	C	C	D	D+
PI-12	Public asset management	M2	D	C	C		D+
PI-13	Debt management	M2	D	B	NA		C
Pillar IV: Policy-based fiscal strategy and budgeting							
PI-14	Macroeconomic and fiscal forecasting	M2	NA	D	NA		D
PI-15	Fiscal strategy	M2	D	D	NA		D
PI-16	Medium-term perspective in expenditure budgeting	M2	D	D	D	NA	D
PI-17	Budget preparation process	M2	NA	NA	D		D
PI-18	Legislative scrutiny of budgets	M1	A	D	C	B	D+
Pillar V: Predictability and control in budget execution							
PI-19	Revenue administration	M2	D	B	C	D	D+
PI-20	Accounting for revenue	M1	A	D	A		D+
PI-21	Predictability of in-year resource allocation	M2	B	C	C	C	C+
PI-22	Expenditure arrears	M1	D*	C			D+
PI-23	Payroll controls	M1	B	B	C	C	C+
PI-24	Procurement management	M2	C	A	C	B	B
PI-25	Internal controls on non-salary expenditure	M2	C	C	B		C+
Pillar VI: Accounting and reporting							
PI-26	Internal audit	M1	D	B	B	B	D+
PI-27	Financial data integrity	M2	B	NA	C	C	C+
PI-28	In-year budget reports	M1	D	B	C		D+
PI-29	Annual financial reports	M1	D	D	C		D+
Pillar VII: External scrutiny and audit							
PI-30	External audit	M1	D	NA	NA	C	D+
PI-31	Legislative scrutiny of audit reports	M2	NA	NA	NA	NA	NA

1 Introduction

1.1 Rationale and purpose

The current report presents the PEFA assessment of the Municipality of Berat, constituting one of five municipal PEFA assessments being conducted simultaneously by teams of assessors contracted by SECO and USAID. The other municipalities are Fier, Kuçova, Tirana and Tropoja. The objective of conducting subnational PEFA assessments in five selected municipalities is to gain a better understanding of the strengths and weaknesses of subnational PFM in Albania as a basis for discussing PFM reform priorities and possible areas of support to the newly restructured municipalities.

During the last two years, the local governance environment has changed dramatically. In July 2014, the Parliament has enacted the Territorial Administrative Reform (TAR), decreasing the number of local government units in Albania from 373 very fragmented communes and municipalities to just 61 consolidated and larger municipalities. It is generally agreed that this was the greatest change to Albania's system of local government since the democratic transition in 1992 and it provides an unprecedented opportunity to strengthen local government capacities. The TAR aims at improving efficiency and effectiveness, not only of local governments but also of the central government. To fulfil this, it needs to be accompanied by significant changes in the area of local government finances.

After the reform, a series of consequent legal and institutional changes occurred: i) local elections took place in June 2015 and 61 Mayors took office in the newly constituted municipalities; ii) a new National Crosscutting Strategy on Decentralization and Local Governance has been formulated to provide more clarity on the Government's vision on decentralization and (iii) a new Law on Local Self-Governance was developed. The latter decentralized a number of important and costly functions to the new local government units which will have important implications on financial management as well.

The next step to complete the legal framework is the drafting and approval of the first-ever comprehensive Law on Local Government Finances, which will bring together all principles and procedures with regard to local government sources of revenues, expenditure management and related intergovernmental dialogue and consultation.

In this context, the five municipal PEFA assessments shall serve to:

- Provide government officials at both, central and local level with an assessment of PFM performance at subnational level and improve the understanding for the need of a well-functioning PFM system at local level;
- Provide information and inputs to the legal and regulatory reforms with regard to the subnational PFM area;
- Provide an analytical starting point for deeper support of PFM reforms at subnational level in Albania, possibly also informing future TA projects at subnational area;
- Provide opportunities for donor alignment and further use of synergies.

1.2 Assessment management and quality assurance

Box 1-1 Assessment management and quality assurance arrangements

PEFA Assessment Management Organization

- **Oversight Team** – covering all five municipalities :
 - Ministry of Finance (MoF), Fran Brahimi, co-chair
 - Minister of State for Local Issues (MoSLI), represented by Enea Hoti
 - High State Control (HSC)—the Supreme Audit Institution of Albania, represented by Bajram Lamaj
- Representatives of each of the five municipalities (Luiza Bazaj and Anila Cuka)
 - EU Delegation, represented by Edina Halapi
 - UNDP, represented by Vladimir Malkaj
 - World Bank (WB), represented by Hilda Shijaku
- SDC/ DLDP, represented by Elda Bagaviki/Valbona Karacaci
 - USAID/ PLGP, co-chair, represented by Kevin McLaughlin
- SECO, co-chair, represented by Philipp Keller, Swiss Embassy in Tirana
- **Assessment Manager for Berat assessment:** Irene Frei, SECO
- **Assessment Team for Berat:** International PFM consultant Jorge Shepherd and local PFM consultant Sabina Ymeri.

Review of Concept Note for all five municipalities:

- Concept Note draft prepared by SECO and USAID/PLGP, circulated for review to OT members and PEFA Secretariat on 1st September 2016
- Invited reviewers: MoF, HSC, MoSLI, PEFA Secretariat, SDC, DLDP, EU Delegation, WB, UNDP, MoLI, five municipalities.
- Reviewers who provided comments: MoF, HSC, SDC, PEFA Secretariat (Guillaume Brule) all on 13 September; and DLDP on 12 September, for details ref. Annex 7.
- Final Concept Note approved by OT on 20th September, 2016.

Review of the Assessment Report for Berat:

- Assessment report draft circulated on 28th November, 2016:
- Invited reviewers: Municipality of Berat, EU Delegation, SECO, PEFA Secretariat
- Reviewers who provided comments: Municipality of Berat, EU Delegation, SECO, PEFA Secretariat and PLGP. For details, ref. Annex 7.
- Final draft report issued 27th January 2017 for follow-up review
- Final reports issued 20th March 2017

USAID/ PLGP and SECO are the lead agencies responsible for the procurement of the assessment teams and supervision of the work of the assessors. All five assessments follow the quality control procedures required for obtaining PEFA CHECK. Details of the process are given in Annex 7.

1.3 Assessment methodology

This is the first set of PEFA assessments carried out in Berat at the sub-national government level. National level PEFA assessments were undertaken in 2006 and 2011.

The overall assessment work covers the following five municipalities: Berat, Fier, Kuçova, Tirana and Tropoja. The municipalities were selected taking into consideration the following criteria:

- Geographical coverage;
- Representative sample of population size, rural/urban nature, average income);
- Politically balance;
- Commitment and staff capacities;
- Data availability;
- Synergies with donor support activities.

Berat was included in the sample as representing a typical (average) municipality in terms of population size, average household income and financing through own revenues.

The assessment is based on the 2016 PEFA Framework Upgrade and covers the central administration of the municipality (comprising 10 general directorates and five other units) as well as the eighteen dependent /budgetary institutions. There are no extra-budgetary institutions. Public corporations controlled by the municipality are included in the assessment only as regards the municipality's monitoring of the corporations. The performance of national government institutions, which form part of the municipality's PFM systems, is also covered where appropriate (e.g. financial transfers, treasury management, procurement transparency and external audit).

The territorial changes to the municipalities induced by the TAR necessitated a scoping mission prior to conducting the PEFA assessments in order to evaluate on which basis PEFA assessments may be conducted. The scoping mission was undertaken 26th June to 3rd July by a team of four consultants, contracted by SECO through ECORYS: international PFM consultants Frans Ronsholt (team leader) and Jorge Shepherd, as well as local PFM consultants Elona Gjika and Sabina Ymeri. A Scoping Mission Report was issued on 15th July 2016 and became the basis for preparing the Concept Note, which was finally approved by the OT on 20th September 2016.

The aim of the scoping mission was to evaluate for each of these municipalities whether the assessments could be conducted in accordance with the requirements of the 2016 PEFA Framework considering that the relevant assessment periods spanned the transition phase of the TAR. The territorial coverage of each municipality in FY2016 is significantly different from the coverage in FY2014, and FY2015 represents a hybrid year of transition. Therefore, an assessment of the municipalities' performance in 2016 cannot be undertaken with complete adherence to the PEFA 2016 Framework.

It was decided to apply an approach which allows scoring of at least 2/3 of the indicator dimensions, in line with PEFA 2016 Framework requirements, though with the assessment period for many indicators being the 12 months budget cycle following the constitution of the new municipalities (i.e. September 2015-September 2016), rather than the last completed fiscal year i.e. FY2015 during which the transition took place. The assessment period 'at time of assessment' represents FY2016 until end of September. Generally, PEFA dimensions which require consistent and comparable data for 2-3 years may be qualitatively assessed, but not scored using the PEFA methodology unless this is specifically justified in each case.

In practice, such cases were few because lacking functionality in 2015-2016 was rarely a result of TAR transition but rather a continuation of poor performance of the pre-TAR municipal administration.

In the case of Berat Municipality, however, the impact of TAR on the overall level of financial operations is relatively modest, e.g. only 4 communes with combined revenue of less than 50% of the pre-TAR municipal revenue being absorbed into the municipality (ref. annex 4 table A4-1). The assessment team has therefore assessed indicator dimensions with multi-year coverage on the basis of the pre-TAR municipality as regards FY2014 and FY2013 together with data for the amalgamated municipality during the hybrid FY2015, unless there are specific reasons to believe that such a data set does not reflect properly the performance of the relevant PFM system.

Apart from this modification, the PEFA assessments follow the structure, methodology and guidelines of the PEFA 2016 Framework and the Supplementary guidance for subnational PEFA assessments dated March 2016. As there is no subnational government level below municipalities, indicator PI-7 and dimension PI-10.2 do not apply. Moreover, and in line with guidance, macroeconomic forecasting and macro-fiscal sensitivity analysis in PI-14 as well as debt management strategy PI-13.3 have been considered 'not applicable' as they are central government functions.

Two assessment teams have been fielded for the municipal assessments proper. The ECORYS team that undertook the scoping mission also undertook the assessments of Tirana, Berat and Tropoja. A team commissioned by USAID/PLGP undertook the assessments of Fier and Kucova. The field mission and follow-up mission schedule for the team covering Tirana, Berat and Tropoja was as follows:

Date	Activity
15 th September	OT meeting
15 th -16 th September	PEFA capacity building workshop for all five municipalities
19 th -23 rd September	Data collection/interviews in Tirana (Municipality and central govt institutions)
25 th -29 th September	Field visits to Berat and Tropoja Municipalities in parallel
30 th September	Wrap-up meeting with Swiss Embassy, USAID/PLGP, MOF and HSC.
30 th Sept – 4 th October	Follow up meetings with Tirana Municipality and central government institutions
28 th November	Draft Report v1 distributed for review
12 th -16 th December	Field mission including workshops with each of Berat, Tirana and Tropoja,
16 th December	OT meeting.

A substantial number of municipal officials participated in the assessment, readily providing most of the documentation used for the assessment, their views and insights on all the subjects covered and comments on the initial findings. In addition to numerous individual meetings with the assessors and the PEFA capacity building workshop, workshops at the Municipality were held between the team of assessors and municipal officials on 28th of June 2016 as part of the scoping mission and on 12th December to discuss the findings of the draft report.

2 Background information

2.1 Subnational government structure

The local government system in Albania is based on the Constitution, and is built on the principles of decentralisation of authority and subsidiarity. The Constitution provides for the establishment of two tiers of local governments, municipalities (and communes) as the first tier and regional council as second tier local governments. Since 2000¹ the decentralization process devolved more administrative and fiscal authority to the first tier local government. Starting from 2015, local government structure underwent a series of structural and institutional reforms. These reforms began at end 2013 with a sweeping reorganization of local first tier I governments in the territory by reducing their number from 373 to only 61.² Since June 2015, the 61 municipalities of Albania have assumed the responsibilities and challenges of managing local public matters. A new organic law on local government was adopted in December 2015, establishing the organization and functioning of local governments, including the divisions of powers and responsibilities between the central and local governments.³

Table 2.1 Overview of subnational government structure in Albania

Government level or administrative tier	Corporate body?	Own political leadership	Approves own budget?	Number of jurisdictions	Average population	% of public revenue	% of public expenditures	% funded by transfers
Central	Yes	Yes	Yes	1	2.8 mill	97%	92.2%	3%
Regional	Yes	Yes	Yes	12	233,000	0%	0.4%	100%
Local (municipalities)	Yes	Yes	Yes	61	45,900	3%	7.4%	62%

The council and Mayor of municipalities are directly elected in local elections every four year. Regional councils are not directly elected, their councils are composed of representatives of the constituent municipalities. The main (exclusive) responsibilities of municipalities are the provision and maintenance of the local infrastructure, including roads, local amenities, waste disposal, public lighting and control of building; social services, pre-university education infrastructure and irrigation systems. They also perform delegated responsibilities on behalf of central government, such as civil registration services. Regional councils have very limited direct responsibilities, with the focus of their work on the harmonisation of local and national strategies. The lion share (75%) of municipal expenditure at the national level is financed through the state budget. Municipalities may raise resources through local taxes as established by law, fees and user charges for services as well as other revenue from property, economic activity or donations.⁴

¹ Based on Law 8652/2000 "On the organization and functioning of local government in Albania", repealed as of December 2015.

² Based on Law No 115/2014 "On the territorial and administrative division of the local government units in the Republic of Albania". 373 municipalities and communes were consolidated to 61 municipalities.

³ Law 139/2015 "On local self-government", repealing Law 8652/2000, as amended.

⁴ A more detailed overview of local government systems is presented in Annex 4.

National and subnational budgetary systems in Albania are governed by the same legal and regulatory framework.⁵ The budgetary system is managed through a unified Treasury account, managed by the Ministry of Finance. Each budgetary entity, including municipalities and their institutions have their own accounts and subaccounts with Treasury, which is linked with the second-tier banking system. Municipalities and regional councils approve their own budgets, which are subject to a conformity/legality check by the Prefect, a deconcentrated institution mandated by the Prime Minister to each region.

2.2 Municipal economic situation

Berat is one of the oldest town in the territory of Albania. It has a population exceeding 65,000 inhabitants. More than 55% of its population is based in the urban area of the municipality. Approximately 45% of the population (28,000 inhabitants) live in the rural areas around the city, which became part of the Municipality of Berat in 2015, after the territorial administrative reform.

Berat is part of the UNESCO World Cultural Heritage Sites. It attracts every year a large number of tourists. The main strategic priorities of the municipality in the medium term reside in local economic development through support to small and medium enterprises in agribusiness; tourism development building on its unique historic and cultural legacy; improvement of the urban infrastructure.⁶

2.3 Fiscal and budgetary trends

Table 2.2 presents aggregate information on the Municipality's fiscal operations for the last three years. The data represents the pre-TAR municipality for the years 2013 and 2014, whereas 2015 data covers the amalgamated new municipality including the 4 former communes. Prior to the amalgamation, these communes had total revenue corresponding to 25% of the revenue of the pre-TAR municipality of Berat.

The main sources of revenue for the Municipality of Berat are own taxes, which account for 26% of total collections in 2015; fees and user charges (18%) and non-tax revenue (2%). The unconditional grant from the state budget accounted for 49% of the municipality's total discretionary revenue⁷. Nevertheless, the municipality's revenue from national sources includes shared taxes (the Simplified Profit Tax, The Vehicle Registration Tax and the Property transaction tax), which account for 12% of total revenue, or 46% of total municipal revenues from taxes (Table 2.2).

Overall, the municipality has improved year-on-year performance in most of its key revenue sources (property tax; infrastructure impact tax: solid waste fees), however initial estimates have proved too optimistic in each of the years.

Table 2.2 Municipality of Berat budget (In thousands of ALL, unless otherwise noted)

	2013	2014	2015
I. Total revenue and grants (non-conditional)	359,931	432,941	515,759
- Own revenue	197,642	187,985	218,433
-Shared tax	0	48,660	61,731

⁵ See Table A4-2 for a list of applicable legislation in the PFM sector.

⁶ Municipality of Berat <http://bashkiaberat.gov.al/?p=301>.

⁷ The calculation is based on "discretionary" sources of revenues, hence it excludes revenues from earmarked grants from the state budget or other donors, given that those are not consistently reported in the budget as discussed in PI3.

	2013	2014	2015
-Unconditional Grants	162,289	196,296	235,595
-Others (donations)	-	-	-
II. Earmarked grants	260,387	605,064	675,752
-RDF grants		282,218	328,518
-Other earmarked grants	260,387	322,846	347,234
Total (I+II)	620,318	1,038,005	1,191,511
I. Revenue and grants share of total (%)	58%	42%	43%
-Own revenue share of total (%)	32%	18%	18%
-Shared tax share of total (%)	0%	5%	5%
-Unconditional Grants share of total (%)	26%	19%	20%
II. Earmarked grants share of total (%)	42%	58%	57%
-RDF grants share of total (%)	0%	27%	28%
-Other earmarked grants share of total (%)	42%	31%	29%

Sources: Municipality of Berat; and author's calculations.

The unconditional transfer from the state budget has increased steadily levels over the years. In 2016, following the adoption of the new local government law, the newly transferred functions were financed through "specific transfers". Specific transfers are block earmarked grants financing newly transferred functions such as kindergarten and pre-school education staff costs; water and irrigation; forestry and fire protection. The level of funding is reportedly not adequate and has created hardships for the municipality over the course of 2016.

Major projects are financed through the state budget Regional Development Fund. The municipality's budget is not sufficient to cover needs for major capital improvements. The Regional Development Fund has provided substantial funding to the municipality in 2014 and 2015, targeting mainly road infrastructure projects. In 2014 the Municipality has started repaying a loan from the Council of Europe Development Bank under a sovereign guarantee. Debt service payments have been regularly included in the budget and carried out, but the balance is not shown in annual financial statements.

Management costs account for a substantial share of the budget of the municipality of Berat. In 2015, 28% of the budget was spent on the general administration (general public services programme), an increase compared to 2013 (27%) and 2014 (23%) (Table 2.3).

Similarly, the biggest spending item in the municipality's budget is staff compensation cost: at 41% of the total budget in 2015, up from 37% in 2014. The relative increase may have come as a result of the increase in total staff numbers of the municipality following the administration reform. (Table 2.4) Nevertheless, it must be noted that the municipality employs a large number of service staff in its service delivery departments: up to 70% of the 454 staff are engaged directly in service delivery (i.e. the landscaping enterprise; public service enterprise, fire department, teachers in the department of education, etc.).

In comparison, operation and maintenance expenditure has decreased in weight from 41% in 2013 to 37% in 2015. Capital investments (from un-earmarked funding) have increased over the period, but remain quite modest at 14% of the total budget. The municipality spends around 6% of its budget to subsidise municipal companies, in particular the Tomorri sports club which has been operating at loss for many years.

**Table 2.3 Municipality of Berat - Expenditure composition by economic classification, 2013-2015
(excluding earmarked funding)**

	2013	2014	2015
Compensation of employees	48.0%	37.1%	40.6%
Use of goods and services	41.0%	40.3%	36.7%
Consumption of fixed capital	4.6%	16.1%	14.4%
Interest	0.0%	0.0%	0.0%
Subsidies	5.5%	5.5%	6.7%
Grants	0.9%	1.1%	1.6%
Total	100%	100%	100%

Sources: Municipality of Berat and author's calculations.

The Municipality of Berat spends approximately 44% of its budget on two programmes: local community services, providing for the solid waste removal service and other urban services; and the roads and public transport programme (Table 3). The share of pre-university education spending is relatively smaller and its weight in the overall budget has decreased over the three year period: from 16% in 2013, to 12% in 2015. 6-7% of the budget is allocated to the culture and tourism programme – this is a significant share of budget at the local level. Apparently Berat prioritises the sector given its status as a UNESCO heritage site and tourism sector potential for local economic growth.

**Table 2.4 Municipality of Berat- Expenditure composition by functional classification, 2013 – 2015
(excluding earmarked funding)**

	2013	2014	2015
Pre-university education	16%	13%	12%
Culture and tourism	7%	7%	6%
Youth and Sports	4%	4%	7%
General Public Services	27%	23%	28%
Roads and public transport	12%	26%	24%
Local Community services	29%	24%	20%
Social care	5%	4%	3%
Total	100%	100%	100%

Sources: Municipality of Berat and author's calculations.

2.4 Legal and regulatory arrangements for PFM

The legal and regulatory framework for PFM which is relevant to Berat Municipality is described in Annex 4 section A4.2.

2.5 Institutional arrangements for PFM

The general institutional arrangements for municipalities in Albania are described in Annex 4 sections A4.3 and A4.4.

Berat is a medium sized municipality. The municipal council is composed of 32 members. The current Mayor is in office since the local elections of 2015. The previous Mayor had held three consecutive mandates in the municipality of Berat, governing the city for ten years.⁸

The Municipality of Berat employs a total of 454 public employees, of whom approximately 120 have management/administrative function and the rest are engaged in direct service delivery. The largest units are the Directorate of Human Resources and Legal Affairs (employing 26 staff, of which 13 are supporting and cleaning personnel, and a driver); the Directorate of Tax and Markets employing 16 people (including field inspectors), the Finance Directorate (9 employees) and the Territorial Planning Directorate (9 employees).

The Finance Directorate is composed of 5 core staff, who cover budgetary and financial operations for the municipality. Four additional finance staff were hired from the communes, but the latter have not been integrated within the work processes of the finance department, while reportedly the volume of work has increased. The tax department has hired two additional staff after the consolidation. The internal audit employees 3 staff members, the same number as before the territorial consolidation.

The two biggest service delivery units in the Municipality of Berat are the Company in charge of landscaping and other maintenance work (66 employees); and the company in charge of “public services” i.e. road maintenance and cleaning. Both service delivery units are in fact budgetary institutions, notwithstanding the misleading name. The fire department and department of agriculture are also relatively large departments (31 and 21 employees, respectively) and have been established in the municipality after the territorial reform and the consequential transfer of new authorities to the local level.⁹

⁸ Local government mandates were three years long until 2009, when the mandate was prolonged to 4 years.

⁹ The organization of Berat Municipality’s functions by departments and service delivery programs with distribution of staff resources is appended to this document in Table D.

3 Assessment of PFM performance

3.1 Budget reliability

HLG-1 Transfers from a higher level government

This indicator assesses the extent to which transfers to the subnational government from a higher-level government are consistent with the original approved high-level budgets, and are provided according to acceptable time frames. The indicator contains the following three dimensions and uses the M1 (WL - Weakest link) method for aggregating dimension scores:

Dimension HLG-1.1. Outturn of transfers from higher level government (three last completed fiscal years)

Dimension HLG-1.2. Earmarked grants outturn (three last completed fiscal years)

Dimension HLG-1.3. Timeliness of transfers from higher-level government (three last completed fiscal years)

The indicator assesses the old municipality of Berat for FY 2013 and FY 2014 and the new municipality of Berat for FY 2015.

Background

Municipality of Berat receives three types of grants from the national government:

- Unconditional block grants;
- A share of certain taxes collected by the national government (Simplified Profit Tax (SPT), vehicle registration, property transaction tax¹⁰) – the transfer is unconditional;
- Earmarked block grants for financing the newly transferred functions decided through the annual budget law (specific transfers, as of January 2016);
- Earmarked grants for recurrent expenditure in specific sectors linked with delegated functions, decided at the beginning of the year;
- Earmarked grants for selected investment projects (RDF), decided during the course of the year.

Estimates for earmarked grants for recurrent expenditures linked with delegated functions such as business registry and civil registry; poverty and disability cash benefits, maintenance expenditures for pre-university school dormitories, are shared with the municipality by the relevant line ministries in the beginning of each year.

As far as earmarked grants are concerned, municipalities do not typically include such funds in their budget, but keep records on separate off-budget formats (See PI-2 and PI-6). The Municipality of Berat does not consolidate earmarked funds in the budget execution report either and reports them separately. The annual financial reports of the Municipality of Berat, however, present the consolidated budget with all sources of financing.

HLG-1.1 Outturn of transfers from higher level government

In general there are no differences between the estimates and outturn for unconditional transfers in any given year. Exceptions apply when the original estimate in the local government budget is lower than the actual appropriation in the state budget law depending on the time of adoption of the

¹⁰ The mineral extraction rent is also a shared tax, but the municipality of Berat does not have receipts from this tax in 2013 – 2015.

municipal budget; or in the case the annual budget law is amended in the course of the year. Inconsistencies are higher between estimates and outturns for shared taxes.

The unconditional block grant has been equal to the original estimate in 2014 and it was higher than the original estimate in both 2013 and 2015. The difference in 2013 results from the fact that the unconditional transfer for Berat was increased in the course of the 2013 fiscal year to cover for additional costs related with the municipality's functions. In 2015 the difference is due to the territorial reform, which increased the budget of Berat by the budget balance of the communes that were consolidated (**Table 3.1**).

The main deviations from the estimates for non-earmarked grants originate from differences in the planning of revenues from shared taxes. The Simplified Profit Tax has underperformed in 2014; while actual collections have outperformed initial estimates in 2015.¹¹

Table 3.1 Comparison of estimates against outturns for transfers from national Government – Municipality of Berat (In thousands of ALL)

	2013		2014		2015	
	Estimate	Outturn	Estimate	Outturn	Estimate	Outturn
1. Un-earmarked transfers						
Unconditional transfer	160,289	162,289	196,296	196,296	251 164	235 595
Simplified Profit Tax	0	0	38,829	34,577	44 647	45 856
Property transfer tax	900	2 054	2,263	2,701	4 300	1 655
Vehicle registration tax	19 000	16 096	9,600	11,382	15 395	14 220
Total	180,189	180,440	246,988	244,956	315 506	297 326
2. Earmarked transfers						
Education	--	--	0	28,102	0	29,788
General public services	7,500	7,353	8,313	8,221	15,038	14,989
Roads and public transport	0	0	0	254,116	0	298,730
Social care	253,287	253,034	325,887	314,625	509,162	332,245
Total	260,787	260,387	334,200	605,064	524,200	675,752
Total (1+2)	440 976	440 827	581,188	850,020	839,706	973,078
Deviation-earmarked	-0.2%		81.1%		28.9%	
Deviation-total	-0.03%		46.3%		15.9%	
Composition variance	0.14%		66.4%		67.5%	

Sources: Municipality of Berat and authors' calculations.

Total transfers from the national budget were slightly lower than the original estimates in 2013. With regard to un-earmarked transfers, an additional allocation to the unconditional transfer in the course of FY2013 offset the negative effect of underperformance in shared taxes. In 2014 and 2015 differences between estimates and outturn become prominent, mostly driven by the earmarked transfers component (See HLG-1.2).

HLG-1.2 Earmarked grants outturn

The composition of total transfers from the national government to the municipality of Berat is dominated by the non-earmarked transfers as well as social care transfers (cash benefits for recipients of social assistance and disability benefits). This source of revenue constitutes a significant share of intergovernmental transfers, but variances in estimates and outturns for these

¹¹ The simplified profit tax (formerly small business tax) became a shared tax in January 2014, hence it is not included in the calculations from 2013.

revenue streams are relatively modest, as opposed to other programs. It should be noted however that the municipality of Berat does not formally include estimates of earmarked transfers in its general public services programme (recurrent costs for civil registry and national business centre) and the social care programme (poverty and disability benefits) in the original budget. (See PI-1, PI-2 and PI-6). Although they are not consolidated in the original budget estimate as presented to the council; the municipality plans for them every year in consultation with the relevant line ministries and the treasury office and availability of such funding is important for the continued operations of the municipality's functions. Hence for the purposes of the calculation of the HLG-1 indicator the original estimates for recurrent earmarked transfers have been taken into consideration.

Transfers to the general public services programme (civil registry and national business centre) and the social protection programme are fairly consistent with the estimates. Differences over the course of the year will occur in line with payroll changes; as these transfers cover mainly recurrent expenditures for staff compensation and maintenance of these services. Differences in the social protection programme will occur in line with changes in the number of families and individuals that are considered eligible for the benefits in accordance with predefined criteria.

Differences between estimates and outturn have occurred consistently in the education and road infrastructure programme. These are linked with the earmarked capital grants from the Regional Development Fund; a national instrument that provides capital grants for municipalities and other beneficiaries on a competitive basis. The process of application, selection of projects and allocation of funds from the RDF occurs within the same budget year as when the funds are allocated. The decision making authority over RDF funds allocation rests with a Regional Development Committee chaired by the Prime Minister and composed of several ministers. At the time of budget preparation the municipality does not have sufficient information on what the priority axis for financing under the RDF will be, nor whether it will receive a grant. Hence estimates for RDF funds in the original budget are always 0. In 2014 and 2015 the municipality of Berat received RDF grants in the education programme and road infrastructure programme – it had not received any in 2013. The variance in estimates and outturn for these grants in the 2014 and 2015 budgets is significant.

HLG-1.3 Timeliness of transfers from higher level government

The schedule for the disbursement of transfers is announced every January with the instruction of the Ministry of Finance on budget implementation. The Ministry of Finance shares their cash management plan with details on periodic limits for all general government entities to all regional treasury offices. Nevertheless it is difficult to obtain accurate information on the actual times of disbursement over the past three years.

Unconditional transfers are allocated to municipalities on a quarterly basis, with some front-loading (approximately 30%) in the first quarter of the year. The first quarter allocation is made in full; whereas the following quarter allocations are divided evenly each month. The limits are not set in stone; local governments may advance a request to the Ministry of Finance for the authorisation of the increase in limit (monthly allocation). The disbursement of the periodic allotments is usually timely. Nevertheless delays are frequent in the month of January; the first disbursement is often pushed to the end of January or the beginning of February. The tranches of disbursement for the unconditional transfer varies slightly from year to year.¹² The first tranche has been 30% of the unconditional transfer in the three years under consideration.¹³

¹² Interview with budget department, Municipality of Berat. It was not possible to obtain reliable data on the actual time of disbursement of the tranches from the Ministry of Finance/Treasury.

¹³ Budget implementation instruction; interview with Fran Brahimi and Mariel Frroku, Ministry of Finance.

Revenues from shared taxes are transferred monthly; reportedly without delay. Transfers for the civil registry and the national business centre are made monthly and distributed evenly across the months. Social transfers in turn are allocated on a two-monthly basis. No problems in timeliness of the funding have been reported with these transfers.

The Regional Development Fund grants usually finance projects over the course of more than one fiscal year. Allocations from the RDF (or the relevant line ministries) are made in full to the project costs that are expected to arise in the course of the first year; in accordance with the plan presented by the municipality. In cases when there are delays in project implementation, that would risk the execution of the full grant by December 31st; the Ministry of Finance may reduce the spending limit/allocation to the municipality and reallocate the funds to project progressing faster than the plan.

The schedule for the disbursement of the RDF grants is negotiated on a case-by-case basis. The funds are appropriated to the municipality and can be accessed whenever expenditures are incurred in accordance with the project plan. Disbursements from the RDF are in line with the negotiated schedule.

The first tranche of the unconditional transfer (30%), which is reportedly delayed, constitutes 11% of the total transfers in 2013; 6.9% in 2014 and 7.3% in 2015.

PI	Dimension	Score	Justification for score
HLG-1	Transfers from a higher level of government	D+	Scoring Method M1.
HLG-1.1	Outturn of transfers from higher level government	A	Aggregate transfers from the national government fell short the original estimates by only 0.03% in 2013, and exceeded by 46% and 16% in 2014 and 2015, respectively. Even though 2013 and 2014 represent the pre-TAR municipality and 2015 data is not comparable to data from earlier years due to TAR, the outturns are considered a proper reflection of the predictability of transfers.
HLG-1.2	Earmarked grants outturn	D	Actual earmarked grants fell short the original estimates by 0.2% in 2013, and exceeded by 81% and 29% in 2014 and 2015, respectively. As for HLG-1.1 these outturns are considered a proper reflection of the predictability of transfers.
HLG-1.3	Timeliness of transfers from higher-level government	A	Transfer disbursements are timely and regular, in accordance with a pre-defined schedule. Delays occur in the transfer of the first tranche of the unconditional transfer but its weight is lower than 25% of actual disbursements.

Ongoing reforms

The government is considering the reformation of the Regional Development Fund and aligning its operations with the public financial management systems in the country. This is expected to imply anchoring of the RDF to one budgetary institution (a line ministry or national agency); including it in the medium term budget programme. Discussions are going on with regard to the possibility to complete the competition and evaluation process for municipal projects in advance of the new

budget year, in order to improve predictability of municipal resources. The law on regional development is expected to be adopted within 2016.

PI-1 Aggregate expenditure outturn

This indicator measures the extent to which aggregate budget expenditure outturn reflects the amount originally approved, as defined in government budget documentation and fiscal reports. There is one dimension for this indicator – dimension 1.1 Aggregate expenditure outturn. It covers budgetary municipal government and is assessed on the basis of the last three completed fiscal years.

The reporting formats of the budget documentation specify expenditure from the discretionary funds of the municipality, composed of two major categories by source of financing, namely i) expenditure whose sources are originated from the state budget in the form of general purpose grants (the unconditional transfer); and ii) expenditure whose sources are originated by the other discretionary sources, including local taxes and fees, shared taxes and other non-tax revenues (donations, property revenue, etc.). The budget document reports expenditures primarily allocated to the areas of the local government's "own" (or exclusive) functions, where local governments had full administrative, regulatory, service and investment authority.¹⁴ The budget estimates do not typically include data on expenditures whose sources are originated from earmarked grants from the state budget, in particular expenditures in the area of social protection funded through earmarked grants; and capital grants disbursed through the Regional Development Fund mechanism. In turn, budget execution reports include some of the expenditures whose sources are originated from the state budget in the form of earmarked grants, such as social protection cash benefits. The latter are however not included as part of the main budget execution data (Format 1), but in a separate report on budget execution of earmarked transfer from the central government (Format 5).¹⁵

The results presented in

Table 3.23.2 (see details in Annex 5) show that actual expenditure deviated from budgeted estimates by less than 10% in one year, 2014, and it deviated by 17% and 21% in years 2013 and 2015, respectively; with an underspend in each of the three years. The deviation resulted from lower than budgeted revenue performance, which prompted the need for downward budget revisions in each of the years. These results are based on the comparison of the initial planned expenditures¹⁶ and actual expenditure outturns as reported at the end of each fiscal year.¹⁷

Table 3.2 Comparison of budgeted estimates against actuals

	2013	2014	2015
Aggregate budgeted expenditure	388,623	457,005	563,739
Aggregate outturn	324,125	412,815	443,144
Aggregate expenditure deviation	-64,498	-44,190	-120,595
Aggregate expenditure deviation %	-16.6%	-9.7%	-21.4%

Sources: Municipality of Berat and authors' calculations.

¹⁴ Law 8652/2000 "On the Organisation and Functioning of Local Governments", as amended, repealed by Law 139/2015, which came into effect in January 2016.

¹⁵ See also PI-6 for more details on the above. The municipality's financial statement report all income and expenditure in a consolidated manner regardless of the source of financing.

¹⁶ Budget estimates reported on the basis of budget approval decisions of the Berat municipal council for 2013, 2014 and 2015. The 2015 plan has been computed as the sum of the planned expenditures approved by the municipal council of Berat and the communal councils of the 4 communes that were merged with the municipality of Berat in July 2015.

¹⁷ Expenditure outturn reconciliation act between the Treasury District Office and the Municipality of Berat for years 2013, 2014 and 2015.

PI	Dimension	Score	Justification for score
PI-1	Aggregate expenditure outturn	D	Actual expenditure deviated from the originally budgeted estimates by 16.6%, 9.7% and 21.4% in 2013, 2014, and 2015, respectively.

Ongoing reforms

A reformed law on local finance is currently under discussion with the government and stakeholders. Early drafts of this law include provisions that reinforce the unity of the local budget and improve predictability of resources of local government, making it easier for them to include state budget transfers in the original budget estimates. The law is expected to be approved in 2016.

PI-2 Expenditure composition outturn

This indicator measures the extent to which reallocations between the main budget categories during execution have contributed to variance in expenditure composition. It covers budgetary municipal government and is assessed on the basis of the last three completed fiscal years. It contains the following three dimensions and uses the M1 (WL) method for aggregating dimension scores:

- Dimension 2.1. Expenditure composition outturn by function
- Dimension 2.2. Expenditure composition outturn by economic type
- Dimension 2.3. Expenditure from contingency reserves

2.1 Expenditure composition outturn by function

This dimension compares originally budgeted and actual expenditure by functional/or programme based classification. Variance in expenditure composition is relatively high—18.1% in 2013 and 14.4% in 2015. The annual plan was largely followed in 2014, with a variance in expenditure composition by function of only 3.7%. In 2014 aggregate expenditure deviation was also relatively lower than in the other two years.

It should be noted that 2015 is an outlier year following the disruption of normal financial management procedures of the Municipality of Berat as a result of the territorial administrative consolidation. The original budget estimate for the 2015 plan was calculated as the sum of the budget estimates of Berat and the 4 communes that were merged in the course of the 2015 financial year. The way in which budget data was presented in the original budget estimates of the communes was not fully allocated by functional classification.¹⁸

The comparison of the outturn against budgeted plans does not reveal strong or persisting deviation tendencies in any of functions under review. In general, the most significant deviations were as follows:

- Roads and public transport (37% in 2013 and 15% in 2014);
- Pre-university education (15% in 2015);
- Youth and Sports (26% in 2013; 8% in 2014 and 89% in 2015).

¹⁸ The commune budget estimates for 2015, as presented in the relevant local council decisions on the approval of the 2015 budget presented a functional allocation of expenditure; however some of them calculated staff compensation costs and other recurrent costs under the “General Public Services” function. Capital expenditure was presented separately in all cases, unallocated to any specific functions. This is partially true also of the budget of the municipality of Berat for all years. Where other data was not available, investment data was calculated under the “Roads and transport” function. The authors of the report reviewed the data closely to identify the functional allocation of such expenditure. This was not possible for the budgets of the communes, which slightly undermines the accuracy of the data presented herewith. Nevertheless, the effect of these inaccuracies is not significant given the relatively small size of unallocated expenditure.

Significant deviations occurred due to the underperformance in revenue collections, leading to the need in budget cuts, which were more drastic in those functions that are relatively less important for the achievement of the municipality's overall objectives.

2.2 Expenditure composition outturn by economic type

This dimension compares budgeted and actual expenditure by economic classification. The variance in expenditure composition by economic classification reached 11.7%, 8.8% and 9.2% in 2013, 2014 and 2015, respectively. This is attributed mostly to spending in the two largest items (staff compensations and purchases of goods and services) being significantly below the originally approved budgets—each one averaged 40% of total expenditure per annum over the past three years. Evidence indicates that payroll expenditure fell short of the original estimates by 7%, 10% and 20% and purchases of goods and services fell short increased by 21%, 8% and 22% (Table 3.3).

Table 3.3 Deviation of estimates vs outturns by economic classification (%)

	2013	2014	2015
Staff compensation	-7,3%	-10,0%	-19,5%
Use of goods and services	-20,5%	-7,9%	-22,4%
Capital expenditure	-53,9%	-15,1%	-30,3%
Interest			
Subsidies	-0,3%	0,0%	14,2%
Grants	0,0%	0,0%	-32,2%
Social benefits	-100,0%	-100,0%	-100,0%
Other expenses	-7,3%	-10,0%	-19,5%

Source: Authors' calculations derived from the Municipality of Berat budget data.

2.3 Expenditure from contingency reserves

The decision on the approval of the local budget includes three budget line items that are unallocated: the reserve fund and the contingency fund; which essentially almost identically in nature; and the reserve fund. Unexpected needs for expenditure that arise in the course of the year are covered by the reserve fund; needs for expenditures beyond the planned allocations and or in case of a revenue underperformance are covered from the contingency fund.¹⁹ The "emergency fund" is used to cover unexpected expenditure needs in case of natural disasters. For the purpose of calculating the amount of expenditure actually charged to the contingency vote, all these three sources are considered as "contingency vote". The average amount of expenditure actually charged to the "contingency vote" over the last three years is 0.22% in 2013 and 0.08% in 2014. No contingency vote was used in 2015.

Table 3.4 Municipality of Berat expenditure composition variance (%)

	2013	2014	2015
Composition outturn by function i.e. PI-2.1	18,14%	3,67%	14,40%
Composition variance by economic nature i.e. PI-2.2)	11,72%	8,78%	9,16%
Average contingency share of budget i.e. PI-2.3	0,10%		

Source: Authors' calculations derived from the Municipality of Berat Budget Document and Budget Execution reports for 2013, 2014 and 2015. Data used for the calculations is presented in Annex 5.

PI	Dimension	Score	Justification for score
PI-2	Expenditure composition outturn	C+	Scoring Method M1.

¹⁹ See Law 9936 "On the management of the budgetary system in the Republic of Albania" for exact definitions.

PI	Dimension	Score	Justification for score
2.1	Expenditure composition outturn by function	C	Variance in expenditure composition by functional classification is less than 15% in the last two years, at 3.7%; and 14.4% in 2014 and 2015 respectively. It was higher at 18.1% in 2013.
2.2	Expenditure composition outturn by economic type	B	Variance in expenditure composition by economic classification was lower than 10% in the last two years, at 8.8% and 9.2% respectively in 2014 and 2015. It was higher, at 11.7% in 2013.
2.3	Expenditure from contingency reserves	A	Actual expenditure charged to a contingency vote was on average 0.1% of the budget in the period 2013 – 2015.

Ongoing reforms

No ongoing reforms have been identified.

PI-3 Revenue outturn

This indicator measures the change in revenue between the original approved budget and end-of-year outturn. It covers budgetary municipal government and is assessed on the basis of the last three completed fiscal years. It contains the following two dimensions and uses the M2 (AV) method for aggregating dimension scores:

Dimension 3.1. Aggregate revenue outturn

Dimension 3.2. Revenue composition outturn

3.1 Aggregate revenue outturn

Revenue forecasting for the Municipality of Berat is carried out by the Department of Taxes and Markets, which is responsible for the administration of the majority of revenue streams, in cooperation with the budget and finance department. The budget department coordinates the forecast of revenues that are administered by other departments, such as the Economic Centre of Education for user charges; or culture and sports centre for a small part of incomes. The budget department also makes forecasts on shared taxes and intergovernmental transfers, based on data by the Ministry of Finance²⁰. Initial estimates provided by the various budget institutions and departments within the ministry are reviewed against expected changes in local fiscal policy (and national with regard to shared taxes).

In each of the years under consideration, the Municipality of Berat has adopted a “fiscal package” prior to the budget adoption, i.e. a consolidated document outlining the levels of all local taxes and fees charged under the jurisdiction of the municipality. Year-on year changes in the tax rates and bases are not significant. Given the relatively high level of informality and local tax evasion²¹, revenue forecasts are adjusted every year in accordance with the expected performance improvement in revenue collections, based on past years’ trends and improved information systems. There is no accurate way to measure such performance improvements, thus giving leeway to possible adjustments in revenue estimates to allow for the desired level of expenditures, given the local budget balance requirement.

²⁰ The Ministry of Finance issues an annual budget instruction on the preparation of the medium term budgets to local governments in July of each year. It contains an indication of the changes in the overall pool of the unconditional transfer for the following year. Accurate data on the size of the unconditional transfer for each local governments are shared between October and November of each year, when the draft annual budget law is adopted by the Council of Ministers.

²¹ These issues are further discussed under PI-19 and 20.

The aggregate revenue outturn has consistently been lower than the original estimate, at 75%; 84% and 71% respectively in years 2013, 2014 and 2015 (Table 3.5).

3.2 Revenue composition outturn

In 2015 taxes represented about 41% of the Municipality of Berat revenues, fees and user charges 53%; and non-tax revenue 5%. A comparison of budgeted versus actual revenues demonstrates that collections of the nationally administered small business tax²² have slightly exceeded estimates in the last year (3% in 2015), following a downward adjustment in the plan from 2014 and 2015 in response to policy changes in both the tax rate and base for this tax. Actual receipts have been higher than budgeted only for revenues from user fees and charges. The latter are administered by the Department of Tax for businesses and the Water Supply and Sewerage Company for households. Revenue shortfalls are noticed across all major categories of taxes and fees in all years. Underperformance in the collections of the infrastructure impact tax came as the result of a slowdown in new developments both due to the economic slowdown as well as pending the approval of a new territorial development plan for the municipality.

Overall, the municipality has improved year-on-year performance in most of its key revenue sources in 2015 (property tax; infrastructure impact tax: solid waste fees), however initial estimates have proved too optimistic in each of the years for tax receipts (Table 3.5). Total annual revenue was higher in 2015 than in the previous year. Nevertheless the increase is likely due to the consolidation with the other communes and the new tax base calculated in 2015.

Despite important differences in the estimate and outturns for revenues; the aggregate revenue deviation is not exceedingly high (See PI-3.1 above).

Table 3.5 Budgeted versus Actual Revenue Receipts 2013 – 2015 (In thousands of ALL)

	2013 Budget	2013 Actual	2014 Budget	2014 Actual	2015 Budget	2015 Actual
Own tax collection	149,055	90,546	89,855	59,499	121,286	73,020
Solid waste fee	31,191	27,840	45,262	49,119	49,359	48,807
Other fees & user charges	29,947	37,833	32,709	30,641	36,863	45,017
Own non tax revenue	10,500	10,486	12,500	12,035	14,299	9,596
Total Berat	220,693	166,705	180,326	151,294	221,807	176,440
Deviation	-53,988		-29,032		-45,367	
Deviation, %	-24.5%		-16.1%		-20.5%	
Composition						
Variance %	29.0%		29.9%		28.6%	

Sources: Municipality of Berat; and authors' calculations.

²² The Administration of the small business tax/simplified profit tax as of 1 January 2014 was transferred to the General Directorate of Taxes under the Ministry of Finance.

PI	Dimension	Score	Justification for score
PI-3	Revenue outturn	D	Scoring Method M2.
3.1	Aggregate revenue outturn	D	Collection revenue (in relation to originally budgeted estimates) averaged 76%; 84% and 80% in 2013, 2014 and 2015, respectively.
3.2	Revenue composition outturn	D	Variance in revenue composition was more than 15% in the past three years: 29% in 2013 and 2015, and 30% in 2014.

Ongoing reforms

A new law on local government finance is currently under discussions with Government and stakeholders. Early drafts of this law include the introduction of some fiscal rules, including the need for “realistic estimate of revenues”.

3.2 Transparency of public finances

PI-4 Budget classification

This indicator assesses the extent to which the government budget and accounts classification is consistent with international standards. There is one dimension for this indicator - dimension 4.1 budget classification. It covers budgetary municipal government and is assessed on the last completed fiscal year.

The chart of accounts used for the preparation, execution and reporting (including accounting) of the 2015 budget through the Treasury system is based on the Law 9936/2008 “On the Management of the Budgetary System in the Republic of Albania” and is based on the following classifications:

- Administrative classification, which reflect the general government units by type (central government unit, local government unit, extra budgetary funds); as well as sub-classifications to the level of spending unit. Hence, expenditures of the Municipality of Berat are classified by each budgetary institution/i.e. cost-centre;
- Economic classification, which classifies transactions by the economic nature (including codes for current expenditures, capital expenditures, as well as revenues, to the 7-digit level);
- Functional (and sub-functional) classification, which reflects the expenditure in line with the functions or objectives it aims to achieve. The system is based on 10 main functions, in line with COFOG classification. A programme classification is also embedded into the system, which identifies budgetary programmes, sub-programmes and projects. Functional classification is detailed to a 5 digit level, where the last 2 digits are used to identify programmes within functions and sub-functions. The Municipality of Berat plans and reports expenditures in 8 out of the 10 main functions in 2015²³, and reports programmes at the sub-functional level;
- Classification by source of financing – includes data on the source of financing by 5 different types (2 main types of local governments, general government financing, and own revenue).

The Municipality of Berat prepares and monitors its budget based on the above classifications. All expenditures are managed through the Albanian Government Financial Information System (AGFIS), an Oracle based system that went live since 2010 for central government entities (line ministries). However, the classification system used for the budget is not consistently applied. Programme expenditure is broken down by economic classification for recurrent expenditures only, and the administrative classification is implicit but clear (budgetary institutions of the municipality

²³ Local governments do not have any expenditure related with the defence and health functions.

own the full budget programmes they are responsible for). In particular, capital expenditures are not allocated to programmes at budget adoption stage. Budget (cash flow) management plans are however prepared and submitted to Treasury, containing a more thorough classification of the budget, notwithstanding the fact that some minor errors and omissions persist.

PI	Dimension	Score	Justification for score
PI-4	Budget classification	A	The 2015 budget classification is based on economic, administrative and functional (and sub-functional) classification and is generally compatible with the GFS 2014 and COFOG standards.

Ongoing reforms

The Ministry of Local Issues and the STAR project are reportedly going to revise the budget classification system for local governments to fully comply with the recent changes in the decentralisation framework as well as aim towards the unification of budget programmes (one level below sub-functions) used at subnational level. These activities are expected to take place within 2017.

PI-5 Budget documentation

This indicator assesses the comprehensiveness of the information provided in the annual budget documentation, as measured against a specified list of basic and additional elements. There is only one dimension for this indicator.

The assessment of performance on this indicator is based on the contents of the municipal budget document for FY2016²⁴

Full description of PEFA 2016 requirements	Requirements fulfilled? (Yes/No)	Information included in 2016 budget
Basic elements:		
1. Forecast of the fiscal deficit or surplus or accrual operating result.	Yes	Budget balance on cash basis is presented in the decision of the local council. It is not however included in the budget document.
2. Previous year's budget outturn , presented in the same format as the budget proposal.	No	The budget document presents an overview of the revenue performance in the previous 5 years for the main categories of revenues; and Statement 13 presents the outturn for recurrent expenditure for the previous 5 years. The budget does not present capital expenditures in the same format.
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.	Yes	The first sections of the budget document submitted to the local council present an analysis of the budget outturn for 2015. The revenue and expenditure statement contained in decision of the council of the approval

²⁴ Source: Decision of the Berat Municipal Council "On the Approval of the Budget Outturn for 2015" No. 56 dated 28.12.2015; Decision of the Berat Municipal Council "On the Approval of the Budget for Year 2016" No. 58 dated 28.12.2015; Analysis of the Economic and Financial Activity of year 2015 and the Budget Estimate of year 2016, budget document submitted to council.

Full description of PEFA 2016 requirements	Requirements fulfilled? (Yes/No)	Information included in 2016 budget
		of the 2015 budget outturn is presented in the same format as the approval of 2016 budget.
4. Aggregated budget data for both revenue and expenditure according to the main heads of the classifications used, including data for the current and previous year with a detailed breakdown of revenue and expenditure estimates.	No	Aggregated budget data for revenue and expenditure (a combination of program and line item classification) for 2016 shown in statement 3. No data for 2015 and 2014 shown for comparison. Details of revenue and expenditure shown in statement 25 (revenue) and statement 48 (recurrent and capital expenditure).
Additional elements:		
5. Deficit financing , describing its anticipated composition.	Yes	Data on payment of loan presented as a specific line item in statement 46 (expenditures) under capital outlays, with some details provided with regard to the composition of the loans.
6. Macroeconomic assumptions , including at least estimates of GDP growth, inflation, interest rates, and the exchange rate.	NA	No estimates of economic growth in the municipality, inflation and interest rates are shown. Such information is covered by the national budget instructions issued by MoF and presented in the summary introduction of the budget proposal.
7. Debt stock , including details at least for the beginning of the current fiscal year presented in accordance with GFS or other comparable standard.	No	Only loan repayment is shown.
8. Financial assets , including details at least for the beginning of the current fiscal year presented in accordance with GFS or other comparable standard.	No	No information included.
9. Summary information of fiscal risks , including contingent liabilities such as guarantees, and contingent obligations embedded in structure financing instruments such as public-private partnership (PPP) contracts, and so on.	No	No information included.
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.	No	Tax and non-tax policy changes in revenue measures are explained in chapter 1.1 (revenues from national sources) and chapter A (local revenues) of the budget proposal document but the estimates do not

Full description of PEFA 2016 requirements	Requirements fulfilled? (Yes/No)	Information included in 2016 budget
		show what difference the changes make.
11. Documentation on the medium-term fiscal forecasts. In this element, the content of the documentation on the medium term forecast should include as a minimum medium term projections of expenditure, revenue, and fiscal balance.	No	The Municipality of Berat did not prepare a medium term budget forecast for 2016 – 2018. Previous years statements include a detailed breakdown of revenue in the medium term for each of the years 2015, 2016 and 2017. Expenditure estimates in 2015 were presented for recurrent and capital expenditure aggregates for 2015, 2016 and 2017. ²⁵
12. Quantification of tax expenditures. In this element, tax expenditure refer to revenue foregone due to preferential tax treatments such as exemptions, deductions, credits, tax breaks, etc.	No	Tax expenditures are limited to tax exemptions for vulnerable families or individuals. However, no estimate of the value is shown in budget documentation.

PI	Dimension	Score	Justification for score
PI-5	Budget documentation	D	Only the requirements for two of the four basic elements are fulfilled and one of the additional eight requirements are fulfilled.

Ongoing reforms

No ongoing reforms have been identified.

PI-6 Government operations outside financial reports

This indicator measures the extent to which government revenue and expenditure are reported outside the government's core financial reports. It covers then entire municipal government sector and the last completed fiscal year²⁶. It contains the following three dimensions and uses the M2 (AV) method for aggregating dimension scores:

- Dimension 6.1. Expenditure outside financial reports
- Dimension 6.2. Revenue outside financial reports
- Dimension 6.3 Financial reports of extra-budgetary units

In Berat, three potential sources of extra-budgetary operations were identified²⁷, namely i) operations of semi-autonomous institutions; ii) donations and sponsored projects or community contributions to municipal projects; and iii) earmarked grants from the central government.

The semi-autonomous institution was the Transport Park, which has been running at loss for several years. It was dissolved in 2015 and the service was outsourced to a private company. Its

²⁵ Municipality of Berat, Medium term budget programme 2015 – 2017.

²⁶ The assessment covers the pre-Tar municipality between January and July 2015 and the post Tar municipality for August – December 2015. The budgets and financial statements oof all units were consolidated into one budget and one financial statement in July 2015.

²⁷ Through meetings with HSC, Director of Finance.

revenue and expenditure appears to have been included fully in the budget reports. Rules for the administration of revenues required that income from travel tickets be disbursed directly to the Treasury account. It must be noted however that such revenue was mostly received in cash.

The second potential source of operations outside financial reports are donations and sponsored projects, which provide revenue to the municipality both in cash and in kind. Donations and sponsorships in-kind are recorded by the Finance Department. They are not included in budget estimates and budget execution reporting. The total value of donations and sponsorships in-kind amounted to 1.1 million of ALL in FY 2015. The cash balance from donations of previous years amounted to 2.1 million of ALL as of 1 January 2016, of which 1.76 million of ALL had been used during the January – September 2016 period. Contributions in cash are determined by the agreement entered with the donor. In the case of the municipality of Berat cash donations between 2013 and 2015 have been received directly in the budget of the municipality. In kind donations are registered in the balance sheet of the municipality at handover.

The municipality has a special bank account for the management of the loan repayments, which was transferred to the municipality in 2014. The bank account was previously managed by the PIU under the central government and was used for the disbursement of the loan and subsequently used to fulfil its purpose. Following the dissolution of the Project Implementation Unit in charge of the social housing project. The bank account was assigned to the municipality and revenue from social housing rent is collected into this account.²⁸

According to HSC, audits had revealed examples of contributions to local government projects collected from local communities, but not properly accounted for and handled outside the budget of the responsible local government unit. While it could not be excluded that such contributions had been made within the Berat Municipal territory, there was no evidence to suggest that such extra-budgetary funds had been collected under Berat Municipality or the former communes now merged with the municipality.

It should be noted that the Water Supply and Sewerage Company acts as a revenue collection agent on behalf of Berat Municipality, in addition to its core business of supplying water financed by user charges. The fee it collects as an agent, however, is handled as other revenue in terms of budgeting and reporting, ref. PI-19 and PI-20, and therefore is not extra-budgetary.

The third – and largest – funds received by the Berat municipality that is not reported in the consolidated budget, are earmarked grants for delegated functions (Civil Registry, National Business Centre, Social Benefits) and Regional Development Fund grants. These are reported as off-budget items in budget execution reports and are included in the financial statements of the municipalities. These are therefore fully reported in the core financial reports.

6.1 Expenditure outside financial reports

Expenditures financed through earmarked grants from the national budget are not included in the budget of the municipality of Berat as adopted by the municipal council. The size of these funds is significant, exceeding the size of the own budget of the municipality by 36% in 2013 and more than twice in 2014 and 2015 (See PI-1 and HLG-1) and they are essentially left outside the scrutiny of the municipal budget. In these cases the municipality acts as a paying agent on behalf of the central government and are subject to controls by the central government through the responsible line ministry and treasury function. This role is more prominent in the earmarked funding in the general public service programme. However, in the case of investment grants from the Regional Development Fund, the municipality is responsible for procuring funds and overseeing

²⁸ Further information is yet to be obtained on this loan.

implementation. This project cycle is carried out without any substantial oversight by the legislative body of the municipality. The funds are fully reported in core financial reports. Nevertheless it should be noted that financial statements are not subject to council's review and/or are not audited by independent parties.

No expenditure has been identified outside financial reports. Cash donations are included in the budget. For in-kind donations, expenditure is carried out by the donor in accordance with an agreement with the municipality. The goods/services/assets acquired thereof are then transferred to the municipality and recorded in its balance sheet.

6.2 Revenue outside financial reports

Income from earmarked grants from the national budget is reported off-budget but included in financial statements (see PI-6.1).

Donations by private entities are usually included in the budget and transferred through the treasury account. In some cases, in-kind donations for the purchase of assets are not included and/or reported in the budget, but are later accounted for as assets in the financial statements. There is no information on any in-kind donation or type of revenue outside financial report during FY 2015.

There appear to be no institutions or departments receiving revenue in cash any longer during 2015. According to a High State Control Audit²⁹, such practice was predominant with the receipt of nursery and kindergarten fees by the Economic Centre of Education (ECE) until 2013. It was discontinued since 2014, when all payments to the ECE can only be made by bank or through the post office. Similarly, the dissolution of the formerly semi-autonomous Transport Park has minimised the risk of extra-budgetary revenue in the sector.

6.3 Financial reports of extra-budgetary units

Berat Municipality has not operated any extra-budgetary units since early 2015.

PI	Dimension	Score	Justification for score
PI-6	Government operations outside financial reports	A	Scoring Method M2.
6.1	Expenditure outside financial reports	A	Expenditure outside the municipality's budgetary reports is estimated at 0% of total expenditure.
6.2	Revenue outside financial reports	A	Revenue outside the municipality's budgetary reports is estimated at 0% of total expenditure.
6.3	Financial reports of extra-budgetary units	NA	No extra-budgetary units were identified under Berat Municipality.

Ongoing reforms

No ongoing or planned reforms were identified in this area.

PI-7. Transfers to subnational governments

This indicator assesses the transparency and timeliness of transfers from central government to subnational governments with direct financial relationships to it. It considers the basis for transfers from central government and whether subnational governments receive information on their allocations in time to facilitate budget planning.

²⁹ On the Audit in the Municipality of Berat 2011 – 2013; dated June 2014, <http://www.klsh.org.al>.

It contains the following two dimensions and uses the M2 (AV) method for aggregating dimension scores:

- Dimension 7.1. System for allocating transfers
- Dimension 7.2. Timeliness of information on transfers

PI	Dimension	Score	Justification for score
PI-7	Transfers to subnational governments	NA	Scoring Method M2.
7.1	System for allocating transfers	NA	Dimension not applicable for as there are no lower levels of government
7.2	System for allocating transfers	NA	Dimension not applicable for as there are no lower levels of government.

PI-8. Performance information for service delivery

This indicator examines the service delivery performance information in the Municipality's budget proposal or its supporting documentation in year-end reports. It determines whether performance audits or evaluations are carried out. It also assesses the extent to which information on resources received by key local service delivery units is collected and recorded.

It contains four dimensions and uses the M2 (AV) method for aggregating dimension scores:

- Dimension 8.1. Performance plans for public service delivery
- Dimension 8.2. Performance achieved for service delivery
- Dimension 8.3. Resources received by public service delivery units
- Dimension 8.4. Performance evaluation for service delivery

According to the current local government legislation³⁰, the Municipality is responsible of providing information on service programs and develop and implement "an indicator system to measure (service) performance. It also requires that a special unit within Municipalities is created for presenting, overseeing and monitoring the performance of public services in compliance with the regional and national policies. The Municipality of Berat's Planning Unit has not been provisioned with the necessary technical capacities to perform the economic policy and planning and M&E functions meaningfully.

8.1. Performance plans for public service delivery

Only the general objectives and activities of major public services and local programs are described in the budget documentation without setting any specific targets with which to measure the effective and efficient use of resources. The medium term budget document presents programme objectives and planned outputs, but output and outcome indicators are missing. Furthermore, the MTBP document is not published.³¹ The budget document contains very limited information on the outputs to be produced during the following budget year, but these are focused mainly on capital projects and rarely quantifiable. Hence, there is presently no way to determine the extent to which the provision public services has improved and the program objectives have been met. There is no published annual information on the current status (baseline) and the departmental input on the desired level of improvement (outcome) together with a realistic plan specifying the amount and

³⁰ Article 22 (*Principles of Exercising the Functions*), Article 28 (*Exclusive Functions of Municipalities in Local Economic Development*), and Article 33 (*Instruments to Administer Public Services*), Law No. on Local Self-Governance.

³¹ The council's decision on the approval of the MTBP is published on the website of the municipality, but it does not contain the actual budget documentation. <http://www.vendime.al/wp-content/uploads/2015/06/Vendim-i-Keshillit-Bashkiak-Berat-Nr.30-Date-29.07.2014.pdf>.

quality of resources (staff resources, equipment, or infrastructure) and activities (outputs) required over a period of one to three years annually.

8.2. Performance achieved for public service delivery

Information on the annual activities performed by the majority of departments and programs is not reported routinely in the budget documentation or other financial or management reports. At present, there is no information that is published annually on the quantity of outputs produced and outcomes achieved for the major departments or programs as yet.

8.3. Resources received by public service delivery units

Information on resources received has been reported for the period 01 January 2013 to 31 December 2013 for the Economic Centre of Education (ECSD), which is among the main service delivery unit of the municipality that collects revenues, as part of an internal audit conducted by the Internal Audit Unit in September 2014. The audit aimed at assessing the teaching and food services received by the students, among other aspects. Their expenditures amounted to an equivalent of 16% of the total budget. The department (enterprise) of road maintenance was also audited for the period January – December 2015 by the Internal Audit Unit, with a focus on analysing its financial performance in the amount of 43 million of ALL, or 10% of the total municipal budget.

Other major service delivery units were not part of annual surveys or audits in the past three fiscal years.

8.4. Performance evaluation for service delivery

Independent evaluations of the efficiency and effectiveness of service delivery have not been carried out and published for the major Programs or Departments at least once within the last three years.

PI	Dimension	Score	Justification for score
PI-8	Performance information for service delivery	D+	Scoring Method M2
8.1	Performance plans for service delivery	C	Information is published annually, with a focus only on the mission and objectives of all service delivery programs. No quantifiable information is provided on the output and outcomes to be achieved for next budget year.
8.2	Performance achieved for service delivery	D	Information is not published on the activities performed with the respective output (and outcome) indicators for the majority of service programs and departments.
8.3	Resources received by service delivery units	C	An internal audit has been carried out for the past three fiscal years only for two major service delivery programs.
8.4	Performance evaluation for service delivery	D	Evaluations of the efficiency or effectiveness of main public service delivery services have not been carried out within the last three years.

Ongoing reforms

No ongoing reforms have been identified.

PI-9. Public access to fiscal information

This indicator assesses the comprehensiveness of fiscal information available to the public based on specified elements of information to which public access is considered critical. There is one dimension for this indicator which covers the last 12 months.

As part of the Municipality's policy of ensuring transparency, consultation and participation to the local citizens, the current local government legislation³² requires that:

1. The local self-government units shall guarantee transparency of their activity to the public;
2. Every administrative act of the local self-government unit shall be published in the official website of the local self-government unit and shall also be posted up in places designated by the local unit for public notices;
3. Every local self-government unit shall appoint a coordinator of transparency and adopt a transparency program ensuring access to all, particularly to the poorest layers of population, in conformity with the provisions of the applicable law on the right to information.

Furthermore, the Municipality is required that its directorates keep accounts "in conformity with the applicable legislation and provide information or financial reports on preparation and implementation of budget for ensuring transparency to the local citizens".

The Municipality has its own website as well as a Facebook page. The website provides general information on the history, opportunities and events in the municipality of Berat. It also provides hyperlinks to an external page that publishes all decision of the local council (www.vendime.al), as well as a hyperlink to the Open Data website which presents spending data of the municipality. The format of presentation is however quite difficult to work with.³³ The municipality holds community hearings on its fiscal policy and budget prioritization process.

Accordingly, the following is the summary of key fiscal documents for which the local citizens have access to.

Element	Fulfilled? (Yes/No)	Reference / Means of publication
<u>Basic elements:</u>		
1. Annual executive budget proposal documentation for 2016. A complete set of executive budget proposal documents (as presented in PI-5) is available to the public within one week of the executive's submission of them to the Council.	No	The complete set of budget proposal documents is not published. The municipality of Berat held a series of budget hearings with programmatic and territorial focus between October and December 2015. These meetings were published on the Municipality's Facebook page. ³⁴ One day after the budget approval, on December 29, 2015 the municipality informed the citizens on the approval of the budget for 2016.

³² Article 9 (*Right and Responsibility to Collect Revenues and Make Expenditures*) and Article 15 (*Transparency of the Activity of Local Self-Government Units*), Law 139/2015 on Local Self-Governance.

³³ Municipality of Berat:
http://spending.data.al/sq/treasuryservice/view/inst_code/2102001/year/2015/dep_inst/2102003/from_date_reg/2015-01-01/to_date_reg/2015-12-31/from_date_ekz/2015-01-01/to_date_ekz/2015-12-31.

³⁴ <https://www.facebook.com/profile.php?id=100010116790877>.

Element	Fulfilled? (Yes/No)	Reference / Means of publication
2. Enacted budget for 2016. The annual budget law approved by the Council is publicized within two weeks of passage of the law.	No	The budget approval decision is posted on the website of the Municipality of Berat. ³⁵ . On January 25 th , 2016 ³⁶ . It was adopted on December 28, 2015. Decisions are usually posted within one week from the Prefect conformity approval, which typically exceeds two weeks from the date of adoption.
3. In-year budget execution reports for 2016. The reports are routinely made available to the public within one month of their issuance, as assessed in PI-28.	No	Year-to-date budget execution monitoring reports are issued within the Municipality, with aggregation of expenditure items by programmes and spending on a monthly basis. These, however, are for internal use only, not released to the public.
4. Annual budget execution report for 2015. The report is made available to the public within six months of the fiscal year's end.	No	The decision of the local council on the approval of the budget outturn for 2015 is published on the website (http://www.vendime.al/wp-content/uploads/2016/01/Vendim-i-Keshillit-Bashkiak-Nr.1-date-20.01.2016.pdf). It however contains only general information on budget execution, by the main categories of expenditures and revenues. The more detailed budget execution report is not published.
5. Audited annual financial report for 2014, 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.	No	The annual financial reports of the municipality are not audited. There has been no qualified opinion by High State Control on the Municipality's 2014 consolidated financial statements.
<u>Additional elements:</u>		
6. Pre-budget Statement for fiscal years 2016 and 2017. The broad parameters for the executive budget proposal regarding expenditure, planned revenue, and debt are made available to the public at least four months before the start of the fiscal year.	No	No pre-budget statement is prepared except for the preliminary MTBP which is not availed to the public. The municipality holds community hearings to present its priorities for the budget and receive feedback from the community.
7. Other external audit reports issued during the past 12 months. All non-confidential reports on	Yes	2014 and 2015 audit reports for the Municipality of Berat were made available by the High State Control agency to the public in its website within twelve months of end of fiscal year. For ease of

³⁵ <http://www.vendime.al/wp-content/uploads/2016/01/Vendim-i-Keshillit-Bashkiak-Nr.58-date-28.12.2015.pdf>.

³⁶ <http://www.vendime.al/wp-content/uploads/2016/01/Vendim-i-Keshillit-Bashkiak-Nr.58-date-28.12.2015.pdf>.

Element	Fulfilled? (Yes/No)	Reference / Means of publication
the municipality's consolidated operations are made available to the public within six months of submission.		reference see http://www.klsh.org.al/web/Auditime_Rregullshmerie_1931_1.php <u>The audit reports relate to organizational matters affecting financial management of the Municipality, as well as compensations for financial losses and administrative measures.</u>
8. Summary of the budget proposal for 2016. 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	No	A Citizen budget has not been developed for the Municipality.
9. Information on fees, charges, and taxes that belong to the subnational government (for 2016). The information is publicly available and up to date.	Yes	The full decision of the council on the approval of the system of local taxes and fees is published on the website of the Municipality of Berat. (http://www.vendime.al/vendim-i-keshillit-bashkiak-nr-57-date-18-12-2015/), It is not however very user-friendly.

PI	Dimension	Score	Justification for score
PI-9	Public access to fiscal information	D	The Municipality makes available to the public none of five basic elements, and two of the additional information elements.

Ongoing reforms

Municipality's Communication and Public Relations Department is in the process of improving the Municipality's website capacities and public notice board.

3.3 Management of assets and liabilities

PI-10 Fiscal risk reporting

This indicator measures the extent to which fiscal risks to municipal government are reported. Fiscal risks can arise from adverse macroeconomic situations, financial positions of subnational

governments or public companies, and contingent liabilities from the municipal government's own programs and activities, including extra-budgetary units. They can also arise from other implicit and external risks such as market failure and natural disasters. This indicator contains the following three dimensions and uses the M2 (AV) method for aggregating dimension scores:

- Dimension 10.1 Monitoring of public corporations
- Dimension 10.2 [Not relevant to the municipalities]
- Dimension 10.3 Contingent liabilities and other fiscal risks

10.1. Monitoring of municipal corporations

The Municipality holds an equity participation in the Water and Sewerage Company of Berat-Kucova and FK Tomori Berat Football Club, with stakes of 68% and 100%, respectively. The Municipality has maintained a majority position in the shareholding of the Company since 2008³⁷ and is represented in the Company's Supervisory Board for annual review meetings.

There is no consolidated annual reporting on the performance of the equity investments made by the Municipality in the state corporate sector. There is no audited financial statements on the Water and Sewerage Company and FK Tomori Club and the inherent financial risks to the Municipality, only the Water Supply and Sewerage Company has been subject to a special audit recently³⁸ and any financial reports are available only for internal use of the Municipality, not available to the public.

There has been a comprehensive special audit conducted by High State Control and completed on 5 December 2014. Its purpose was to review the effectiveness of financial management and internal controls and the functioning of governance structures (assembly of shareholders, Supervisory Board, and CEO), as well as the design and implementation of a performance program, organization of bookkeeping and issuing of financial statements, property inventorying and asset valuation, debt collection, and procurement of public funds for rendering of goods and services, among others. The audit identified several deficiencies and served the Company's management board to prepare an action plan and implement a series of corporate reforms and administrative measures starting 2015³⁹.

10.2 Monitoring of lower levels of government

Dimension not applicable as there is no lower tier of sub-national government.

10.3 Contingent liabilities and other fiscal risks

³⁷ Like the vast majority of water supply and sewage companies in Albania, both the Berat Water and Sewerage Company and the Kuçova Water Supply and Sewerage Company were transformed into commercial companies, with the legal status of a Joint Stock Company, respectively with Court Decision No.24148 dated 17.07.2000 and Court Decision No.26008 dated 21.06.2001. The shares and ownership rights in these Joint Stock Companies, at the time of transformation, remained with the State, under the administration of the Ministry of Economy, Energy and Trade, as sole owner, until the transfer of ownership to local government took place on 1 January 2008, based on the Council of Ministers Decision No.660 dated 12.09.2007. The Merger of Berat and Kuçova former municipal water and sewerage companies has been formalized, in a legal, binding agreement negotiated between the shareholders of those two companies, and has been registered in the Court of Tirana. The main driver for this aggregation was the requirement of the German Development Bank (KfW) that it would only fund the gravity transmission line from the Berat system to the Kucova system, if the two companies were merged together. The investment allowed the Kucova system to realize a significant savings on energy cost, while investment in network infrastructure and equipment, such as water meters and piping for networks renovation, will allow the aggregated company to sustainably improve its service performance.

³⁸ High State Control, "Final Audit Report on the Financial Compliance and Evaluation of the Water and Sewerage Company of Berat-Kucova", Department of Local Government Budget, Control of the Territory, and Asset Administration, Nr. 992/7 of 28 February 2015.

³⁹ See (1) Letter of Response by Mr. Fatmir Shehu, Director, Water and Sewerage Company of Berat-Kucove, dated 20 March 2015; (2) "Action Plan-Implementation of Tasks HSC", based on the final report and recommendations addressed by High State Control to JSC Water and Wastewater Berat-Kucova No. 992/7, dated 28.02.2105, with the draft measures and action plan, to be followed and implemented by Department of JSC Directors Berat-Kucova Water Supply and Sewerage Company; and (3) "Report on the Implementation of recommendations issued by High State Control", JSC Water Supply and Sewerage Company of Berat-Kucova, 2016.

There is no consolidated report available to the public quantifying contingent liabilities for the Municipality and its public corporations, except for some significant ones such as pensions and health insurance schemes for staff working in the municipality. Similar to other municipalities, guarantees to investment loans in the water sector had been issued by the Ministry of Finance and are informed to the public in its annual financial reports. There is no provisioning in the accounts of the Municipality to act against a major calamity, labour unrest or court litigations, or other contingency that could lead to bankruptcy or disruption in the supplying of water services.

PI	Dimension	Score	Justification for score
PI-10	Fiscal risk reporting	D+	Scoring Method M2.
10.1	Monitoring of municipal corporations	D	There is a no consolidated report issued and monitored within the Municipality on the municipal entities' financial outturn and net assets value. No audited financial statements had been issued and published for the Water and Sewerage Company and/or the FK Tomori Football Club in the past three years. HSC conducted only a special audit on the effectiveness of financial management and internal controls of the Company in 2015. There is no central finance function responsible in the Municipality for monitoring the two companies above and assessing the financial risks to the City on an annual basis. There is no evidence supporting the municipality received annual financial statements to assess and publish the financial performance and risks by the one largest of the two public corporations in the last completed FY.
10.2	Monitoring of lower levels of government	NA	Not applicable. Not scored as there is no subnational level below municipalities.
10.3	Contingent liabilities and other fiscal risks	C	There is no consolidated financial report issued by the Municipality that assesses the overall significant risks and contingent liabilities within its service delivery operations and the public corporations under its control. The Water and Sewerage Company quantifies and consolidates some significant contingent liabilities such as pensions and insurance funds in their annual financial reports, according to the evidence WSC provided to the assessors. Loan guarantees issued by MOF are recorded in its financial reports. Other contingent liabilities such as fire or other calamity or emergency, or court litigations are not included.

Ongoing reforms

The municipal entity has agreed with KfW on a five year corporate restructuring plan, as a condition to the funding of 4.7 million euros for upgrading of the infrastructure pipeline network out of a 6.6 million euros investment plan for Kucova and Berat in its first phase 2013-2020. The municipality has contributed with 950,000 euros funded by the Municipality.

PI-11 Public investment management

This indicator assesses the economic appraisal, selection, costing, and monitoring of public investment projects by the government, with emphasis on the largest and most significant projects.

The indicator contains the following four dimensions and uses the M2 (AV) method for aggregating dimension scores:

Dimension 11.1 Economic analysis of investment projects

Dimension 11.2 Investment project selection

Dimension 11.3 Investment project costing

Dimension 11.4 Investment project monitoring

11.1. Economic analysis of investment projects

There are no public investment guidelines requiring cost-benefit analyses for assessing the economic feasibility and social and environmental impact of local investment projects proposed for the new budget year. According to the Public Works Department's Project Planning Unit, projects proposed for the 2016 budget were not provided with the economic feasibility analysis or reviewed by an independent technical body outside the Municipality.

11.2. Investment project selection

Prior to their inclusion in the budget, most investment projects of the City are prioritized by the Public Works Department's Planning Unit within the spending limit approved. Decisions are made internally on the basis of lowest cost or most voted amongst local citizens, not on published standard criteria set out on the basis of national or regional development policies.

Dimension 11.3. Investment project costing

It is required by the Amended Law No. 9936/2008 on the Budget Management System, Article 29, that estimates of the cost of major investment projects, along with a year-by-year breakdown of the costs for the next three fiscal years, are included in the budget documentation. These, however, include only the capital costs of projects. Repairs and parts, maintenance and other recurrent costs of projects and forward estimates are not assessed in the total cost.

Dimension 11.4. Investment project monitoring

Only the capital expenditure and physical progress of major investment projects is monitored during project implementation by the Public Works Department's Project Implementation Unit. Issues on potential cost overrun thus requiring additional capital and operating resources are not assessed during project monitoring. There are Standard Operating Procedures for project implementation and monitoring, but have not been updated for the past eight years. Information on the implementation of major investment projects is published in economic reports and informed to the Head of Department on a quarterly and annual basis.

PI	Dimension	Score	Justification for score
PI-11	Public investment management	D+	Scoring Method M2.
11.1	Economic analysis of investment projects	D	Economic analyses are not carried out to assess the feasibility of the major investment projects proposed for new year's budget.
11.2	Investment project selection	C	Prior to their inclusion in the budget, most major investment projects with identified funding are prioritized internally by the Department of Public Works. These, however, are not selected on the basis of standard or clearly defined criteria for project selection following national or regional development priorities.

PI	Dimension	Score	Justification for score
11.3	Investment project costing	C	Projections of capital cost of major investment projects, together with the capital costs for the forthcoming two fiscal years, are included in the budget documents.
11.4	Investment project monitoring	D	Only the capital expenditure aspects and physical progress of major investment projects is monitored and reported by the Public Works Department on an annual basis. Matters relating to operating and maintenance do not form part of the monitoring of project costs.

Ongoing reforms

No ongoing reforms have been identified.

PI-12 Public asset management

This indicator assesses the management and monitoring of government assets and the transparency of asset disposal. It contains the following three dimensions and uses the M2 (AV) method for aggregating dimension scores:

- Dimension 12.1 Financial asset monitoring
- Dimension 12.2 Non-financial asset monitoring
- Dimension 12.3 Transparency of asset disposal

12.1. Financial asset monitoring

As noted in Section 2.3, the Municipality holds an equity participation in the two commercial corporations⁴⁰. Information on the performance of financial assets, however, do not appear in the Municipality's annual financial reports. Dividends and other investment returns are not reported. Accounting rules and standard criteria for the valuation and management of financial assets are lacking.

There is a Statement on Resources and Costs Associated with Investments (Formati nr. 4) and a Statement on State Assets and Changes in Gross Value (Formati nr. 6) that form part of the consolidated annual financial statements that are submitted to local council and MOF within six months of the end of the year. These financial reports, however, do not provide the necessary information for exercising the financial asset monitoring function.

12.2. Non-financial asset monitoring

The Municipality maintains a register of its holdings of fixed assets, which are recognized at their acquisition cost or fair value all depending on the type of asset (i.e., tangibles/intangibles). A detailed asset management report is also consolidated and submitted to the local council, as part of the annual financial statements (Formati nr. 6).

Separate reports with information on the fixed assets' usage and age are prepared on an annual basis, which include assets that have been reported by communes, but the information is severely weakened by errors and gaps in the legal documentation, litigations in Court, and other problems associated with ownership (such as fixed assets of communes not adequately registered, others not disposed at all, thus causing troubles to determining the net book or worth value). Adding to this, the fixed assets registry is beset with gaps of information from the Water and Sewerage Company, for which the Municipality is now entirely responsible by law.

⁴⁰ As of 31 December, 2015 the participation in the Water and Sewerage Company amounted to 79,075,000 ALL, according to supporting evidence submitted to MOF.

12.3. Transparency of asset disposal

Instructions on disposal of financial assets and buildings⁴¹ have been established in May 2016, which introduces a method with which to account for old, useless, or irrecoverable items and addresses various discrepancies arising in the asset records by communes. Only partial information on asset transfers and disposals has been consolidated and reported to the local council in 2015 (Formati nr. 6—State of assets and changes during the year), as part of the annual financial statements.

PI	Dimension	Score	Justification for score
PI-12	Public asset management	D+	Scoring Method M2.
12.1	Financial asset monitoring	D	There is no recorded value of the Municipality's equity shares in the public corporations. Information on financial performance is prepared but <u>not</u> published annually.
12.2	Non-financial asset monitoring	C	Fixed asset registry operating sub-optimally, with only partial information being collected on their usage, age, location, and net value.
12.3	Transparency of asset disposal	C	Partial information included in annual financial reports and submitted to the local council, not disclosed to the public.

Ongoing reforms

(1) Communes and Municipality are working together in the process of surveying all existing capital assets with a view to providing a more accurate valuation of the municipal property. Six out of twenty four communes under the territorial control of the Municipality are in the process of completing the inventorying work. (2) A process of assessing fixed assets is underway with STAR assistance since January 2016. (3) A commission is being set up and chaired by the Mayor, with the purpose of taking stock of the physical condition of properties and deciding on assets to be disposed of.

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.

The indicator contains the following two dimensions relevant to municipalities, which are assessed on the basis of the last 12 months, and uses the M2 (AV) method for aggregating scores:

Dimension 13.1 Recording and reporting of debt and guarantees

Dimension 13.2 Approval of debt and guarantees

Dimension 13.3 [Is not relevant to municipalities]

13.1. Recording and reporting of debt and guarantees

The Municipality of Berat has no new medium- or long-term public loans recorded over the past three fiscal years and the balance of the only outstanding debt with the Council of European Development Bank is not reported in the annual financial statements.

Table 3.6 Municipality of Berat—Outstanding debt obligations (In millions of ALL)

⁴¹ A new instruction No. 118 was added on 6 May 2016 to the existing Financial Instructions No. 30 of 27 December 2011.

Code/Description	As of Dec 31, 2013	As of Dec 31, 2014	As of Dec 31, 2015
Medium- and long-term liabilities			
16-Domestic	0.0	0.0	0.0
17-Foreign	Not available	Not available	Not available

Source: Municipality of Berat.

13.2. Approval of debt guarantees

Primary legislation grants authorization for Municipalities to borrow and issue new debt, and for the MoF to issue loan guarantees on behalf of the central government to Municipalities. Documented policies and procedures provide guidance for undertaking borrowing and other debt-related transactions and issuing loan guarantees to one or several entities. These transactions are reported to and monitored by the MoF. Annual borrowing must be approved first by the local council.

PI	Dimension	Score	Justification for score
PI-13	Debt management	C	Scoring Method M2.
13.1	Recording and reporting and debt and guarantees	D	Debt owed to the Council of European Development Bank is not reported in the annual financial reports.
13.2	Approval of debt guarantees	B	Guaranteeing of municipal loans is controlled solely by MoF including approval, recording, and monitoring.
13.3	Debt management strategy	NA	This dimension is not used - as set out in the concept note.

Ongoing reforms

No ongoing reforms have been identified.

3.4 Policy-based fiscal strategy and budgeting

PI-14 Macroeconomic and fiscal forecasting

This indicator measures the ability of the municipality to develop robust fiscal forecasts, which are crucial to developing a sustainable fiscal strategy and ensuring greater predictability of budget allocations. Only one dimension of this indicator is considered relevant to municipalities in Albania, namely dimension 14.2 'Fiscal forecasts' which covers the entire municipal operations and is assessing the last three completed fiscal years.

The dimensions 14.1 'Macroeconomic forecasts' and 14.3 'Macro-fiscal sensitivity analysis' are relevant to the central government only as set out in the concept note.

14.2 Fiscal forecasts

The Municipality of Berat did not prepare a medium term budget forecast for the 2016 – 2018 period, due to the hardships encountered in the process of financial consolidation of the municipality in the aftermath of the territorial reform and the transfer of new functions and expenditure responsibilities which were still unknown at the time of preparation of the 2016 budget. In the previous budget cycles the Municipality of Berat has prepared and adopted medium term budget forecasts. MTBP 2015 - 2017 includes forecasts of fiscal indicators for each of the three years FY2015, FY2016 and FY2017. Revenue estimates are presented for each revenue type (as per economic classification), but they don't include details of calculation per year such as tax and fee rates as well as taxable volumes/quantities.

Recurrent expenditure (broken down into staff compensation and other recurrent expenditure) is shown in aggregate for each year, with a detailed breakdown for each year i.e. FY2015, 2016 and 2017. The budget balance is not shown specifically but is very obvious (from a pure cash basis) since the aggregate revenue equals aggregate expenditure in each year. Estimates of capital investment are similarly presented with a breakdown for each project by year, and a short description is included for each project. The MTBP document presents an explanation for loan amortization in the three-year period. FY 2014 was the first year in which principal payment for a Council of Europe sovereign guarantee loan for the construction of social housing facilities became due. All of this information is included in the medium term budget documentation submitted to the Council.⁴² There is no explanation of differences to the previous year's estimates (original Budget FY2014 and MTBP 2014-2017).

The medium term-budget programme 2017-2019⁴³ follows the same format and detail of information of the previous MTBP cycles (2015 – 2017 and 2014 – 2016).

PI	Dimension	Score	Justification for score
PI-14	Macroeconomic and fiscal forecasting	D	Scoring Method M2.
14.1	Macroeconomic forecasts	NA	This dimension is not applicable to the Municipality- as set out in the concept note.
14.2	Fiscal forecasts	D ⁴⁴	During the two years before the last, the municipality has prepared forecasts of revenue and expenditure aggregates for the budget year and the following two years (with fiscal balance implicit but obvious). Explanation of estimates and underlying assumptions were included for recurrent and capital expenditure, and aggregate incomes from revenues. All of this information was included in the budget documentation for the 2014 and 2015 budget cycles. The Municipality did not prepare a medium term budget for 2016 due to the short time available in connection with TAR but has again prepared mid-term forecasts for the 2017-2019 planning cycle.
14.3	Macro fiscal sensitivity analysis	NA	This dimension is not applicable to the Municipality- as set out in the concept note.

Ongoing reforms

No ongoing reforms have been identified.

⁴² Statement 2, Medium Term Budget Programme 2015 – 2017.

⁴³ Version 1, June 2016.

⁴⁴ The methodology for this assessment foresees no score for this indicator due to TAR. The methodology for this assessment foresees no score for this indicator due to TAR, but there is no reason to believe that TAR influenced heavily on the format and content of the budget documentation.

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. It covers the entire municipal operations and contains the following three dimensions and uses the M2 (AV) method for aggregating dimension scores:

- Dimension 15.1. Fiscal impact of policy proposals (the last three fiscal years)
- Dimension 15.2. Fiscal strategy adoption (the last fiscal year)
- Dimension 15.3. Reporting on fiscal outcomes (the last completed fiscal year)

15.1 Fiscal impact of policy proposals

On the revenue side, the MTBP 2015-2017 shows the expected 3-year development in revenue collection but does not provide further details on the individual tax rates and base. The fiscal package and the budget document for 2016, adopted on December 29, 2015 present further details on revenue policy for the following year only. Both documents present a number of changes to the local tax system based on legal requirements following amendments to the relevant legal framework during 2015⁴⁵ as well as the differentiation of tax and fee rates for each of the administrative units. The impact of the proposed changes in fiscal policy has not been assessed in the fiscal package or budget documents. The most significant changes appear to be related with the change in the applicable tax rate for small businesses having an annual turnover up to 5 million of ALL⁴⁶; changes in the indicative rates for property taxes in the different administrative units; changes in the infrastructure impact tax base and rate and the billboard tax.⁴⁷

Revenue estimates are presented in the budget document for each revenue type on the basis of the relevant rate and the taxable base, but do not show the impact of the policy changes. For a few revenue items it explains the increase in revenue from the tax or fee in question. The documents explain that the overall fiscal capacity of the municipality has decreased following the recent legal changes, which warrants the increase in the local fees, namely the solid waste and greenery (landscaping) fee. It is implied, but not clearly stated, that these services are currently subsidised from general-purpose revenues of the municipality and the municipality needs to increase cost recovery due to the restraining fiscal space. The document does not present further analysis or justification of the new proposed tax rate and base.

In the expenditure side, the situation is similar i.e. that the estimates for three years are presented on the basis of the proposed expenditure policy without showing the specific impact of change in policy. According to the Budget Department, however, the policy changes were minimal for FY2016 as spending units were more concerned with updating estimates on the basis of the expanded service area of the expanded municipality. Budget documents from earlier years, covering the pre-TAR municipality only indicate that the situation was no different in those years.

15.2 Fiscal strategy adoption

Municipality of Berat does not have an overall fiscal strategy at present. The MTBP, the budget document and the fiscal package present some elements of a fiscal strategy, but a comprehensive approach is lacking. The fiscal package highlights the detailed changes in tax and fee policy for the following year; the budget documents sets the context for the overall revenue and expenditure policy while the MTBP presents the three year estimates for the budget. No information is provided

⁴⁵ Law 9632/2006 "On the system of Local Taxes and Fees", last amended with Law 142/2015.

⁴⁶ Arguably the simplified profit tax need not be included in the municipal decision in taxes as the municipal administration has no control over the rates or the administration of such tax.

⁴⁷ Fiscal package 2016 and Explanatory note, Budget Document 2016; adopted December 28, 2016.

with regard to fiscal risks, including long-term liabilities of the municipalities such as borrowing or the financial standing of public enterprises it owns (ref. PI-10.1).

On the revenue side, the MTBP 2016-2018 shows the expected 3-year development in revenue collection. The assessors were informed that no changes to revenue policies are expected for this period, following the significant changes decided towards the end of 2015 and effective from FY2016 onwards and the expected changes in the legal framework with the preparation of a local finance law.

Municipalities must operate a balanced annual budget⁴⁸. However, municipalities can take loans for the purpose of financing specific investment projects (with the approval of MOF)⁴⁹. Berat currently has one loan on its books, ref. PI-13. The loan is being serviced regularly by the municipality since 2014, in line with a schedule of payment provided by MoF. The amounts⁵⁰ of debt service are budgeted regularly and paid in full by the municipality.

On the expenditure side, a strategy is also missing e.g. on the level of employment and size of the wage bill as well as how to handle funding of newly delegated functions for which current funding sources and levels are insufficient.

⁴⁸ Law on Local Self-Governance 2015, Article 34.6 and corresponding Article 12 of Law 9936 of 2008.

⁴⁹ Law on Local Self-Governance 2015, article 39 and corresponding provision in the preceding Law 8652 of 2000.

⁵⁰ The structure of the debt service payment is unclear pending further information.

15.3 Reporting on fiscal outcomes

No reporting can be done against a fiscal strategy as such a strategy does not exist.

PI	Dimension	Score	Justification for score
PI-15	Macroeconomic and fiscal forecasting	D	Scoring Method M2.
15.1	Fiscal impact of policy proposals	D	The municipality does not prepare estimates of the impact of revenue and expenditure policy changes but shows only estimates based on changed policy.
15.2	Fiscal strategy adoption	D	The municipality does not have an overall fiscal strategy.
15.3	Reporting on fiscal outcomes	NA	No reporting can be done against a fiscal strategy as such a strategy does not exist.

Ongoing reforms

No ongoing reforms have been identified.

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. It covers the last budget submitted to the Council and contains the following four dimensions and uses the M2 (AV) method for aggregating dimension scores:

Dimension 16.1. Medium-term expenditure estimates

Dimension 16.2. Medium-term expenditure ceilings

Dimension 16.3. Alignment of strategic plans and medium-term budgets

Dimension 16.4. Consistency of budgets with previous year's estimates

16.1 Medium-term expenditure estimates

The municipality did not prepare a MTBP for 2016 – 2018. Previous years' MTBP as well as the MTBP 2017 – 2019 currently under preparation include forecasts of expenditure for each of the three years i.e. FY2017, FY2018 and FY2019. Estimates of wage, other recurrent and capital expenditure are presented under each program with details of the responsible spending unit. A set of policy objectives and a priority list of capital projects are presented for each programme/spending unit but the cost breakdown for each project by year is not presented. An explanation for loan amortization is missing. The absence of medium term forecast plans for the 2015 budget due to the TAR warrants a score of D. The score would have been higher based on practice observed for the two previous years.

16.2 Medium-term expenditure ceilings

No medium-term budget ceilings have been issued by the Group for Strategic Management to the administrative/spending units during the past several years. See further details under 17.2.

16.3 Alignment of strategic plans and medium-term budgets

The municipality of Berat is currently developing its new general Territorial Plan, including its strategic vision for the economic and social development of the city. A previous social economic development strategy expired in 2015; while a Tourism Action Plan covering the timespan 2011 – 2021 is still in force but does not appear to be costed. A territorial development plan for the urban centre of Berat (pre-TAR municipality) has been prepared but focuses land use and zoning. The MTBP and the budget document do not make reference to any strategic document.

16.4 Consistency of budgets with previous year's estimates

The Budget documentation for FY2016 does not provide any comparison of the 2016- expenditure estimates with the expenditure estimates of the budget 2015 or the MTBP 2015 - 2017. As the MTBP 2015-2017 was prepared for the pre-TAR municipality (and for each of the communes), the main difference to the previous year's MTBP estimates is the merger of the municipality with 12 communes through TAR. No merger of the MTBP estimates was done at the time of the merger. This means that a comparison is not particularly useful since it would compare estimates for the pre-TAR municipality with subsequent expenditure estimates for the post-TAR municipality. Every item in the MTBP has changed for this reason. On the other hand, there is no tradition of the budget documentation comparing expenditure estimates of subsequent MTBPs and explaining the difference; the original budget for FY2015 and the MTBP 2015-2017 (and that of the previous year) followed the same format and content as the one for FY2016.

PI	Dimension	Score	Justification for score
PI-16	Medium-term perspective in expenditure budgeting	D	Scoring Method M2.
16.1	Medium-term expenditure estimates	D ⁵¹	Three-year estimates of expenditure are presented in the budget for FY 2015, as the municipality did not prepare a medium term budget due to the limited time available after the territorial reform..
16.2	Medium-term expenditure ceilings	D	No medium-term budget ceilings have been issued to the administrative/spending units during the past several years.
16.3	Alignment of strategic plans and medium-term budgets	D	There are no strategic medium-term development plans on which to base budget priorities and expenditure estimates.
16.4	Consistency of budgets with previous year's estimates	NA	This dimension is not rated as it would not be useful to compare the MTBP 2016-2018 for the new municipality with the estimates of the previous MTBP for the pre-TAR municipality.

Ongoing reforms

A general territorial plan based on strategic objectives for the period to 2020 is being elaborated. It is expected to be presented to the Council in early 2017, and if approved, it would form the basis for medium-term sector plans as an input to the formulation of the MTBP for 2018-2020 onwards.

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. It covers budgetary municipal government and contains the following three dimensions and uses the M2 (AV) method for aggregating dimension scores:

- Dimension 17.1. Budget calendar (covers the last annual budget submitted to the Council)
- Dimension 17.2. Guidance on budget preparation (covers the last annual budget submitted to the Council)
- Dimension 17.3. Budget submission to the legislature (covers the last three annual budgets submitted to the Council)

⁵¹ The municipality did not prepare medium term forecast exceptionally only for the last budget submitted to the local council 2016. The indicator is not applicable in this case. The new MTBP 2017 – 2019, which follows the same structure and level of information as the MTBP 2015 – 2017 and the earlier ones would have received a B score.

17.1 Budget calendar

The last budget submitted to the Council is the budget for FY2016. Law 9936 of 2008 sets out some main steps of the budget calendar as concerns local government units (i.e. municipalities) as outlined in Table 3.7.

Table 3.7 Budget Calendar as per Law 9936/2008 – Selected stages relevant to municipalities

Period	Action
February	MoF shall Issue to all authorizing officers (including at LGUs) a budget preparation instruction which includes: a) unconditional transfers for local government units; b) regulations for sharing or delegating functions between central government units and local government units; and c) methods of calculating unconditional and conditional transfers for local government units.
July 10	MoF shall Issue medium-term budget programme (approved by Council of Ministers) to be accompanied by an annex which includes: a) the means of calculating and the amount of unconditional transfers to local government units; b) the amount and purpose of conditional transfers which the state budget provides for local government units; and c) methods of calculating shared national taxes in the next three budget years.
September 1	LGUs shall submit revised medium term budget programme requests and additional requests with respective arguments to the MoF.
November 4	MoF shall inform each LGU of the transfers from central government and the share and amount of the shared national tax in the draft budget.
November 30	The mayor/chairman of the LGU shall submit to the respective council the draft budget for the following budget year.
December 31	LGU councils shall approve a local budget on the basis of the forecasts of their own revenues and unconditional transfers as set out in the State Budget.

Each LGU was supposed to issue a more detailed budget calendar for its budget preparation process. The Municipality formally issued such a calendar in 2013 for preparation of the FY2014 budget, ref. Table 3.8. It has not been formally updated since then but has been considered in force.

Table 3.8 Municipality of Berat Budget Calendar

Period	Action
March	First meeting of the GSM
April	Second meeting of the GSM
December	Council approves the annual draft budget MTBP

This municipal calendar provides sufficient time for all stages of the preparation process. The calendar was largely adhered to for preparation of the MTBP 2015-2017 and the FY2015 annual budget. In 2015, however, the amalgamation of municipalities and communes under TAR hindered adherence to the calendar, as the entire process for the new and expanded municipality could not start until the amalgamated budget for FY2015 had been prepared and approved (on 4 August 2015). The process that previously took about 8 months to complete, now had to be completed in 4 ½ months. The calendar has been strictly adhered to in previous years, with the budget submitted to council for approval within the statutory deadlines (ref. 17.3).

The same is true of the FY2017 budget preparation process during 2016.

17.2 Guidance on budget preparation

Instructions for the preparation of the MTBP and the annual budget and the convening of the Group for Strategic Management (GSM) have been issued by the Mayor of Berat in his capacity as Chairman of the Group for Strategic Management, but they do not include expenditure ceilings⁵². The budget instructions presents an overview of the budget programmes and the composition of the respective Programme Management Teams as well as states that programme policy and priorities should be in line with the socioeconomic development plan and the tourism development action plan.

In view of the uncertainty on the liabilities that would be inherited from the communes and changes in local government legislation and financing structure that were expected in late 2015 it was considered counterproductive to issue budget ceiling for expenditure as such ceilings would very likely be misleading. The instructions explain what should be submitted and the forms to be used. No specific criteria for selection of investment projects are set out in the instructions.

17.3 Budget submission to the legislature

According to the Law 9936/2008 article 32 the municipality should submit its annual budget proposal to the Council during November of each year i.e. 1-2 months before the start of the budget year. In practice this has not happened. The complete budget proposal is typically submitted to the Council in December every year – 10 days before the start of the budget year, as shown in Table 3.9. The late submission dates are reportedly a result of late approval of the central government budget and therefore late confirmation of the amount of the unconditional grants which have to be included in – and is a significant part of – the municipality's revenue estimates.

Table 3.9 Annual submission and approval of the budget

Budget Year	Budget Proposal submitted to Council	Date of Council approval of the budget
FY2014	25 January 2015	7 February 2014
FY2015	19 December 2014	29 December 2014
FY2016	18 December 2015	28 December 2015

PI	Dimension	Score	Justification for score
PI-17	Budget preparation process	D	Scoring Method M2.
17.1	Budget calendar	NA	A clear budget calendar exists which allows budgetary units sufficient time to complete their estimates, but the calendar was generally not adhered to in 2015 due to the amalgamation of municipality and communes in the middle of the year. They were limited and did not follow usual standards as the budget preparation process during 2015 was disrupted by the transition arrangements of TAR.
17.2	Guidance on budget preparation	NA	Instructions for the preparation of the annual budget have been issued in 2015, but they do not include expenditure ceilings (as in the previous year) given that at the time information was limited on municipal

⁵² It was reported by the Municipality of Berat Budget and Finance Department that expenditure ceilings are issued by the Mayor, but no documentary evidence was made available.

PI	Dimension	Score	Justification for score
			expenditure assignment upon approval of new decentralisation law as well as liabilities inherited from former communes.
17.3	Budget submission to the legislature	D	In none of the last three years has the annual budget proposal been submitted to the Council at least a month before the start of the budget year.

Ongoing reforms

The amendments to the Organic Budget Law⁵³ present an updated and more detailed budget calendar which is effective for preparation of the MTBP 2017-2019 and annual budget for FY2017.

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 Council. The indicator covers municipal budget operations only and the most recent budget cycle i.e. the budget for FY2016 (except for dimension 18.3 which covers the last three budget cycles. It contains the following four dimensions and uses the M1 (WL) method for aggregating dimension scores:

- Dimension 18.1 Scope of budget scrutiny
- Dimension 18.2 Legislative procedures for budget scrutiny
- Dimension 18.3 Timing of budget approval
- Dimension 18.4 Rules for budget adjustments by the executive

18.1 Scope of budget scrutiny

The Council 's review covers in principle fiscal policies, medium-term fiscal forecasts, medium term priorities and details of revenue and expenditure as all of these items are included in the budget proposals. However, all of these elements are reviewed at the same time.

18.2 Legislative procedures for budget scrutiny

The Council has established internal regulations, effective since 2007, but the regulation on the internal functioning is not compliant with the law and will be revised within 2016⁵⁴. All procedures adopted by the legislature of the pre-Tar municipality are applicable to the post-TAR legislature, as its legal successor. The council has established 7⁵⁵ committees of which the one relevant to budget scrutiny is the Committee for Economic, Finance and Social Affairs. The Council is supported by only one staff position- the Secretary to the Council, Council meetings are open to the public but there are no specific procedures for contributions from members of the public or civil society organizations. According to Law No. 8652/2000, Article 35 "in advance of discussing and approving its acts, the Council holds public hearings", which specifically applies to approval of the budget and its amendments. These provisions are repeated in the updated legislation of 2015⁵⁶. However, there is no indication that such public hearings have taken place.

However, the regulations are not respected or effectively implemented in a number of important areas. E.g. the procedures require that draft resolutions are submitted to the Council at least 15

⁵³ Law no.57 of 2nd June 2016.

⁵⁴ Interview with Ledina Gjoroveni, Secretary to the Municipal Council.

⁵⁵ There are currently 16 committees.

⁵⁶ Law 139/2015 on Local Self-Governance (Article 18) effective 1st January 2016, and Law 146/2014 on Public Notification and Consultation, effective from mid-2015.

days before the Council meeting that shall discuss and potentially approve the resolution. The draft budget resolution with the budget proposal attached was submitted much closer to the meeting date in recent years, or too late for timely approval, ref. Table 10. Only 10 calendar days were available for scrutiny of the budget proposals during December 2015 before the meeting in which the proposals were discussed and the budget approved⁵⁷. Moreover, no specific technical support in budget formulation and management is available for the Council. The office of the secretary to the council is composed of only one person.

18.3 Timing of budget approval

The municipal budget shall be approved by the Council before the start of the new fiscal year⁵⁸. This requirement has been met for the past two years, namely for the FY2016 budget on 28th December 2015 (decision no.58) and the FY2015 budget on 29th December 2014 (decision no.52). However, the FY2014 budget was not approved by the Council until 7th February 2014 (decision no.5), after it had been rejected twice before due to the request of the council to reallocate funds within programmes. The first draft budget 2014 had been submitted to council within December 2013.

18.4 Rules for budget adjustments by the executive

The aggregate totals of revenue and expenditure in the budget can be changed only through the passing of a revised budget through ordinary Council procedures for budget approval. The Mayor has powers to introduce reallocation of funds across the budget lines within each program, but cannot shift funds between recurrent and capital expenditure items. All such reallocations require approval by the Council⁵⁹. Reallocations have been frequent since the amalgamation in 2015 (ref. PI-21.4); but were not atypical in the pre-TAR period either as demonstrated by the relatively high number of local council decision by the council. The municipality has complied with the rules in all cases.

PI	Dimension	Score	Justification for score
PI-18	Legislative scrutiny of budgets	D+	Scoring Method M1.
18.1	Scope of budget scrutiny	A	The Council's review covers fiscal policies, medium-term fiscal forecasts, medium term priorities and details of revenue and expenditure as all of these items are included in the budget proposals.
18.2	Legislative procedures for budget scrutiny	D	The Council has established simple procedures for budget review but they are only partially adhered to and insufficient for effective budget scrutiny.
18.3	Timing of budget approval	C	The Council has approved the budget before the 31 st of December for both the FY2016 and FY2015 budgets. The FY2014 budget was approved almost two months after the start of the year.
18.4	Rules for budget adjustments by the executive	B	There are clear rules for the Mayor to amend the budget in-year without Council approval. They set strict limits for the Mayor's powers and are always adhered to.

⁵⁷ The draft budget document was submitted to Council on December 18, 2015 and it was adopted on December 28, 2015.

⁵⁸ Law No. 9936 on Management of budget system Article 32.

⁵⁹ Law No. 9936, Article 44.

Ongoing reforms

The municipality is in the process of reviewing the internal regulations for the functioning of the local council in order to comply with the recent legal requirements on transparency and consultations. The new regulation is expected to be adopted in November 2016.

3.5 Predictability and control in budget execution

PI-19 Revenue administration

This indicator relates to the entities that administer central government revenues, which may include tax administration, customs administration, and social security contribution administration. It also covers agencies administering revenues from other significant sources such as natural resources extraction for the entire municipal government sector. These may include public enterprises that operate as regulators and holding companies for government interests. In such cases the assessment will require information to be collected from entities outside the government sector. The indicator assesses the procedures used to collect and monitor central government revenues. It contains the following four dimensions and uses M2 (AV) method for aggregating dimension scores:

Dimension 19.1. Rights and obligations for revenue measures (assessed as at time of assessment)

Dimension 19.2. Revenue risk management (assessed as at time of assessment)

Dimension 19.3. Revenue audit and investigation (assessed on last completed fiscal year⁶⁰)

Dimension 19.4. Revenue arrears monitoring (assessed on last completed fiscal year⁶¹)

As described in PI-3: Revenue outturn, revenues of the Municipality of Berat are composed of taxes (41% of total collections in 2015); fees and user charges (53%) and non-tax revenue (property income, fines, etc. – 5%). This excludes revenue from national government such as grants and shared taxes (the latter covering the Simplified Profit Tax⁶², The Vehicle Registration Tax and the Property Transaction Tax).

Table 3.10 Berat Municipality's Own Revenue Collections, 2016 (January-November)

Revenue type	Collections, ALL thousand and percentage,		Collected by
Taxes on property	66 064	28%	Municipality of Berat Tax Department.
Infrastructure impact tax	24 079	10%	Municipality of Berat Urban Planning Department/Budget Department.
Advertisement tax (billboard tax)	8 330	4%	Municipality of Berat Tax Department.
Other taxes	17 528	7%	Municipality of Berat Tax Department.
Solid waste fee (businesses)	37 848	16%	Municipality of Berat Tax Department for legal entities.
Solid waste fee (households)	17 721	8%	Water and Sewerage Company for households.
Landscaping fee(business)	4 799	2%	Municipality of Berat Tax Department for legal entities.

⁶⁰ In this case 'the last 12 months budget cycle'.

⁶¹ In this case 'the last 12 months budget cycle'.

⁶² From FY 2014, when it became a shared tax.

Revenue type	Collections, ALL thousand and percentage,		Collected by
Landscaping fee (households)	5 851	2%	Water & Sewerage Company for households.
Lighting fee (businesses)	7 428	3%	Municipality of Berat Tax Department for legal entities.
Lighting fee (households)	14 456	6%	Water and Sewerage Company for households.
Other fees	8 128	3%	Municipality of Berat Tax Department.
Other social contributions	15 806	7%	Economic Centre for Education.
Property income	3 535	2%	Municipality of Berat/Budget Department.
Sales of goods and services		0%	Municipality of Berat/Budget Department.
Fines, penalties and forfeits	3 532	2%	Municipality of Berat/Budget Department.
Total own collection	235 105	100%	

The Department of Taxes and Markets of the Municipality of Berat, within the municipality, holds primary responsibility for the administration of the majority of “local source” revenues from local taxes and fees, from both business and household taxpayers (64% in 2016). Other entities with revenue administration authorities include the Water Company, which acts as a tax agent on behalf of the municipality for the collection of three different fees and user charges, including the solid waste fee; as well as Economic Centre for Education, in charge of management of revenues from user charges in the pre-school and pre-university education system. The Department of Taxes and Markets manages all taxes and fees applicable on businesses as well as taxes applicable on households (i.e. the property tax). Following the reorganisation of the Municipality, the tax department retained revenue administration authorities of the administrative units, while preserving the territorial organisation of its tax inspector teams, now accountable to the municipality.

The Tax department uses tax management software that was developed for municipal purposes in before 2010 and is currently in use by several municipalities. It has been upgraded several times since. The system maintains a general register of all business taxpayers, but does not include household taxpayers. Indeed, tax management efforts of the municipality focus on businesses rather than individuals and households, as identification, tax notification and enforcement for households is more difficult to perform hence the household tax base was largely unexploited until 2015.

In 2013 the municipality of Berat entered into an agreement with the Water Supply and Sewerage Company to act as its agent for the payment of the solid waste fee, landscaping fee and lighting fee from households, which improved enforcement of this type of revenue among the households. The municipality is considering expanding the authority of the tax agent to include property taxes. Nevertheless, no actual steps have been taken yet in this direction. The services provided by the Water Supply and Sewerage Company covers almost the totality of the territory of the former municipality of Berat and have a high fee compliance rate.

19.1 Rights and obligations for revenue measures

The system of local and fees applicable in the territory of the municipality of Berat is based on the Law 9632/2006 “On the System of Local Taxes”, as amended. The law establishes the tax authorities and indicative rates for the main taxes levied at local government level, while the local

council preserves the right to amend the level of taxes within the statutory limits set by law; as well as set the level of fees and user charges. Law 9632/2006 has been amended more than ten times since its first approval in 2006; at least four times since 2013. The latest amendments were adopted in December 2015 and came into effect in January 2016. Law 9920/2008 “On Tax Procedures in the Republic of Albania” regulates the principles of tax administration as well as operation of tax administration, including for local government units.

The Department of Taxes and Markets sends tax notifications to all non-household taxpayers at the beginning of each year (or tax period in case of changes in the system or the taxpayer characteristics). The tax notification includes information on the types and amount of obligations due; outstanding tax arrears and applicable fines, if any, as well as timelines and other modalities for the payment of liabilities. The tax notice contains reference to possible penalties and measures for the enforcement of the liabilities in accordance with the tax procedure law⁶³ in case of non-compliance. It also states the rights of the taxpayers to submit an administrative appeal to the Mayor within 30 days of receipt of the tax notice, provided that the liability (excluding fines) has been paid in full prior to the filing of such complaint. There is no explicit information on redress procedures.

Tax notification notices are not sent to individuals and households, given the unavailability of reliable information on the names and addresses of household taxpayers.⁶⁴ The majority of household fees are collected through the Water Company, which has almost universal coverage in the urban areas of the city. Household liabilities for the solid waste fee and lighting and landscaping fees are collected in monthly instalments with the water bill and the aggregates due for the municipal fees are identifiable in the latter. The water bill includes reference to procedures to file a complaint with regard to the water billed; but it does not contain information on rights and redress procedures in place for the municipal taxes and fees. The water company however does not cover the entire territory of the (new) Municipality of Berat, with some of the administrative units (former communes) being served by local/rural water supply networks. The department of taxes and markets continues to be in charge of tax administration also for households in these territories.

Information on the budget and taxes are published in the notice board in the hall of the municipality. The website of the Municipality of Berat⁶⁵ does not contain information on the payment of local taxes and fees. It does however have links to all decisions of the local council⁶⁶, including the decision on the adoption of the fiscal package. The website does not include information on appeals, or redress procedures. The website has a separate section for citizens to file complaints, requests or petitions⁶⁷ but there is no specific reference to taxes.

19.2 Revenue risk management

The municipality uses an Oracle-based tax management system that includes a general register of all non-household taxpayers in the territory of the City of Berat. The register needs to be expanded with entries for non-household taxpayers from the new administrative units, which is close to completion as the number of businesses operating in the rural area is not large. Tax notification notices are sent to non-household taxpayers annually with comprehensive information on liabilities (see dimension 19.1). The department of taxes concentrates most of its efforts on improving tax compliance among businesses; in particular in identifying and registering informal businesses.

⁶³ The tax notification notice includes reference to the relevant law provision, but it does not elaborate on the specific measures and penalties.

⁶⁴ Draft operational report on the activity of the General Department of Local Taxes and Fees during 2015, March 2016.

⁶⁵ www.bashkiaberat.gov.al.

⁶⁶ <http://www.vendime.al/berat/> redirected from <http://bashkiaberat.gov.al/?p=282>.

⁶⁷ http://bashkiaberat.gov.al/?page_id=705.

According to estimates by the municipal staff, the largest share of evasion from local tax liabilities originates from unregistered businesses. Tax assessments are usually based on objective criteria, as they are typically based on flat rates depending on the type of business, location and annual turnover. In case of non-compliance by regular businesses the municipality undertakes a series of measures that can eventually lead to freezing of accounts and seizure of the entities' assets. The largest share of tax arrears however originates from small businesses that have closed down or transferred their activity under different names. Similarly, non-compliance by household is rarely pursued through the legal means for forceful enforcement, due to the large number of household, relatively high administrative costs associated with such procedures and perceived low chances of success.

The Department of Tax and Markets prepares annual and monthly work plans for the activity of its tax inspectors and revenue monitoring sections, with programmatic objectives and procedures to improve revenue collection. These work plans address compliance risks for the main revenue streams from businesses by type, season and location.⁶⁸ Revenues from businesses amount to more than 50% of total own revenues.

Other tax collection entities have not developed risk management systems for revenue management. Entities like the Economic Centre for Education or internal municipal departments are responsible for collection of fees and user charges as a precondition to providing services or entitlements.

19.3 Revenue audit and investigation

The Department of Taxes and Markets is composed of 16 staff including the director. Four specialists are in charge of assessment and registration of businesses, of which 2 are based in the headquarters; while 2 specialists are in charge of revenue audit and field inspection. Four inspectors are assigned to different neighbourhoods of the city; and five other tax inspectors have specific responsibilities linked with the administration of markets and parking fees.

The field inspectors perform regular inspections in their area in accordance with a monthly pre-agreed plan, with a focus on identifying non-registered active businesses as well as other eventual changes in the performance of already registered businesses. The tax department receives data on business turnover from the Regional Tax Department of Berat, a branch of the General Tax Department, which is in charge of tax administration for the national revenue sources.⁶⁹ The municipality receives information from the regional tax department and bases its tax estimates for local taxes and fees according to such information exchange.

Revenue audit and investigation focuses mainly on businesses. The majority of planned audits are carried out. Despite frequent controls, it is difficult to keep track of all developments especially in the urban area of Berat, where changes are frequent among micro and small businesses, which can often go undetected for both the national and local tax administration. The expansion of the territory since July 2015 has created new challenges for the identification and updating of records of the tax register for business taxpayers in the old communes. Nevertheless the number of businesses operating in the former communes is small.

The household taxpayer segment remains largely untapped for the municipal tax authority. The inclusion of the Water Company as a tax agent for the main household liabilities has dramatically improved collections from this segment. However, the municipality relies on the water company's

⁶⁸ Risk register of the Department of Taxes and Markets; Internal regulation of the tax department; monthly work plans.

⁶⁹ Corporate Income Tax for big businesses exceeding 8 million of ALL in annual turnover, simplified profit tax for small businesses, VAT and excise duties; social security contributions.

client data for purposes of taxpayer registration and it does not hold its own records on eventual taxpayers outside the coverage area of the Water Supply and Sewerage Company, specifically in some of the new administrative areas.⁷⁰ Similarly, the compliance rate for household property taxes for household is quite low, due to difficulty in identifying and pursuing property holders. The municipality does not record unpaid household property tax as part of its outstanding debt.

19.4 Revenue arrears monitoring

The municipality keeps reports on revenue arrears by type of revenue and taxpayer⁷¹ although the information is not systematically presented in a general register. According to the balance sheet, (consolidated for the post-TAR municipality), the total amount of tax arrears in 2015 was 59.3 million of ALL. This corresponds to 31% of total revenue collections for 2015 (excluding grants and shared taxes from the central government). The department of tax keeps records on the type of arrears and age. According to such records, tax arrears created in 2015 amounted to 8.2 million of ALL (of which 6.6 million in tax arrears and 1.6 million in fines and penalties), or approximately 15% of the total outstanding tax receivables. This indicates that revenue arrears older than 12 months account for 85% of the total. It should be noted that the tax department does not write off old debt despite legal provisions for the prescription of such liabilities within a five-year period. The debt is primarily inherited from the pre-Tar municipality, as communes did not have accurate data on tax arrears at the time of consolidation of financial statements.

PI	Dimension	Score	Justification for score
PI-19	Revenue administration	D+	Scoring Method M2.
19.1	Rights and obligations for revenue measures	D	Information on taxes and fee rates, including rights and redress procedures are not easily accessible for businesses nor households.
19.2	Revenue risk management	B	The department of taxes has adopted a systematic approach for assessing and prioritising compliance risks for revenues from businesses; but it has not intensified efforts towards improved household compliance throughout the territory.
19.3	Revenue audit and investigation	C	A simple compliance improvement plan is prepared and followed on an annual and monthly basis, covering audits mainly for the business taxpayer segment. The household taxpayer segment is not covered systematically.
19.4	Revenue arrears monitoring	D	The stock of revenue arrears at the end of 2015 constitutes 31% of outturn on own revenue collection. Almost 85% of that stock is older than one year.

Ongoing reforms

No ongoing reforms have been identified.

PI-20 Accounting for revenue

This indicator assesses procedures for recording and reporting revenue collections, consolidating revenues collected, and reconciling tax revenue accounts. It covers both tax and nontax revenues collected by the entire municipal government sector assessed as at time of assessment. This

⁷⁰ According to the monthly reconciliation acts with the Water Company, the municipality does not receive data on the households that have paid their liabilities, but it assumes an almost 100% coverage/and compliance rate in its area of jurisdiction.

⁷¹ According to the interviews, files of each individual taxpayer contain that information, but a general register of tax arrears has not been presented to the team.

indicator contains the following three dimensions and uses M1 (WL) for aggregating dimension scores:

- Dimension 20.1. Information on revenue collections
- Dimension 20.2. Transfer of revenue collections
- Dimension 20.3. Revenue accounts reconciliation

Collection of own revenues in Berat is overseen by the Department of Taxes and Markets (see PI3), which is in charge of monitoring performance of revenues from almost all sources. The Department of Taxes and Markets is engaged in both revenue performance monitoring as well as planning for revenues. The Economic Centre for Education is in charge of the administration, planning and monitoring of user charges for services in the pre-university education system; while the Department of Budget and Finance is in charge of monitoring central government grants.

Most revenues of the municipality are collected through the Treasury system. Payments are made through the bank or post offices to the relative municipality subaccounts. A very small percentage of the revenue is collected in cash and paid to treasury by the municipal staff within the close of the same business day⁷².

20.1 Information on revenue collections

The municipality receives periodic information from the Treasury Branch office in Berat on revenue collections, through the Department of Taxes and Markets and the Department of Budget and Finance. The Department of Budget and Finance receives information from Treasury on the majority of revenue sources, including revenues it does not administer such as property income. Treasury submits to the municipality detailed reports on revenue collections at least monthly, but usually on a daily or weekly basis. Consolidated revenue performance reports are prepared for the Mayor, at least on a monthly basis.

20.2 Transfer of revenue collections

The majority of revenues is collected directly in the single treasury account of the municipality. Revenue collected by third parties, such as the Water and Sewerage Company is transferred monthly to the municipality's account, based on a reconciliation report prepared by the municipality and the relevant authority. Cash payments are transferred daily to the municipality's treasury account.

20.3 Revenue accounts reconciliation

Revenue accounts are officially reconciled at least monthly with the Treasury District office in Berat on all sources of revenue. The revenue collection reports are reconciled against invoicing data submitted by the Department of Taxes and Markets or the Economic Centre of Education, in order to identify taxpayers in arrears; as well as any technical errors in the submission of payments that are temporarily held in suspense accounts by the Treasury. Revenue accounts are reconciled monthly with the Water Company (Tax Agent).

PI	Dimension	Score	Justification for score
PI-20	Accounting for revenue	D+	Scoring Method M1.
20.1	Information on revenue collections	A	The Budget and Finance Department obtains revenue collection data at least monthly from all entities and consolidates the information into progress reports for the management.

⁷² The municipality receives virtually no payments in cash any more. Very small revenues may be received in cash from parking fees or similar revenues, but the amounts are insignificant.

PI	Dimension	Score	Justification for score
20.2	Transfer of revenue collections	D	Revenues collected by tax agents are only transferred monthly to the municipality's Treasury account. All other revenue is directly paid to the treasury account.
20.3	Revenue accounts reconciliation	A	All entities in charge of collecting revenue for the local government undertake complete reconciliation monthly within two weeks of the end of the month.

Ongoing reforms

No ongoing reforms have been identified.

PI-21 Predictability of in-year resource allocation

This indicator assesses the extent to which the central finance department is able to forecast cash commitments and requirements and to provide reliable information on the availability of funds to budgetary units for service delivery. It contains four dimensions and uses the M2 (AV) method for aggregating dimension scores:

- Dimension 21.1 Consolidation of cash balances
- Dimension 21.2 Cash forecasting and monitoring
- Dimension 21.3 Information on commitment ceilings
- Dimension 21.4 Significance of in-year budget adjustments

21.1. Consolidation of cash balances

The Municipality conducts all its treasury transactions through its one official bank account (No. 2102001-102), operating under the National Treasury's District Office 0202. Cash balances are generated and reported as needed, at least weekly, and comprises various revenue sub-accounts and balances of available funds from various sources for a variety of operating and capital expenditure purposes across service delivery programs.

21.2 Cash forecasting and monitoring

According to the budget preparation guidelines, the process of cash forecasting and monitoring begins early in the year with elaboration of an annual revenue forecast, particularly on unconditional grants that are the major source of revenue to finance local government operations⁷³. An annual cash inflow forecast is prepared by the Finance Directorate and agreed on the basis of a quarter-by-quarter schedule with the Ministry of Finance and the Regional Development Fund for the next budget year, in two different moments of the current year (the first one being agreed in January or February, and the second one in July or August). The process on the revenue forecast and agreeing with the Regional Development Fund is largely uncertain. Both forecast form the basis of the annual budget that is to be approved by end of the current year.

The annual budget of the Municipality is approved by a Decision of the local council and executed by all programs and departments. The budget is bound to monthly and quarterly adjustments throughout the rest of the year thereby causing the initial revenue forecast and allocations across the municipal government to vary often significantly. This implies that changes in allocations will benefit some programs, departments and categories of spending at the expenses of others.

According to evidence presented to the evaluation team, the approved annual financial plan is updated by the Finance Directorate "as needed", but at least quarterly, on the basis of cash inflows and outflows realized year to date and projected for the remainder of the year. The accuracy of forecasts is nonetheless a concern provided the frequent and significant changes made between

⁷³ Instructions 93 to 104, 132 and 255, from "Standard Procedures of Application for Budget Preparation", Ministry of Finance, dated 6 February, 2012.

administrative heads and thus the lack of a fiscal discipline approach and of proper policy coordination between the Finance Directorate and the Departments, and between Departments and line ministries. This led to serious problems of predictability in the release of funds during the last 12-month budget cycle and allocation of available resources for operating and capital expenses during the remaining of the year, according to Finance Directorate.

21.3 Information on commitment ceilings

Departments are not able to plan and commit expenditure well in advance as they are provided with reliable information from Finance Directorate (and this mainly from MoF) with a short notice of only thirty days. In-year budget adjustments occur due to changes in the amount and time of releases of funds and to competing forces of priority.

21.4 Significance of in-year budget adjustments

Significant in-year budget adjustments to budget allocations had taken place twice in 2015 and approved by the local council with the absence of standing rules or other transparent means.

PI	Dimension	Score	Justification for score
PI-21	Predictability of in-year resource allocation	C+	Scoring Method M2.
21.1	Consolidation of cash balances	B	The cash and bank account balances controlled directly by the Finance Directorate are reported on a weekly basis.
21.2	Cash forecasting and monitoring	C	A cash flow forecast is prepared for the fiscal year but this is updated at least quarterly, though comprising current expenditures mainly, on the basis of actual cash inflows and outflows.
21.3	Information on commitment ceilings	C	Departments and Programs are provided reliable information on commitment ceilings only one month in advance.
21.4	Significance of in-year budget adjustments	C	Significant in-year adjustments to budget allocations took place no more than twice in 2015 but these are not conducted in a fairly transparent way.

Ongoing reforms

Capacities within the Strategic Management Group (GSM) are being strengthened, particularly those relating to cash planning and programming, with a view to providing a more disciplined approach to the allocation of available resources on behalf of the Municipality.

PI-22 Expenditure arrears

This indicator measures the extent to which there is a stock of arrears, and the extent to which a systemic problem in this regard is being addressed and brought under control. It contains two dimensions and uses the M1 (WL) method for aggregating dimension scores:

Dimension 22.1 Stock of expenditure arrears

Dimension 22.2 Expenditure arrears monitoring

22.1. Stock of expenditure arrears

The stock of expenditure arrears is the accumulation of financial obligations that have been incurred by and for goods and services rendered to the Municipality over the years and for which payments have not been made after thirty (30) calendar days, as stipulated by the existing financial

regulations⁷⁴. On the absence of commitments in the accounting system, the recording of invoices and control of expenditure arrears are confronted with a serious impediment. As of end of December 2015, the outstanding balance of expenditure arrears amounted to an equivalent of 0.8% of the total budget, of which 0.5% corresponds to those incurred by communes—as of December 2013, the balance amounted to an equivalent of 3.6% for the pre-TAR municipality alone whereas no data for the communes was available (Table 3.11).

Table 3.11 Municipality of Berat—Stock of expenditure arrears (In thousands of ALL, unless otherwise noted)

Accounts Payable	As of end- 2013	As of end- 2014	As of end- 2015
401-407 Commercial vendors and suppliers	13,024	13,052	2,088
<i>Of which: Communes</i>	--	--	2,085
467 Consumption of public utilities	106	1,232	1,338
Total	13,130	14,284	3,426
<i>Memo: Total budget</i>	361,123	462,005	433,111
Total (% of total budget)	3.6%	3.1%	0.8%
Communes (% of total budget)	--	--	0.5%

Source: Department of Finance.

22.2. Expenditure arrears monitoring

Data on the stock and composition of expenditure arrears was generated at the end of 2014 and 2015 on an ad-hoc basis. It reported expenditure arrears accumulated from the previous year and specified the invoice number and commercial suppliers and utilities companies.

PI	Dimension	Score	Justification for score
PI-22	Expenditure arrears	D+	Scoring Method M1.
22.1	Stock of expenditure arrears	D*	Data for 2015 is not comparable to data for 2014 and 2013, as 2015 is based on consolidated data from municipality and communes, whereas 2013 and 2014 apparently excludes the communes.
22.2	Expenditure arrears monitoring	C	Data on the stock and composition of expenditure arrears has been generated for FY 2015, on an ad-hoc basis.

Ongoing reforms

Information on expenditure arrears by communes is being surveyed under the assistance of STAR. STAR is now completed and a second phase STAR-2 will continue to support this process together with MoF.

PI-23. Payroll controls

This indicator is concerned with the payroll for public servants only: how it is managed, how changes are handled, and how consistency with personnel records management is achieved. Wages for casual labour and discretionary allowances that do not form part of the payroll system are included in the assessment of non-salary internal controls, PI-25. This indicator contains four dimensions and uses the M1 (WL) method for aggregating dimension scores:

Dimension 23.1. Integration of payroll and personnel records

⁷⁴ These include short-term payables to vendors and contractors and consumption of public utilities, referred to as 401-408 (*Furnitore e ilogari te lidhura me to*) and 467 (Others accounts payables), respectively.

Dimension 23.2. Management of payroll changes

Dimension 23.3. Internal control of payroll

Dimension 23.4 Payroll audit

23.1. Integration of payroll and personnel records

The Municipality's personnel database and payroll are linked through a monthly processing and a reconciliation of changes to permanent and contractual staff takes place. These changes include appointments, transfers, promotions, and retirement of personnel who are controlled in one database by the Human Resources Department on the basis of a staffing plan and a budget allocation approved for the Municipality's next budget year. Locally, however, the payroll system is not fully operating on the basis of the new uniform structure of salary grades and scales not yet conforming to the changes being steered centrally by the Department of Public Administration.

23.2. Management of payroll changes

Required changes to the personnel records are updated on a monthly basis and checked against the previous month's payroll data. Requirements and procedures for processing and approval of changes in the civil service vary depending on the object of changes, specified for all public sector entities in a Civil Service Manual and governed by the Law of Civil Service⁷⁵. Accordingly, updates to personnel records are due on the 23rd day of every month and ready for payment approval and direct deposit to personnel on respectively the 1st and 2nd day of next month. Minor mistakes are made and a few retroactive adjustments representing less than 3% of total payroll occurred in the payment of monthly payroll.

As required by the existing legislation and financial instructions⁷⁶, the process of updating the personnel records begins with a HR plan being agreed with Departments and authorized for the year and forms the basis for the wages and salaries forecast in the annual budget approved by the local council. Changes are requested by the respective Department's authorizing officer and subject to approval by the HR Directorate (and a Staff Selection Committee for new recruits).

Presently, the Municipality is staffed with 141 personnel and its database includes information on permanent and contractual personnel.

23.3. Internal control of payroll

Article 107 of the Constitution requires that employment aspects of public administration be regulated by law and establishes the policy and the practice of selecting public employees by merit and competition, Guarantees of tenure and legal treatment of public employees are regulated by the Civil Service Law. Segregation of roles and responsibilities is established in the Civil Service Law⁷⁷ and specified in an internal control framework governed by the Department of Public Administration. Authority to change records and payroll is restricted, results in an audit trail, but it is not adequate to ensure full integrity of data. The number of staff excludes personnel working for the communes, which form part of a consolidation process not yet finished.

There is a centrally-controlled Manual of HRM Instructions approved by the Department of Public Administration and includes administrative procedures for recruiting, appointment, promotion and

⁷⁵ Law No. 152/2013 on Civil Service, dated 30 May 2013, Chapter IV (Recruitment to the Civil Service), Chapter V (Lateral Transfer and Promotion), Chapter VI (Top Level Management Civil Servants), Chapter VIII (Transfer of the Civil Service), and Chapter IX (Suspension from the Civil Service).

⁷⁶ Article 16 (Annual Staffing Plan in the Civil Service), dated 30 May 2013, and Instruction No. 117 (*Costs incurred by the local government units*), from the Standard Procedures of Application for Budget Preparation, Ministry of Finance, dated 6 February 2012.

⁷⁷ Chapter II (Management of the Civil Service) and Chapter X (Discipline in the Civil Service).

retirement. A Civil Service Commission is responsible for monitoring the various HR processes and supporting in the due diligence of new appointments locally.

Factual evidence suggests that the HR Directorate has proven unable to adequately reconcile changes in payroll with all proper documentation, provided that certain basic forms (*formati*) and other forms do not exist or do not conform to good practice—for instance, controlling attendance or leave to/from workplace by means of a time sheet or else, and approved by an authorized senior official does not exist. Also, proper due diligence of staff recruited is performed inadequately or not exercised at all. Staff hiring and promotion is controlled on the basis of an establishment list that is pre-approved by the local council and attached to an annual staffing plan and a spending limit for next budget year. The effectiveness of payroll internal controls has proven more adequate starting 2015 after HSC detecting of failures in management to prevent illegal authorization of such payroll transactions and other changes to the personnel records. One salient feature in the payroll internal control framework is the implementation of an e-filing system in coordination with the Directorate General of Taxation thus supporting higher levels of integrity and reliability.

23.4 Payroll audit

Internal audits have been undertaken by the Internal Audit Unit to a sample of Departments that included the Departments of Education and Public Services and completed in 2016. Also, HSC also performed a special financial compliance audit to the Municipality of Berat's Human Resource Management Directorate and Payroll Unit, which covered fiscal years 2011 to 2013 and included a sample of programs and administrative heads. Both detected weaknesses in the internal controls of human resource management and payroll. More specifically, failures in internal controls included the classification of functions, grouping of local government units as a payment and delimitation of salaries of employees of local government, drafting letters of appointment and wrong classification determining salaries for employees not complying with the required qualifications, and the wrong determination of salaries of some personnel in the respective contracts, without legal support and in terms of the difficult financial situation and lack of own revenue and expenditure for salaries coverage of the municipal budget.⁷⁸

PI	Dimension	Score	Justification for score
PI-23	Payroll controls	C+	Scoring Method M1.
23.1	Integration of payroll and personnel records	B	The Municipality's payroll is supported by full documentation for all changes to personnel records each month and checked against the previous month's payroll data. Staff hiring and promotion is controlled on the basis of a pre-approved establishment list attached to an annual staffing plan and a spending limit for next budget year.
23.2	Management of personnel changes	B	. Personnel records and payroll are updated on a monthly basis, generally in time for the following payroll payment, and require only a few retroactive adjustments
23.3	Internal control of payroll	C	Authority and basis for changes to personnel records and the payroll are clear. Sufficient controls exist to ensure integrity of the payroll data, noticeably, there is no evidence of audit trails in the HRD control environment.

⁷⁸ High State Control, Audit on the Audit of Financial Legality and Regularity, Department of Budget Control, in Local Government, Territorial Control and Sustainable Asset Management, 25 June 2015.

PI	Dimension	Score	Justification for score
23.4	Payroll audit	C	Partial payroll audits have been undertaken within two of the last three completed fiscal years.

Ongoing reforms

- (1) Implementation of the new recruitment procedure has currently started while several sets of questions, which are used in recruitment, have been drafted. Preliminary results are very good and demonstrate the application of meritocracy in recruitment;
- (2) Upon the expansion of the scope of the civil service law, the human resource directorate has recently started to implement new procedures. Department of Public Administration has served as the advisory and monitoring unit for the implementation of procedures. The Civil Service Commissioner Office has been established and the Commissioner has been appointed to office whereas the institution is under consolidation, and a Staff Selection Committee is in effect locally responsible for monitoring, as a result.

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. It contains four dimensions and uses the M2 (AV) method for aggregating dimension scores:

- Dimension 24.1. Procurement monitoring
- Dimension 24.2. Procurement methods
- Dimension 24.3. Public access to procurement information
- Dimension 24.4. Procurement complaints management

24.1. Procurement monitoring

The Municipality is provided with the legal responsibility, as a contracting authority, of keeping all the necessary records and documents supporting tenders and contracts awarded. The current legislation (the Public Procurement Law or "PPL", Articles 12 and 13) requires that it keep available records and documents regarding the awarding procedures carried out and that the documents and records contain sufficient information, so as to allow the control of enforcement of PPL.

Not all records are accurate and complete for all procurement methods for goods, services and works. According to audit reports, pricing and awarding of contracts have presented a series of failures throughout the procurement process. Hence, it is uncertain whether all contracts awarded and/or other relevant information recorded in the central system correctly reflect the true facts. Audit reports include the external audits conducted by HSC to the Municipality of Berat and the parking services department in 2011-2013 and 2015, respectively, and to the internal audits performed within the Department of Education and the Department of Public Services in 2013 and 2015, respectively⁷⁹.

24.2. Procurement methods

In 2015, the total value of contracts awarded through competitive methods (*Tender I hapur*) was in the amount of 487.2 million of ALL, equivalent to 95.6% of total procurement (Table 3.12). Request for proposal and minor purchases and contracts (*Kerkese per propozim*) represented 4.4% of the total (10 contracts awarded through open competition out of 18 contracts in 2015).

⁷⁹ In all audits, the Contracting Authority (namely, the Municipality) failed to apply the PPL rule (Article 26) on the prevention of corruption and conflict of interest. This denotes the ineffectiveness of internal controls and the failure to assess and manage operating risks and prevent fraudulent operations in the management of supply chain activities, particularly in the registration of official suppliers and contractors, asset misappropriation, financial misrepresentation, and bribery/corruption.

Table 3.12 Competitive methods and other forms of procurement, 2015 (In millions of ALL)

Modality		Contractor awarded	Actual (Mn. Lek)
1	Open tender	Leon Konstruksion	36.9
2	Open tender	Salillari	57.8
3	Open tender	Besta & Salillari	59.8
4	Open tender	Spektri	12.9
5	Open tender	BE-IS SHPK	24.8
6	Open tender	Fied and Glow	13.3
7	Open tender	Salillari	81.2
8	Request for proposal-minor purchases	Belliu	4.0
9	Request for proposal-minor purchases	Mane /s	3.0
10	Open tender	GPG Company & Leon Konstruksion	34.6
11	Open tender	Erge Mat	12.7
12	Request for proposal-minor purchases	MB Kurti	6.7
13	Request for proposal-minor purchases	MB Kurti	2.2
14	Request for proposal-minor purchases	Murati D	1.1
15	Request for proposal-minor purchases	MB Kurti	1.5
16	Request for proposal-minor purchases	T&T Beton	1.7
17	Request for proposal-minor purchases	Start Co.	2.2
18	Open tender	GPG Company & Leon Konstruksion	153.2
Total			509.6

Source: Municipality of Berat-Procurement Unit.

24.3. Public access to procurement information

Key procurement information of the Municipality of Berat to be made available to the public comprises:

(1) Information on the legal and regulatory framework for procurement as well as Standard Bidding Documents for contractors and Manuals for contracting authorities issued by the Public Procurement Agency (APP) has been made publicly available through website <https://www.app.gov.al/ep/default.aspx?UR=http://www.app.gov.al/>.

The relevant legislation on Public Procurement in Albania includes the following normative acts and regulations:

- Public Procurement Law No. 9643, dated 20 November 2006, as amended (“PPL”);
- Council of Minister Decision No. 914, dated 29 December 2014 “On public procurement rules”, as amended;
- Council of Ministers Decision No. 918, dated 29 December 2014 “On the conducting of public procurement procedures in electronic format”; and
- Several Guidelines of the Public Procurement Agency.

(2) Information on the Municipality’s annual procurement plans: The Municipality issues annual procurement plans (*Public procurement forecast register*)⁸⁰ and submits for recording at local and national systems within a specified timeframe. The plans include information on the specific public

⁸⁰ As required by the Procurement Rules, Chapter 1-Public procurement organization, Section 3-Public announcement bulletin, the procurement plan is submitted to Finance Directorate by the 20th of January and to APP and MOF by the 15th of February.

works and other economic and social development projects for which the purchase of goods and services is planned for the next budget year. The information is made for internal use only, not available to the public.

(3) Information on bidding opportunities to Municipal projects: It is available through APP bulletins and national and local media.

(4) Information on contracts awarded (purpose, contractor and value): It is published through APP bulletins.

(5) Information on resolution of procurement complaints: Information on complaints resolutions, which is managed by the PPC, is not available to the public.

(6) Annual procurement statistics are partially available to the public, through the e-procurement portal. Data published on Berat Municipality tenders and awarded contracts is delayed and incomplete, according to the Procurement Unit and available e-procurement/PPA website data.

24.4. Procurement complaints management

Complaints are reviewed by a body which:

- (1) Is not involved in any capacity in procurement transactions or in the process leading to contract award decisions: Complied.

The Public Procurement Law, in its Article 19/1, provides for the Public Procurement Commission (PPC), the body responsible for the procurement complaints management. Article 19/5, item 2, states that “the member of the Public Procurement Commission shall be dismissed by the Prime Minister when he/she is involved in activities that cause a conflict of interest” thus implying the member cannot participate in any capacity at all in procurement transactions or in the process leading to contract awarding decisions.

Within the Berat jurisdiction, the effectiveness of the PPC role is seriously challenged in audit reports provided the alleged linkages between members of the Tender Selection Committee and members of PPC.

A report by Res Publica, a Tirana-based watchdog, revealed that the Albanian public procurement process does not treat all businesses that compete for public contracts equally⁸¹. The report said the PPC during the monitoring period found hundreds of cases of breaches of the law by contracting authorities. However, it had imposed only one fine, against the mayor of northern municipality of Shkodra, and did not refer any case to the prosecutor’s office. “The level of enforcement from the Public Procurement Commission is close to zero, which is producing growing distrust among operators who are filing fewer appeals,” Dorian Matlija, director of Res Publica said.

- (2) Does not charge fees that prohibit access by concerned parties: Not complied. A fee for conducting the appeal is paid by appellant according to the decision of Council of Ministers, No. 261 from 17 March 2010, which shall be 0.5% of the budget of the procurement procedure.
- (3) Follows processes for submission and resolution of complaints that are clearly defined and publicly available: Complied.

⁸¹ For ease of reference go to <http://www.respublica.al> or to <http://www.balkaninsight.com/en/article/albania-public-procurement-procedures-lack-integrity-report-says>.

According to the PPL procurement rules, the resolution of complaints can be sought before: (i) the public procurement unit (especially regarding requests for modification of the bid documents); (ii) the Evaluation Committee (regarding the evaluation process, but not after the classification of the bidders); (iii) the Contracting Authority; (iv) the Public Procurement Commission; and (v) the Administrative Courts.

Article 63 of the PPL provides that any person having or having had an interest in obtaining a public contract and who has been or risks being harmed by a decision taken by the CA, which infringes the PPL, may challenge such a decision. In cases of complaints related to tender documents, the economic operator shall file such a complaint with the CA in writing.

Upon receiving the complainant's written objection, the CA shall suspend the ongoing contract award procedure until the objection is fully examined and a decision is taken before the expiration of specific time limits set forth in the PPL. The CA examines the complaint and takes a justified decision. If the CA fails to examine the objection within deadlines as specified by law, or rejects the objection, the complainant may file a written appeal with the PPC which is the highest administrative organ, competent to review the procedure.

(4) Exercises the authority to suspend the procurement process: Complied.

Under the PPL, the procurement complaints are reviewed by the PPC, which is provided with the power to suspend the procurement process. The PPC is the highest authority in the procurement system which has the power to provide legal protection for tenders and public interest at all stages of the procedure of public procurement, concessions, auctions and mining licenses. It reviews administrative appeals of economic operators participating in public procurement procedures. Its decisions, however, can be challenged by the Administrative Court.

The PPC provides the administrative mechanisms for the correction of a decision or action which is inconsistent with the procurement legislation are the decisions of the Public Procurement Commission (administrative way) and then the Court. Since April 1, 2010, it has become the highest administrative body decision-making in the field of procurement; it is a body of review and which takes a final decision in the treatment of a complaint in an administrative way. If the economic operator is disappointed by the decision of the PPC, he has the right to appeal the case to court⁸².

(5) It does issue decisions within the timeframe specified in the rules/regulations: Not complied.

Decisions are not always issued within the time frame specified within the PPL procurement rules, according to Berat's head of procurement interviewed⁸³. In cases of complaints related to tender documents, the economic operator shall file such a written complaint with the CA within seven days from the date of publication of the contract notice on the website of the APP. The complaints against a decision of the CA are filed in writing with the CA within seven days.

⁸² Article 19/1 of the amended Law on Public Procurement: "The Public Procurement Commission is the highest body in the field of procurements, which analysis the complaints on the procurement procedures, in accordance with the requirements defined by the Law on Public Procurement. The Public Procurement Commission, at the conclusion of the analysis, takes decisions, which are administratively final. The Public Procurement Commission is a public juridical person, depending on the Council of Ministers, funded by the State Budget. The Public Procurement Commission submits an annual report to the Council of Ministers. The content of the report is defined in the rules of public procurement.

⁸³ Procurement rules, Council of Ministers Decision, No. 1 on Approval of Procurement Rules, dated 10 January 2007, Chapter IX, Review of Complaints, Section 2-Complaints to the APP, pp. 37-40.

The CA examines the complaint and takes a justified decision within seven days from the receipt of the complaint. If the CA fails to examine the objection within the above time limit or rejects the objection, the complainant may file a written appeal with the PPC within 10 days from the first working day after the expiry of the time limit of seven days specified above, or, in cases where the objection is rejected in the first instance by the CA, from the day the complainant was informed thereof by the CA.

Upon receiving the complainant's written appeal, the CA shall suspend the ongoing contract award procedure, unless the PPC instructs otherwise.

Upon receiving the complainant's written appeal, the PPC shall respond within seven days. When the PPC requires information for the review of the complaint, the PPC shall respond in writing, in accordance with the CMD, but not later than 10 days. According to Council of Ministers' Decision no. 120, dated 22.02.2012, the PPC shall pass its decision within 20 days from receiving the complaint. According to the 2015 Baseline Measurement report of SIGMA "The principles of Public Administration", the legal maximum time for processing the complaint was exceeded in about 40% of all cases⁸⁴. The process for submission and resolution of complaints is well documented in the law and on the PPC website. The PPC has wide ranging powers, including the power to suspend or order the termination of procurement proceedings. The PPC makes decisions public on its website.

For purpose of shortening the time limits of the appeal process, the committee/official in charge of the review of the complaint shall communicate the decision to the complainant in the electronic address specified by him in the form, not later than on the next working day after receipt of the decision.

- (6) Issues decisions that are binding on every party (without precluding subsequent access to an external higher authority): Complied.

According to Article 64, item 3, of the PPL against the decision taken by the Public Procurement Commission, parties have the right to bring the administrative conflict before the Administrative Court. The examination of complaints by the Court shall not suspend the procurement procedures for the conclusion of public contracts for goods, services or works by contracting authorities, or execution of obligations, according to procurement contracts between the respective parties.

PI	Dimension	Score	Justification for score
PI-24	Procurement	B	Scoring Method M2.
24.1	Procurement monitoring	C	Databases or records are maintained for contracts including data on what has been procured, value of procurement and who has been awarded contracts. HSC states there is no sufficient evidence suggesting all data uploaded in the central database are accurate, complete and timely for the <u>majority</u> of procurement methods for goods, services and works.
24.2	Procurement methods	A	The total value of contracts awarded through competitive methods in the last completed fiscal year represents 96% of total value of contracts.
24.3	Public access to procurement information	C	Three of the six key procurement information elements are complete and reliable for municipal units representing most procurement operations and are made available to the public in a timely manner.

⁸⁴ The assessment team could not verify the average processing time of each complaint for 2015.

PI	Dimension	Score	Justification for score
24.4	Procurement complaints management	B	The procurement complaint system meets criterion (1) and three of the other criteria.

Ongoing reforms:

- (1) The Public Procurement Agency together with the Public Procurement Commission and High State Control Institution were the beneficiaries of the World Bank project "Improving compliance monitoring and enhancing transparency in public procurement in Albania", the implementation of the which began in 2016. The purpose of this project is to support the Government of Albania to improve and further strengthen the system of compliance monitoring with the public procurement law, improve the mechanisms of reviewing the complaints, as well as to build the capacity of the SAI in regard to the audit of public procurement contracts in Albania. The Municipality's Procurement Unit is sought to benefit from this TA starting 2017;
- (2) In the framework of an in-depth reform of the public procurement system in Albania and, concretely, in the framework of measures towards increasing transparency and fighting against corruption, the Public Procurement Agency (APP) – in collaboration with the component 'Reform in Public Procurement', of the Millennium Challenge Threshold Agreement Program for Albania, and managed by USAID – has set up an electronic procurement system. This system has brought great improvements, such as increasing transparency and efficiency, and reducing corruption. The electronic procurement platform is a web-based application, supporting the automation of all the Albanian contracting authorities. This system enables secure transactions among Albanian public institutions as well as the national and international business community.

PI-25 Internal controls on non-salary expenditure

This indicator measures the effectiveness of general internal controls for non-salary expenditures. Specific expenditure controls on public service salaries are considered in PI-23. The present indicator contains three dimensions and uses the M2 (AV) method for aggregating dimension scores:

Dimension 25.1 Segregation of duties

Dimension 25.2 Effectiveness of expenditure commitment controls

Dimension 25.3 Compliance with payment rules and procedures

Background:

The roots of the Albanian regulation of the internal control system go back to 1992. This was the date of the establishment of the High State Control (HSC) in the post-communist era, the Albanian supreme audit institution. The next milestone was in 2003, when the first law on internal audit was approved by Parliament and the General Internal Audit department established within MoF. This law was the basis for developing the concept of audit activity in public sector and establishing the independent structure of internal audit. Based on this law the financial control structures turned into internal audit structures. Based on best practice a new law on Internal Audit in the Public Sector No. 9720, was approved in 2007.

Furthermore, as a part of the legislative improvement process, in 2008 the Parliament approved the law No. 9936 "On the Management of the Budgetary System in the Republic of Albania", where the modern European Commission concept of public financial internal controls (PFIC) is introduced. This precursor organic budget law was reformed in December 2012 and June 2016. Based on this main legal basis and in line with national and international professional developments in the internal control field, in 2010 the new Financial Management and Control Law No. 10296, dated 08 July 2010 was approved (amended in October 2015 as Law No. 110/2015) and also the existing Law

No. 9720, dated 23 April 2007 "On Internal Audit in the Public Sector", was amended as Law No. 114/2015 in November 2015.

As a result, the legislative basis for a harmonized PIFC has been set up with three pillars (i) Sound financial management and control (FMC) systems as a primary responsibility of managers in each unit of public expenditure. (ii) Independent and objective function of Internal Audit (IA), to support management and to provide reasonable assurance that control systems are established in accordance with rules and standards, according to the principles of a sound financial management. (iii) Central Harmonization Units (CHU) in the Ministry of Finance, to design and implement a methodology, to harmonize and standardize the quality system for FMC and IA. A full law harmonization has been realized in the area of PFIC. Most of the methodologies and guidelines were drawn up and published from 2010 in the Ministry of Finance website.

MoF has also adopted strategic documents, setting up the implementation plans of the internal control systems in the Municipality, like the "Five-year implementation plan of a modern FMC system (2011-2016)" approved by the Minister of Finance Order No. 11841, dated 10 June 2011. Then, in December 2014, as whole set of public finance management reforms was developed by the Government for the period 2014-2020, strengthening internal control systems objectives and actions to be taken in this field until 2020, become part of this document.

25.1 Segregation of duties

In the Law "On the Financial Management and Control", Art. 22⁸⁵, control activities are described as minimum controls that each head of public sector shall implement. A significant portion of the control activities includes: (1) segregation of duties in the area of authorization in a way not allowing one member of staff to be simultaneously responsible for proposal, approval, execution, accounting and control, (2) dual signature system, which does not allow a financial engagement to be made without the signatures of the Authorizing Officer and of the Executing Officer of the unit, and (3) rules for documenting all transactions and activities, related to the operation of unit. Salient features of the legislation includes the creation of relevant senior-level posts and responsibilities in charge of identifying, assessing and addressing the financial risks and the preparation and submission of a "declaration together with an annual report on the quality and functioning of public financial internal control for the previous year" in the respective organization across public administration (Chapter II, Arts. 8-18). Current legislation provides the necessary control environment for executing the PIFC function accordingly, following COSO standards. Concurrently, MoF issued the FCM Manual for the use of public sector units to support this mandate (latest version 2016).

In addition, the amended version of the above Law (No. 110/2015, Art. 2, item 6) requires that "subordinate units" are established under the control of the Mayor. There is, however, no evidence supporting the creation of an organizational structure and functional linkages within the Municipality of Berat that would enable proper execution of the PIFC mandate as required by law.

Main actors and segregation of duties are described in the current financial legislation⁸⁶. The main actors of the PIFC system in Albania are: the Minister of Finance - Central Harmonization Unit for Financial Management and Control (CHU/FMC) and Central Harmonization Unit for Internal Audit (CHU/IA), Principal Authorizing Officer, Authorizing Officer and Executing Officer within Municipalities and Internal Audit (IA) units at General Government entities.

⁸⁵ Law "On the financial management and Control" no. 10 296, dated 8.7.2010 as amended with the Law no. 110/2015, dated 15.10.2015.

⁸⁶ Law No. on Financial Management and Control, Article ; and Financial Management and Control Manual, Chapter IV (Application of Financial Management and Controls-Roles and Actors in the FMC System), dated 15 July 2010.

In Berat and other Albanian municipalities, a management hierarchy is obligatory to be in place, with the head of the unit having the main responsibility for the approval of policies and internal rules of internal control, while the individual managerial responsibilities being assigned to Authorizing Officer and to every manager within the Municipality (including the heads of the subordinate units).

- Authorizing Officer

Authorizing Officers are highest rank employees of Municipalities, responsible for preparing, implementation, internal financial control, monitoring, reporting, and accounting of their budget and are accountable to the Principal Authorizing Officer⁸⁷.

According to FMC legal basis the authorizing officer/head of the institution⁸⁸ is responsible for establishing, implementation and development of the sound FMC system in his/her institution, including the establishment of rules for efficient, effective and economic use of resources available. This responsibility cannot be delegated.

- Executing Officer

Executing officer has also a key role in implementing FMC system. The executing officer of a Municipality is the head of the finance directorate, directly responsible to the Mayor and is responsible for the quality of the following core processes: a) Medium term Budget Program (MTBP) and annual budget planning; b) Reporting and monitoring during budget executing process; and c) Support function (controlling) for the authorizing officer (management).

- Internal Audit Units

Based on IA legislation in force, all Municipalities and other public entities must be covered with an internal audit service through one of the ways provided for by the law. IA function reporting line is at the top management level of the Municipality. The Mayor is responsible for establishing an independent IA function and create all the necessary conditions that this function it can be performed in line with the accepted international standards set up in the country legal basis.

In order to follow up PFIC implementation and progress in Municipalities, CHU/IA monitors continuously internal control systems^{89 90}. This is based on the personal statement of authorizing officers of Municipalities and the annual report on the quality of internal controls. All Municipalities are subject to the obligation of submitting to MoF the annual statement and report on the internal control system situation at the representative units, as well as the answers to the self- evaluation questionnaires.

In spite of the existing segregation of duties and responsibilities required by law, the Berat Municipality's organizational structure is not built in such a way to enable the achievement of policy objectives efficiently and not laid in accordance with internal control standards in order to ensure that those tasks, hierarchy, reporting lines and determination of activities control are properly allocated to ensure that the long-term objectives are achieved.

⁸⁷ Ibid, Article 19.

⁸⁸ Authorizing officer is the highest level of management based on the civil servants law. In municipalities the Mayor owns this function.

⁸⁹ Based on Articles 25 and 26 of the Financial Management and Control (FMC) Law.

⁹⁰ Most recently, the Public Internal Financial and Control Board was created by the Amended FMC Law. No. 110/2015 (Some Additions and Changes on Law No. 10296, dated 8 July 2010 on the Financial Management and Control) and provided with the responsibility of monitoring PIFC implementation and progress within Municipalities and other public sector entities.

The results of FMC monitoring are presented annually in a consolidated report, which is sent to the Council of Ministers, the High State Control and the Parliament.⁹¹ In the latest available annual PIFC report Berat was ranked fifth of thirteen main municipalities in terms of performance, with the weakest areas being in the realization of budget expenditures during the year, accuracy and consistency of reporting by the municipality, risk management quality, and quality of control activities. The report is used by the authorities of the municipality and local council to discuss the findings and provide remedial actions.

25.2 Effectiveness of expenditure commitment controls

The current legislation stipulates that "Commitment budget" is the assumption of financial liabilities, thus requiring expenditures to enter into a contractual relationship⁹². This requires that resource allocations (cash being availed) are first authorized for the budget year (and indicative for the subsequent two years)—in reality, such allocations are adjusted often considerably during the budget year thus requiring the staff appointments and promotions and procurement plans to adjust alike and any tendering and contracting to commence accordingly.

The above is a process that is well known during the budget process but in reality the practice of in-year budget adjustment of allocations and updating the commitments in the budget (accounting) system is in the process of being institutionalized. The cash-flow forecast is updated "as needed" (at least quarterly) as noted in PI-21 and the commitments are not necessarily updated as a result. Additionally, the information on RDF grants is not readily available but usually uncertain. This creates loss of control in the commitments authorized during the year, particularly within the Municipality's procurement unit.

Under these conditions the non-salary expenditure commitment controls become less than effective, according to the HSC auditors interviewed, thereby causing the awarding or payment of contracts to be made without necessarily having sufficient funds available. This has usually been the single most problematic issue confronting the commitment controls in recent years often resulting in invoices and contracts not being paid as agreed with third parties and expenditure arrears to build up constantly.

Commitment controls have been instituted starting 2015 to restrain expenditures from exceeding the commitment funds available in the accrual-based payment system and then the cash resources available through a semi-automated system operated within Berat Municipality.

25.3 Compliance with payment rules and procedures

Presently, expenditure commitments are controlled through the systematic verification of the existence of the expenditure item to be made in the annual budget and the availability of cash recorded in the AGFIS facility. The payment commitments by the budget entities are enforced through the AGFIS since the entities cannot make commitments that the system does not allow and they can only make them up to the limit of their monthly allocation. These controls are applicable to all types of expenditure (including capital expenditures) and the commitment is authorized in the AGFIS only for those expenditures contemplated in the effective budget, where the cash availability has been authorized by the Treasury.

⁹¹ The latest annual PIFC consolidated report (Annual Report on Functioning of Public Internal Financial Control System at the General Government Units), which include the Municipality of Berat, can be found in [http://www.financa.gov.al/files/userfiles/Drejtore/Drejtoria_e_Pergjithshme_rregullatore_Kontrolluese/Raporte/raporte_te_perbashketa/Annual_PIFC_Report_2014_\(EN\).pdf](http://www.financa.gov.al/files/userfiles/Drejtore/Drejtoria_e_Pergjithshme_rregullatore_Kontrolluese/Raporte/raporte_te_perbashketa/Annual_PIFC_Report_2014_(EN).pdf).

⁹² Amended Law No. 114/2012 on Management of the Budget System in the Republic of Albania, Article 3, dated 4 June 2016.

The AGFIS is the first stage for collecting information on errors, or events in which the system users have attempted to go beyond their authorized commitments. The AGFIS is designed to reject them, but it does not maintain a log of the rejection rate or the errors made. The Berat Municipality has access to process the authorization of payments through AGFIS by the Finance Directorate.

In an effort to prevent the accumulation of new expenditure arrears at all levels of government, the MoF has extended its new IT treasury payment system (AGFIS) to 15 budget institutions (accounting for 84% of the budget) and the Municipality of Tirana. This requires that a commitment calendar comprising the non-salary expenditure commitments by the various procurement modalities (open competition, exceptional/direct purchases) is authorized for the fiscal year and that any adjustments in the budget are updated in AGFIS, thus enabling the proper exercising of financial internal controls. MoF has renewed its efforts to implement stricter internal controls in AGFIS at the phase of the pre-commitment of public funds on a pilot basis thus a capacity that is not yet operational within the Municipality of Berat to comply with payment rules and procedures fully.

According to audit reports, expenditure programs and capital projects accounting for 75% of the municipality are compliant with regular payment procedures. . As opposed to previous years, breaches in the use of simplified/emergency procedures without adequate documented justification had not been evidenced in the latest available audit reports at the time of assessment.

PI	Dimension	Score	Justification for score
PI-25	Internal controls on non-salary expenditure	C+	Scoring Method M2.
25.1	Segregation of duties	C	Segregation of duties is prescribed throughout the municipality's expenditure process. However, incompatible division of responsibilities still exist thus restraining the efforts to prevent fraud and malpractice within Berat's municipal organization.
25.2	Effectiveness of expenditure commitment controls	C	Expenditure commitment control procedures exist which provide partial coverage and are partially effective.
25.3	Compliance with payment rules and procedures	B	Most payments are compliant with regular payment procedures. The majority of exceptions are properly authorized and justified.

Ongoing reforms

(1) The Municipality is committed to overcome the capacity constraints and undergo organizational restructuring and change management to enable more effective and efficient implementation of internal controls in line with PIFC legislation. (2) Ongoing capacity building well in place to institutionalize PIFC within the Municipality under the technical assistance by CHU-FMC and CHU-IA. (3) The rollout of the new AGFIS software to sustain the internal control reforms is in the process.

PI-26. Internal audit

This indicator assesses the standards and procedures applied in internal audit. It contains four dimensions and uses the M1 (WL) method for aggregating dimension scores:

Dimension 26.1. Coverage of internal audit

Dimension 26.2. Nature of audits and standards applied

Dimension 26.3. Implementation of internal audits and reporting

Dimension 26.4. Response to internal audits

Background:

The legal basis of internal audit activity comprises:

- Law No. 114/2015 amended 22 October 2015 "On internal audit in the public sector";
- Decision of the Council of Ministers No. 806, dated 6 December 2006 "On Approval of the financial audit methodology";
- Minister of Finance Order No. 69, dated 29 September 2010 "On Approval of the Manual of internal audit in the public sector";
- Minister of Finance Instruction No. 12, dated 05 June 2012 "On the procedures of the internal audit activity in the public sector".

Municipality of Berat's Internal Audit Unit is a structure under direct responsibility of the Mayor's Office. The unit is staffed with a Director of Unit) and two audit specialists. Responsibilities include the design and execution of monthly and annual plans. Results and products of the internal audit activity reflected in the detailed audit reports are analysed by all the standards and steps defined in the internal audit manual.

According to the Internal Audit Manual and financial reports⁹³, the objectives of Internal Audit Unit is to support municipal management achieving its objectives, assessing independently control systems, based on the approved professional standards and maintaining a collaborative environment to promote a professional level of audit.

The Berat audit function is being performed on the basis of three auditor posts already filled, all of which are accredited with the certified auditor status (Table 3.13). Auditors at the IA unit of Berat Municipality have been largely committed to all training organized by the MoF Central Harmonization Unit for Internal Audit. During this training, the main objectives were achieved to improve and develop the skills of staff of the IA unit in Berat. Training of auditors for 2015 further deepened and updated the knowledge and practice of professional audit and audit standards in accordance to international standards.

Table 3.13 Certification of local internal auditors - Municipality of Berat

Description	Number of posts	Filling of posts		Professional level	
Principal	1	1	1	1	0
Specialist	2	2	2	2	0
Total	3	3	3	3	0

Source: Municipality of Berat – Internal Audit Unit.

26.1. Coverage of internal audit

The Internal Audit is committed to fulfil the obligations deriving from the law and the obligations from its Strategic Plan. Accordingly, systems and internal audit areas are assessed with a view to determine those with the highest level of risk in the financial system, asset management, procurement system, etc.

At the planning stage the Internal Audit Unit identified risk areas with low, medium and high, upon which an annual work plan was made for 2015. Missions were conducted on subjects defined and risks identified. High risk areas included the payment system and the exercising of financial internal controls over the implementation of the law on financial management and control and additional

⁹³ Annual Report 2015, *Struktura e Raportit Vjetor per Drejtorine e Auditit te Brendshem*, Internal Audit Unit, September 2016.

instructions for drafting the budget according to the format defined payroll, tax declarations on time and amount due, control and verification of the payment list one by one.

Accounting and reporting system of financial outturn is estimated to medium risk for the findings in this registry system. The registry system is required that all units be compiled and updated with all relevant changes.

For the 2015 audit the plan was scheduled for 15 units and all were engaged, which included 3 enterprises, 2 two private entities contracted by the Municipality of Berat institution to carry out city cleaning and public cemetery services, 6 spending units and 4 principal units, totaling a value of 145.7 million of ALL, or an equivalent of 33.6% of total expenditure⁹⁴. During the annual auditing activities the IA unit had revealed problems relating to the overlap of the audit function with other control bodies such as the Regional Directorate of Social Services. Consequently, the audit program conducted in 2015 excluded the Department of Social Services.

26.2. Nature of audits and standards applied

For fiscal year 2015 the internal audit unit performed its audit mission based on the annual plan adopted at the beginning of the year. The annual plan was compiled after an analysis of all annual work and a review of all audit reports, findings and recommendations to the audited units.

Based on the above, the scope of annual internal audit work in 2015 covered the evaluation of financial internal controls and compliance of payroll and procurement guidelines within a sample of municipal units. Its purpose is to ensure (1) that financial internal policies, procedures and guidelines are adequate; (2) compliance with public financial management laws and internal controls, standards and rules in the activity of the municipality; and (3) that senior managers establish corrective measures.

Audits are performed on the basis of national standards and a draft Internal Audit Manual that had been developed by MoF Central Harmonization Unit for Internal Audit (CHU-IA)⁹⁵ for use of municipal internal auditors and other public sector internal auditors. Training in the application of new professional standards and modern audit techniques (i.e., the Institute of Internal Audit (IIA)'s *International Standards for the Professional Practice* relating to Quality Assurance and Improvement) is being provided by MoF on a regular basis.

26.3. Implementation of internal audits and reporting

Most of the annual audit plans agreed in recent years were implemented accordingly and the results were laid out by the Internal Audit Unit in three main reports⁹⁶. In general, the reports found the Municipality's financial management processes had been operating in a "dysfunctional" manner thus resulting in several irregularities in the internal control system, particularly in the management of payroll and social security systems, the public procurement procedures, inventorying of materials, and the lack of information on transfers and disposal of materials and fixed assets during 2011, 2012 and 2013.

⁹⁴ The IA Unit was not able to broaden its audit plan so as to cover other major municipal departments and programs, and it is uncertain whether this can eventually happen in the near future, due to current staff and skills constraints.

⁹⁵ CHU/IA is responsible for initiating and supporting the process of creating a functionally independent internal audit service in the ministries and at different levels of local government.

⁹⁶ The Internal Audit Reports on the Department of Education (covering January to December 2013), the Department of Public Services (covering January to December 2015), and Other Municipal Units and Programs (covering the first six months of 2016). Internal audit reports are available upon request.

A total of 14 audits out of 15 audit activities planned were conducted in 2015.⁹⁷ The reports above issued recommendations, which include compensation measures and other actions (Table 3.14) aimed at improving the effectiveness of financial management within the Municipality and other actions to prevent violations from recurring.

Table 3.14 Statement of compensation measures and recommendations, 2013-2015

Fiscal year	Compensation measures	Other actions recommended *
2013	3	43
2014	2	40
2015	6	66

Source: Municipality of Berat – Internal Audit Unit.

* Include corrective administrative measures and disciplinary actions.

26.4. Response to internal audits

The recommendations issued to the audited entities are generally accepted by management and understood for improving the weaknesses found and to prevent the possibility of new violations or abuses. The implementation of recommendations is followed up by the Internal Audit Unit.

In support of its activities, the Director of Unit highlighted the need to improve the financial management environment in respect to the salary of internal auditors and the planning of more frequent training on the unification of the audit practice and treatment of specific audit findings by various audit units nationwide.

The audit report assesses the extent to which action is taken by the audited entities. This is of critical importance since lack of action on findings undermines the rationale for the internal audit function. Response means that management provides comments on the auditors' recommendations and takes appropriate action to implement them where necessary. Internal audit validates whether the response provided is appropriate.

According to the Director of Internal Audit, line management has provided a partial response to audit recommendations for most entities audited within twelve months of the report being produced. The responses, as also indicated in the HSC audit reports, consisted of the partial repair of losses (in practice, deducted from the budget and accredited to other units expenditure needs) and certain public officials being discharged from duty.

PI	Dimension	Score	Justification for score
PI-26	Internal audit	D+	Scoring Method M1.
26.1	Coverage of internal audit	D	Internal audit is operational for municipal departments and service programs representing only one third of total expenditures and none of the municipal entities collecting the majority of local own revenue.
26.2	Nature of audits and standards applied	B	Internal audit activities are focused on evaluations of the adequacy and effectiveness of internal controls as well as irregular and wasteful expenditure. Audit activities meet professional standards in various high risk areas.
26.3	Implementation of internal audits and reporting	B	An annual audit program was completed in its most part in the last completed fiscal year, as evidenced by the

⁹⁷ The municipal departments and units audited include the Library "Vehxhi Buharaja", the Cultural Center "Margarita Tutulani", Art Gallery "Edward Lear", Enterprise greenery, Pathways Enterprise –Trotuareve, Football Club "Tomori 1923", Municipal Police Directorate, Lira 1 9 Centre, passenger transport Enterprise Berat, Economic Department of Education, Property Management Directorate of the municipality and Social Housing, and Department of Taxation and Markets.

PI	Dimension	Score	Justification for score
			distribution of their reports to the audited municipal units.
26.4	Response to internal audits	B	Management provided a partial response to audit recommendations for most municipal entities audited within twelve months of the report being produced. .

Ongoing reforms

- (1) The MoF Central Harmonization for Internal Audit continues in its pursuit to further review the national standards on internal audit with a view to meet Institute of Internal Audit (IIA) professional standards (International Standards for the Professional Practice of Internal Auditing);
- (2) The IA Unit continues in its aim to improve the follow-up activities by audited departments, documentation of responses and measure the levels of pursuit and progress in the implementation of audit recommendations in a more systematic manner. The recommendations given to the audited systems aimed to correct the weaknesses that generate or create the possibility of infringement or fraud;
- (3) For future work of the municipality audit group the Internal Audit Unit aims to “focus on improving the standards of auditing and audit conducting missions with integrity, independence, objectivity, as well as professionalism. Increasing the quality of audit work, the exercise of periodic checks, as well as a range of controls in higher number of units is the challenge of the work of the ongoing audit.”, as stated by the Director of Internal Audit Unit.

3.6 Accounting and reporting

PI-27 Financial data integrity

This indicator assesses the extent to which treasury bank accounts, suspense accounts, and advance accounts are regularly reconciled and how the processes in place support the integrity of financial data. It contains four dimensions and uses the M2 (AV) method for aggregating dimension scores:

- Dimension 27.1. Bank account reconciliation
- Dimension 27.2. Suspense accounts
- Dimension 27.3. Advance accounts
- Dimension 27.4. Financial data integrity processes

27.1. Bank account reconciliation

A bank account reconciliation is required by the accounting legislation and instructions to ensure the integrity of the accounting records and the financial statements. The Finance Directorate conducts timely reconciliations only for bank accounts controlled directly by Treasury, at end of every month and usually within four weeks from the end of each month⁹⁸. Program managers conduct bank accounts reconciliations on RDF-related bank accounts and other project-related grants as separate processes, some of which on a monthly basis and others on a quarterly basis.

A comparison is made between the purchase orders classified by departments and other administrative units and other expenses appearing as paid in the payment system and the supporting documentation (known locally as “*accrua*”) and the statements by the TDO bank

⁹⁸ Albanian Government, Treasury district branch-monthly report for December 2016 (*Qeveria Shqiperise, Dega e Thesarit te Rrethit-Raportimi Mujor, 12-2015*), dated 11 January 2016.

account (appearing in the column “cash”). A third column on the budget allocated is also provided in the report (identified as “Budget” and relates to the respective Contract in force), for reference only.

A bank account reconciliation statement is issued to ensure there are no differences, and if so, these are explained accordingly and cleared within the next week from the end of each month. Small differences were reported in the monthly statement of December 2015 and then cleared in the following month. The total payments processed amounted to 959,007.51 ALL and total checks cashed amounted to 932,068, 07 ALL thus making a difference of 26,939.44 ALL, which is an equivalent of 0.01% of total expenditure.

27.2. Suspense accounts

Suspense accounts are not used by Berat Municipality.

27.3. Advance accounts

The only advance accounts authorized by the financial system relate to those for which advances are issued to suppliers and vendors under public procurement contracts then liquidated at end of the year. No travel advances to personnel are allowed, the rule is that the travel expenses are paid by employees from their personal means and reimbursed within thirty days upon receipt of proper supporting documentation. No imprest accounts or petty cash accounts are allowed in the local finance practice.

27.4. Financial data integrity processes

Access and changes to central financial records is restricted to authorized officials, the name of the official who accessed and authorized payments on behalf of the Municipality is recorded through electronic means. There is, however, no proof of audit trails or a security-relevant chronological record that provide documentary evidence of the sequence of existing financial processes. Safety and security standards and measures are mandatory⁹⁹ but the evaluation team observed that proper environment and facilities were not in place for safeguarding valuable financial records from possible fire, natural disaster or external hacking. Some but not all finance documents are protected but with basic anti-virus software against possible threat from identified external email senders.

PI	Dimension	Score	Justification for score
PI-27	Financial data integrity	C+	Scoring Method M2.
27.1	Bank account reconciliation	B	Bank reconciliation for Treasury-controlled local government bank accounts takes place at least monthly, usually within 4 weeks from the end of each month. Other bank accounts are reconciled on a monthly and quarterly basis away from the chief finance officer's desk.
27.2	Suspense accounts	NA	Suspense accounts are not used by Berat Municipality.
27.3	Advance accounts	C	Reconciliation of advance accounts takes place at least annually, within two months from the end of the year. Advance accounts relating to contractors are cleared in a timely way.
27.4	Financial data integrity processes	C	Access and changes to records is restricted and recorded, but major risks of asset loss exist on the

⁹⁹ Article 17 of the Accounting Law 9928/2004 establishes that “Accounting records and supporting evidence must be kept for ten consecutive years after the end of the accounting period to which they relate, unless a longer period is compulsory in accordance with another law or regulation. The same period is applicable for computerized data bearer and their printings”.

PI	Dimension	Score	Justification for score
			absence of proper standards and procedures of data safety and protection.

Ongoing reforms

No ongoing reforms have been identified.

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.

This indicator contains three dimensions and uses the M1 (WL) method for aggregating dimension score:

Dimension 28.1 Coverage and comparability of reports

Dimension 28.2 Timing of in-year budget reports

Dimension 28.3 Accuracy of in-year budget reports

28.1 Coverage and comparability of reports

In-year budget reports form the basis for measuring the extent of year-to-date performance through the analysis of revenue and expenditure outturns, with respect to budget estimates. Performance is monitored by two separate Directorates and yet under the control of the Budget and Finance Directorate and the Tax and Markets Department, respectively; none of these reports, however, are published, but kept for internal use only.

The budget execution reports are designed so as to compare coverage and classification of budget execution data to the revised budget estimates (not the original estimates). Actual expenditures are recorded and reported using the modified cash basis of accounting, whereas actual revenues collected are presented using the cash basis of accounting. The former report comprises an aggregation on expenditures by administrative heads and includes expenditures made from transfers to de-concentrated units within the municipality.

28.2 Timing of in-year budget reports

The Municipality's Finance Directorate submits monthly budget execution reports to the Major's Office within four weeks from the end of each month. Reports are not accompanied by an analysis and commentary of budget execution pertaining, for instance, to changes in initial allocations between administrative headings.

28.3 Accuracy of in-year budget reports

The in-year budget reports do not present an accurate analysis of expenditure as this is not provided at both commitment and payment stages thus making the capacity to execute the budget and release of cash funds difficult to monitor. Expenditure is captured at commitment stage only. Data on payments is available through AGFIS but this is not reported in the monthly and quarterly budget reports. Data issues relating to the revised budget estimates and changes in funding across expenditure programs are not highlighted in the report, not useful for analysis of budget execution.

PI	Dimension	Score	Justification for score
PI-28	In-year budget reports	D+	Scoring Method M1.

PI	Dimension	Score	Justification for score
28.1	Coverage and comparability of reports	D	Coverage and classification of data does not allow direct comparison to the original budget for the main administrative headings.
28.2	Timing of in-year budget reports	B	Budget execution reports are prepared monthly, and issued within four weeks from the end of each month. Analysis of changes in initial allocations between administrative headings is lacking.
28.3	Accuracy of in-year budget reports	C	Concerns exist regarding data accuracy thus weakening the analysis of budget execution. Expenditure is captured at commitment stage only.

Ongoing reforms

Since May 2016, budget execution reports are being prepared on a quarterly basis under direct assistance of MoF, with analysis on budget execution outturns still not assessed on the basis of the original budget estimates, also still the reporting of actual expenditures at both commitment and payment stages.

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.

This is crucial for accountability and transparency in the PFM system. It contains three dimensions and uses the M1 (WL) method for aggregating dimension scores:

Dimension 29.1 Completeness of annual financial reports

Dimension 29.2 Submission of reports for external audit

Dimension 29.3 Accounting standards

29.1 Completeness of annual financial reports

For FY2015, the Municipality of Berat issued the five annual financial reports required by law. These include the municipality's balance sheet, which provide a disclosure of end-year financial assets and liabilities, and comparison with FY 2014, including the stock of short-term obligations with Suppliers. The annual financial reports also comprises a statement of operating expenses and a statement of operating revenue, both of which fail to provide a comparison of both the expenditure and revenue outturns with the originally approved budget and an analysis of the revised budget. It rather compares actual expenditure and revenue between the last completed fiscal year and the previous year. Thus, it fails to provide an analysis of the approved to the revised budget and execution of budget, which makes difficult for the public to understand how the asset and liabilities balances add up from one year to the next.

29.2 Submission of reports for external audit

Financial reports for the Municipality are not submitted for external audit by the Finance Directorate, but only to the local council for reviewing and approval.

29.3 Accounting standards

Accounting standards applied to all financial reports are consistent with existing legal framework and financial instructions¹⁰⁰ and ensure consistency of reporting over time. The standards used in

¹⁰⁰ Law No. 9928/2004 on Accounting and Financial Statements, dated 29 April, 2004.

preparing annual financial reports are disclosed and deviations with international standards (i.e., IPSAS reporting standards, IFRS) are not explained.

Missing in accounting standards, for example, is clear and transparent financial and non-financial asset valuation rules as well as those relating to recording of foreign debt transactions compatible to international good practice. Also missing, for example, is a general note supporting the provisioning of a cash-flow reconciliation statement and the purchases of goods and services in the flow of expenses statement being reported on an accrual basis.

PI	Dimension	Score	Justification for score
PI-29	Annual financial reports	D+	Scoring Method M1.
29.1	Completeness of annual financial reports	D	Financial reports for municipal government are prepared annually. They do not compare the outturn with the original approved budget. They include information on revenue, expenditure, and cash balances.
29.2	Submission of reports for external audit	D	Financial reports for the Municipality are not submitted for external audit.
29.3	Accounting standards	C	Accounting standards applied to all financial reports are consistent within the existing financial instructions and ensure consistency of reporting over time. The national standards used in preparing annual financial reports are disclosed; these, however, do not generally conform to international public sector accounting standards (IPSAS) and differences are not explained.

Ongoing reforms

- (1) Revising the current national accounting standards is the fourth pillar (*Modern Accounting and Reporting System*) out of six pillars of intervention in the PFM reform strategy 2014-2020¹⁰¹. Reforms spelt out in this strategy, such as those concerning budget documentation, accounting principles, reporting, performance management, and the design and implementation of the AGFIS, are set to be phased and implemented over the remaining of the plan period;
- (2) Accounting standards will be gradually revised with the ambition of eventually becoming fully compliant with the EPSAS accounting standards, as they are finally defined, which is likely to be only in the next plan period. The internal control systems in central and local government institutions will be strengthened to ensure compliance and propriety but also as a means to enhancing the effectiveness and efficiency of the public sector.

3.7 External scrutiny and audit

PI-30. External audit

This indicator examines the characteristics of external audit. It contains four dimensions and uses the M1 (WL) method for aggregating dimension scores:

- Dimension 30.1 Audit coverage and standards
- Dimension 30.2 Submission of audit reports to the legislature
- Dimension 30.3 External audit follow-up
- Dimension 30.4 Supreme Audit Institution independence

¹⁰¹ The 2014-2020 PFM reform program consists of six pillars of intervention: (1) Sustainable and prudent fiscal framework, (2) Well-integrated and efficient planning and budgeting of public expenditure, (3) Efficient execution of the budget, (4) Transparent government reporting, (5) Effective internal control, and (6) Effective external oversight of the public finances.

Background:

- The High State Control (HSC) is the highest institution of economic and financial control and is established by an act of Parliament. The organizational restructuring and functioning of the HSC is established by Law No. 154/2014, dated 27 November 2014, and the respective implementation rules and instructions;
- The State Supreme Audit Institution, in accordance with its competencies, has the mandate to supervise (1) the economic and financial activity of state institutions and other state juridical persons, (2) the use and preservation of state fund by the organs of central and local government, (3) the economic activity of juridical persons which the state owns more than half of the shares, or when debts, credits and obligations are guaranteed by the state, (4) Government Internal audit bodies, (5) political parties and organizations for the funds given to them by the State Budget, and other entities defined by particular laws.

In response to the mandate above, the State Supreme Audit institution carries out audit plans and activities every year and has the power to request the audit to take appropriate remedy actions in accordance with recommendations request from the audit or next higher level authority to take indemnifying measures and disciplinary actions in accordance with relevant laws towards people who have caused direct or indirect damages.

The State Supreme Audit institution has the power to get a review and a response of the request from the audit within 20 days after the request has been received where public funds procurement procedures are infringed, take actions in accordance with the Procurement Ordinance and refer cases to the relevant court.

HSC carries out its audit activities independently and is not mandated to audit all municipalities annually thus replacing another separate audit requirement which the municipality may engage if wishes so to audit its financial statements through other independent entities. In the case of Berat, the HSC has been carrying out audits every two to three years. The latest audit carried out by HSC in the Municipality of Berat took place in 2014 and covered the period 2011-2013. After being introduced to the final audit report and the draft submitted by the Audit Department the Office of the Mayor decided to approve the Final Audit Report "for the audit of financial legality and regularity" exercise in Berat, and adopt recommendations and require specified measures.

All information that HSC deems necessary for carrying out its tasks are sent by the officials of the audit to the authorized representative of the State Supreme Audit Institution. The SAI can obtain access to working facilities and premises in accordance with its legal mandate. Accordingly, HSC can get accounting documentation with respect to financial and materials values, financial statement and all relevant documentation of economic and financial activity as well as regularity of expenditures from the audit mentioned in Article 6.

Since 1994 there is a Local Government and Territorial Administration Department presently staffed with 25 auditors within the High State Control (HSC), then reorganized in 1998 by Districts, responsible of conducting local government audits on an annual basis—depending on the size of municipalities. There is a risk-based assessment and an audit plan that started in 2015, with two methods of risk analyses: one based on the territorial size of municipalities, and one relating to auditing of financial management processes and systems. Scope of auditing includes traditional financial compliance and in recent years performance auditing.

According to HSC, high risk areas across municipalities concentrate on (1) fixed asset management, (2) procurement, and (3) records management many of which are lacking proper

instructions and Standard Operating Procedures (SOPs) that commensurate to international standards. Significant concerns are expressed by HSC regarding the level of professionalism and lack of administrative sanctions, and more serious, the deficiencies in PFM processes and systems as well as the lack of a comprehensive local finance law.

There is no legal provision in the Law No. 139/2015 on Local Self-Governance requiring the HSC to submit the audited financial statements of municipalities to local councils. There is only a requirement in Article 43 (*External Financial Control and Audit*), items (i) and (iii) that the HSC audit of “self-government units” and reports publicly. On the other hand, Law No. 139 requires that Majors are responsible on an annual basis for “presenting a written report to the local council indicating all of the financial expenditures and implementation of the budget of the local self-government unit and institutions under its authority during the preceding year. This report shall be presented to the municipal council no later than March 31 of the ensuing year” (Article 44, *Annual Report*). The supreme audit institution, nevertheless, does carry out the audit and issues an informed opinion, recommendations and follow up reports in compliance with its legal mandate. . On the other hand, the HSC does not offer a qualified opinion on whether the government’s annual financial reports fairly represent public finances.

30.1 Audit coverage and standards

An audit on the Municipality of Berat was conducted by High State Control and completed on 25 June 2014. It aimed at examining the performance of financial management and internal controls for years 2011 to 2013. The audit found events that led to financial irregularity and wasteful expenditure and other issues of materiality within the organization and provided recommendations with a view to improve the efficacy of fiscal governance and financial internal controls relating to tax collection, payroll and procurement of public funds for the maintenance and construction of economic and social infrastructure and the purchase of goods and services.

The audit report covered the majority of expenditures (about 60% of total) and a low share of revenues (less than 10% of total) and applied national auditing standards. The external audit was programmed by HSC on the basis of a multi-year plan, as required by its governing legislation. Municipal units audited included (1) Department of Education, (2) Centre of Economic Education, (3) Regional Directorate of Monuments and Culture, (4) KF Tomori Football Club, (4) Board of Park Travellers, (5) Procurement Directorate, and (6) Human Resource Management Directorate.

The audit report was organized in three main sections, namely, (1) institutional arrangements and compliance of financial internal controls, (2) financial irregularity and compensation measures, (3) administrative measures, and (4) disciplinary actions.

Auditing on the compliance of internal controls covered budgeting, revenue management, asset valuation, monitoring of payables, human resource management, procurement and project monitoring and auditing.

The audit report highlighted the detection of the following deficiencies in financial internal controls (Section A=Institutional arrangements):

1. Failure to remit payments to tax authorities and social security thus generating losses to the State during three consecutive years;
2. Excessive spending in official receptions and other wasteful expenditure in the Culture Department;
3. Failure to comply with standard procedures on the implementation of the budget;
4. Granting of construction permits and lack of economic analysis of projects selected;
5. Appointment of qualified building inspectors;

6. Controls in the registering the transfer of supplies from one department/unit to another with the proper supporting documentation in the central inventory;
7. Inventories of supplies in schools;
8. Controls in payments without exceeding the revenues approved in the Treasury system.

The Section in the audit report pertaining to fraud investigation and compensation measures against losses detected fraudulent transactions, with goods or services procured and payment operations not adequately processed and recorded thus requiring repairs to be made in favor of the Municipality. The Sections on administrative and disciplinary actions were prepared in pursuance to the Civil Service and Procurement Laws, which required HSC to recommend penalties against senior public officials of directorates and departments incurring in fault of issuing illegal construction permits, and not reconciling and monitoring the execution of contracts and obligations.

There is also a financial report by HSC which aimed at auditing the legality and regularity in granting public partnership of parking in the streets of Portland for the period 01 July 2013 until 30 October 2015. The report was issued on 22 December 2015.

None of the annual financial statements were audited by HSC as part of the audit on final accounts and hence, an independent audit opinion is missing for the past three fiscal years. This not required legally for municipalities, it is rather a requirement for the auditing on final accounts of the general government units including the Municipality of Berat.

30.2 Submission of audit reports to the legislature

None of the audit reports above had been submitted to the local council in the last three completed fiscal years. None of the latest annual financial statements issued by the Municipality received a qualified opinion by HSC..

30.3 External audit follow-up

Despite the audited financial reports not being submitted to the local council, the Municipality has been able to draw on the conclusions and recommendations and prepare and implement an action plan over the recent years. The audit report, which was approved by Decision of the Head of HSC No. 62 dated 30 June 2014, includes a section on the actions recommended and the actions taken by the audited Municipality and respective units.

There has been no follow up Section in the subsequent HSC audit reports for the Municipality of Berat neither is a direct follow up process between HSC and the Municipality authorities. The internal audit, nevertheless, has filled that function and monitored any progress by the Municipality on those actions recommended by both the external and internal auditors.

The Internal Audit Unit benefitted from the latest audit findings published and informally met with the external auditor responsible to discuss. This laid the basis for the Director of Internal Audit to agree with the Office of the Mayor and the local council on a prospective action plan. There is no formal/systematic and comprehensive follow up action plan or strategy within the Internal Audit Unit or elsewhere in the Berat municipal organization, with which to file, follow up and implement the external audit recommendations, or a new procedure to improve and address other weaknesses and challenges in PFM identified by the municipality management.

30.4 Supreme Audit Institution Independence

The independence, mandate and organization of the Supreme Audit Institution of Albania (High State Control) are established and protected by the Constitution and by primary legislation.

- HSC operates independently from the central government with respect to the procedures for appointment and removal of the Head of the HSC as well as the execution of its budget. The Head of the High State Control is appointed and dismissed by the Assembly upon proposal of the President of the Republic. The head is appointed for 7 years, with the right of re-election. The chairman of State Supreme Audit Institution needs to be an Albanian citizen, a university graduate in finance, economics, law and have no less than 10 years of experience in profession. He needs to be a respected person who has not been sentenced for a crime by final court decision.

HSC has full independence in forming its workplan. The Chairman of State Supreme Audit Institution takes decisions regarding: (1) the structure and staff regarding the appointment of personnel employed by HSC, (2) the powers and duties of the directors and organization units, and (3) the wage structure and staff rewards.

According to the European Commission, the SAI's functional, operational and financial independence is set out in the constitutional and legal framework in line with the INTOSAI standards.¹⁰² In our view, however, the HSC's ability to exercise its mandate is dependent on MoF for the planning of its budget. The financial means of the State Supreme Audit Institution are provided from the State Budget where the HSC has a separate budget chapter. The draft budget is proposed by the HSC to the Economic, Financial and Privatization Committee and the latter presents it for approval to the People's Assembly.

HSC prepares its accounts annually in accordance with the budget law. An independent body appointed by reporting to the legislative branch audit its accounts. The HSC presents to the Assembly a yearly report on its activities.

The audit activities of the HSC, however, do not yet comply with international auditing standards. The core of the HSC audit work is a form of compliance audit to large extent, with a focus on identifying irregularities, malpractice and fraudulent activities; it does not yet seek the roots to address the weaknesses in public financial internal controls, practices and tools available by the Municipality and prevent the occurrence of those irregularities and address problems of integrity in the annual financial reports.

PI	Dimension	Score	Justification for score
PI-30	External audit	D+	Scoring Method M1.
30.1	Audit coverage and standards	D	Financial reports of municipal departments and programs representing the majority of expenditures and a minor share of total revenues have been audited using national auditing standards during the period 2011-2013, which is the latest available completed fiscal years. The financial statements of the last three fiscal years never received an opinion by HSC. The audits have nonetheless been useful in highlighting relevant financial irregularity and wasteful expenditure and other material issues and systemic and control risks.
30.2	Submission of audit reports to the legislature	NA	There is no audit of financial reports specified in 29.1..

¹⁰² European Commission Staff Working Document: Albania 2016 Report, SWD (2016) 364 Final, dated 9 November 2016.

PI	Dimension	Score	Justification for score
30.3	External audit follow-up	NA	There is no audit of financial reports specified in 29.1..
30.4	Supreme Audit Institution independence	C	A new Law regulates the functional and operational independence, mandate and organization of High State Control. It enables HSC to operate independently from the executive with respect to the procedures for appointment and removal of the Head of the HSC as well as the execution of its budget. It has unrestricted access to records and information but its mandate is dependent on the MoF for the planning and final allocation of the HSC' budget.

Ongoing reforms

- (1) HSC is committed to improving the quality of audit work in line with the INTOSAI standards. Compliance and financial audit manuals have been updated accordingly and their application is ongoing.;
- (2) Also, HSC continues in its pursuit to strengthening its technical capacities and adopting new auditing techniques and methods in line with good international practice;
- (3) HSC is in the process of expanding the reporting of its audit and corporate activities through the quarterly business bulletin and upgrading its website capacities in order to able to publish all audit reports over the years of Berat Municipality and other municipalities and public corporations they own. There is a protocol with the Association of Municipalities and Communes with the aim of improving the dialogue within the public sector.

PI-31. Legislative scrutiny of audit reports

This indicator focuses on local legislative scrutiny of the audited financial reports of the municipality, including institutional units, to the extent that either (a) they are required by law to submit audit reports to the Council or (b) their parent or controlling unit must answer questions and take action on their behalf.

It has four dimensions and uses the M2 (AV) method for aggregating dimension scores:

- Dimension 31.1 Timing of audit report scrutiny
- Dimension 31.2 Hearings on audit findings
- Dimension 31.3 Recommendations on audit by legislature
- Dimension 31.4 Transparency of legislative scrutiny of audit reports

31.1 Timing of audit report scrutiny

There is no legal requirement for the local council to scrutinize the Municipality's annual financial report as audited by HSC. The practice established by law¹⁰³ is that the Finance Committee rather convenes only on an ad-hoc basis to review the un-audited financial report submitted by the Municipality's Office of the Major. For individual units of the Municipality, in turn, the existing local government legislation is clear in that these are subject to an audit by the HSC¹⁰⁴--a policy and a practice that are in adherence to the budget management system too¹⁰⁵.

¹⁰³ Article 19 (*Authorizing Officer*), Amended Law No. 9936/2008 on Budget System Management (now amended by Law No. 114/2012, dated 7 December, 2012). Accordingly, the Major "shall be accountable and report to the finance committee and the council of local government unit for the implementation and public internal financial control, monitoring, reporting, accounting and internal audit of the budget or special funds".

¹⁰⁴ Article 13 (*Supervision and Control*), item 5, Law No. 139/2015 on Local Self-Governance.

¹⁰⁵ Article 70 (*External Audit*), Law No. 9936/2008 on the Budget Management System of the Public of Albania.

HSC submits an annual report and audit of final accounts to the Assembly, which also contains audits of the Municipality of Berat and/or other municipalities and public corporations.

31.2 Hearings on audit findings

Due to the above, hearings on audit findings do not take place within the finance committee. Hearings occur only on un-audited annual financial statements or other relating financial reports submitted to the finance committee by the Major to the local council.

31.3 Recommendations on audit by legislature

Due to the above, the local council issues recommendations on actions to be implemented by the Municipality on the basis of the irregularities and other findings in the financial compliance audits of Berat Municipality published by HSC in its website and the annual financial statements for which HSC did not provide a professional audit opinion .

31.4 Transparency of legislative scrutiny of audit reports

As prescribed by the current Municipal policies on transparency, consultation and participation¹⁰⁶, debates and hearings take place with open participation by the public except in cases in which the Local Council decides in majority to restrict the access to the public. Hearings have been conducted in public for the un-audited reports only and minutes of hearings are available for the public upon request.

PI	Dimension	Score	Justification for score
PI-31	Legislative scrutiny of audit reports	NA	Scoring Method M2.
31.1	Timing of audit report scrutiny	NA	Audit reports are not submitted to the legislature.
31.2	Hearings on audit findings	NA	Audit reports are not submitted to the legislature.
31.3	Recommendations on audit by local legislature	NA	Audit reports are not submitted to the legislature.
31.4	Transparency of local legislative scrutiny of audit reports	NA	Audit reports are not scrutinized by the legislature.

Ongoing reforms

No ongoing reforms have been identified.

¹⁰⁶ Article 17 (*Open Meetings of the Municipal Council*), items 1-3.

4 Conclusions on the analysis of PFM systems

4.1 Integrated analysis of PFM performance

The 2016 PEFA assessment is the first in its kind for the Municipality of Berat, covering key elements of the PFM system. The seven pillars of PFM performance of the assessment are summarised as follows:

I. Reliability of the Budget

- The extent of execution of the enacted budget in the past three fiscal years forms the basis of budget reliability in the Municipality of Berat. The PFM performance review found that the annual budget outturns were negatively influenced by sharp reductions in planned own receipts. This led to large mismatches in the allocation of budgetary resources across departments/programs, as evidenced by deviations in major budget heads such as roads and public transport and general public services;
- The Municipality's budget proposal reports only expenditure financed through fungible sources, it is not aligned with its medium-term strategic plan, no focus on outcomes oriented monitoring and evaluation, difficult to justify and less likely to fare well with budget analysts and decision makers;
- On the aggregate, the Municipality did not succeed in its bid to exercise control in the use of public resources—total expenditure deviated from the budget by 17%, 10% and 21% (PI-1). Analysis of budget execution shows that outturns of payroll expenditure and purchases of goods and services were kept at relatively low margin, conversely transfers and subsidies and capital projects deviated considerably from the original budget in each of the three years (PI-2);
- Fiscal discipline was not optimal because the municipal government did not apply all the right control tools to achieve this effectively (see weak scores in indicators PI-19, PI-22, PI-23, and PI-24). Notable, however, are the strides being made in increasing the effectiveness of internal controls starting 2015—particularly in the prevention of expenditure arrears and the payment of payroll;
- Reliability of the budget was severely hampered by the lack of projections in earmarked capital grants (HLG-1) and inaccuracy in forecasting of local revenues and deficiencies in revenue collection (PI-3). Deviations of current and capital revenues combined surpassed by more than 80% in each of the three years under review. Transfer disbursements from the state budget are timely and regular, in accordance with a pre-defined schedule (HLG-1.3).

II. Transparency of public finances

- The budget system is based on a budget classification broadly compatible with GFS 2014 and COFOG standards. Recurrent and capital expenditures are itemized in a single budget framework (PI-4). The extended budget documentation comprises a largely incomplete series of economic and financial information, with only two of the four basic elements of information and none of eight additional requirements being fulfilled—namely, forecast of the fiscal deficit/surplus and current fiscal year's budget presented in the same format as the budget proposal (PI-5);
- Majority of revenues and expenditures outside the budget, including urban development and road transportation projects, sponsorships and in-kind donations, are reported in a consolidated report on an annual basis (PI-6). However, performance plans and reports had not been developed, not enabling to monitor and evaluate the efficiency or effectiveness within key service delivery units (PI-8);

- Transparency of the municipal operations is very low, with key information not availed to the public by appropriate means and in a complete and opportune manner. The public has access to only one of five basic fiscal reports and two of four additional pieces of information required (PI-9).

III. Management and assets and liabilities

- The review observed no one in the local finance management function monitoring the economic results and financial risks of municipal entities in which the City Government of Berat has a share of ownership. Information on contingent liabilities emerging from the Water and Sewerage Company is reported partially (PI-10). Public investment management constitutes an area of concern, not operating on a systematic manner and under an integrated PIM approach and standard procedures thus resulting in the absence of economic analysis and proper costing of projects and deficiencies in the process of selecting and monitoring of projects (PI-11). Other deficiencies relate to the majority of financial and non-financial assets resulting thereof confronted with issues of property, ageing and conflicting laws, not being subject to a process or routine of recording and valuing in the accounting system according to modern practice and resulting in serious gaps in financial reports (PI-12);
- The Municipality has not incurred in any new debt with external banks in the past three years and the debt balance owed to the Council of European Development Bank is not reported in the annual financial reports. Short-term debts (expenditure arrears recognized as liabilities with suppliers) are reported (PI-13).

IV. Policy-based fiscal strategy and budgeting

- The budget is formulated with due regard to financial legislation and guidelines. A medium-term budget programme (MTBP) is prepared and begun with the introduction of medium term fiscal forecasts (with exception of 2015) to support the formulation of the budget proposal for the budget year and the two subsequent years—noticeably, however, budget decisions and fiscal plans are troubled by limited information on performance plans and evaluation reports, as noted in PI-8;
- There is no active role by the Municipality in performing fiscal policy research and measuring the impact of potential revenue and spending measures thus resulting in the absence of a substantiated fiscal plan or strategy supporting the budget process (PI 14-15);
- A negative fact is the absence of a practice that supports the formulation of expenditure ceilings in the budget preparation; also detrimental is the dialogue with central authorities in the planning of a resource envelope thus eroding the integrity of the MTBP process and financial programming. Aligning of medium-term strategy plans with capital expenditure and forward estimates is a weakness, generally attributed to miscommunication between budgeting officials and project managers (PI-16). Absence of proper costing of projects has also had negative consequences in the preparation of realistic budgets, as noted in PI-2 and PI-11;
- Detailed budget preparation guidelines are embodied in a fixed budget calendar, notwithstanding this has not adhered to in 2015 due to the haste of the TAR process. The Office of the Mayor failed to submit the budget proposal to the local council with sufficient advance for the past three years, at least one month prior to start of the budget year (PI-17);
- A legislative process for reviewing and approval of the proposed budget is established within the scope of the local council. Standing rules exist for the budget scrutiny but these are simple and partially adhered to, but not providing sufficient time for proper local debate. The Council approved the budget before start of the budget year in two of the last three years. Clear rules also exist for budget adjustment by the executive without Council approval (PI-18).

V. Predictability and control in budget execution

- The review concludes that the Municipality's budget is not implemented in a predictable manner and the compliance of internal controls and efforts to prevent fruitless and wasteful expenditure and fraudulent use of public resources are hindered by limited technical tools and professional resources with which to enforce the PIFC legislation and the lack of appropriate preventative steps within the financial officers and line managers' areas of responsibility;
- Predictability in the release of funds is troubled by inadequate taxpayer information and inability of local tax and service authorities to prevent and collect revenue arrears. The review found that information on local taxes and fee rates and other taxpayer rights and obligations are aimed mainly towards local businesses and tax notifications and updates to deter households from becoming delinquent are not issued by local authorities on a regular and timely basis;
- The stock of revenue arrears as of end-2015 amounted to an equivalent of 22% of revenue outturn, of which almost 90% is overdue more than one year (PI-19). Another hurdle in the effort to prompt the release of funds consists of a bulk of national grants and local funds being cleared to the municipality's Treasury account on a monthly basis. Revenue accounts are reconciled monthly with the Treasury District office in Berat on all sources of revenue, within two weeks of end of the month (PI-20);
- The Finance Officer is monitoring the availability of cash resources on a weekly basis, by making use of the single bank account/District Treasury-TSA facility; thus, allowing to control its balance regularly and evaluate the municipality's ability to meet projected cash flows. A cash flow forecast is prepared for the budget year and updated at least quarterly on the basis of actual cash inflows and outflows. Line managers are provided with reliable in-year information on budget adjustments though with only one month advance notice (PI-21);
- The monthly cash projections are updated on an ongoing basis with automated commitment controls established by the centrally-controlled Treasury payments system. In-year budget adjustments do not appear to be synchronized to a commitment schedule and do not match the quarterly cash disbursement plans or procurement plans within the organization (PI-21);
- There is no definition of expenditure arrears in the current modified cash accounting system of Albania and hence there is no routine process of recording and monitoring of unpaid invoiced obligations. Assessors found evidence of outstanding debts to suppliers (past due payments owed, mainly by communes starting 2015) and using the data on carry-forward obligations at year-end indicates that clearance has taken place thus resulting in a sharp decrease of arrears in the past two years (PI-22). MoF instructed the Municipalities in 2015 to consolidate and pay off overdue bills inherited from communes and also to exercise tight control of commitments and purchases within Berat territory. A payment plan with suppliers has been agreed and as result, the build-up of expenditure of arrears has been cleared in its most part;
- Internal controls within personnel management and the process of reconciling personnel account records within the Municipality had been assessed by HSC and were considered ineffective. Serious irregularities had been found in instances whereby municipal staff were appointed without matching the job skills and qualifications required, allowing illegal payment to members of executive boards, without legal support and records, thus resulting in wasteful expenditure in 2011, 2012 and 2013. Corrective measures were undertaken and at the time of the PEFA assessment evidence supported the effectiveness of internal controls improved in regards to the integration of payroll and personnel records and the management of personnel changes. . Certain challenges, nonetheless, prevail in the efforts to ensure the integrity of the appointment of personnel and the payroll payment processes. The shortage of local oversight capacities remains a challenge in the aim towards enforcing of Public Administration Policies, Regulations and Procedures governing the civil service, particularly those pertaining to recruitment, appointment, promotion and retirement (PI-23);
- Municipal expenditures concentrate mainly in the procurement of public works and purchases of goods and services—averaging more than half the total expenditure over the past three years,

not commensurate though with scores in the effectiveness of internal controls. Notably, the procurement framework has evolved positively in terms of the institutional setup, the segregation of roles and responsibilities, and functioning of the procurement appeals mechanism. One salient feature is the information on tender opportunities and contracts awarded being available through local media and APP website. Open tenders have become the default procurement method; minor purchases, however, are reportedly overpriced, without an e-procurement facility or other means that can support the internal control on pricing of goods and services. Major strengths in the legal and regulatory framework are eclipsed according to HSC by weak procurement monitoring and internal control capacities within the public procurement function in Berat Municipality (PI-24);

- The amended national financial legislation establishes the general principles and segregation of duties governing the budget process, the approval mechanisms and general restrictions. Restrictions include those applying to authorization of resources spent within the spending limits (PI-25). Accordingly, the municipality's budget is approved yearly by the local council, which included expenditure control measures for in-year budget adjustments, as noted in PI-18;
- The public financial internal control legal framework is comprehensive and conforms to international standards but the lack of an AGFIS payment processing facility within the municipal organization continues to hamper substantially its effectiveness and particularly the improvement of financial planning, automation of financial controls, and simplifying, processing and reporting of financial transactions. A recent audit found financial management and internal controls systems operating mostly in a dysfunctional manner, with irregularities in the payments system, procurement procedures, inventory and valuation of public property, and lack of information on legislative changes and updated manuals (PI-25);
- The internal audit function within the municipality has played a major role in assessing the effectiveness of financial management and internal controls and enabling future operational efficiency gains within the Municipality. The Internal Audit Unit is in the process of building further strength, not being able to cover the majority of line departments, applying the risk-based approach to audit planning and programming, eager to apply other modern audit methods and techniques. For the time being it is not possible to assess the effectiveness of the internal audit role and benefits in the improvement of service delivery (PI-26).

VI. Accounting and reporting

- Strong performance has been recorded in the process of monitoring and controlling of, and prompt action to recover, cash balances owed to the municipality. This is attributed to the effectiveness of reconciliation of the Berat Municipality one official bank account with only minimal unexplained differences not being cleared as of end of every month, and so is with advance accounts as well (PI-27);
- The in-year budget information is issued on a monthly basis, but intended for internal use only, not availed to the public, not presented with the content and reporting standards required according to good practice (PI-28). The Municipality produces consolidated financial statements in adherence to national standards, which are yet to be reformed to IPSAS reporting standards. Annual financial statements are prepared in adherence to financial legislation, as part of the audit of final accounts, but are not audited and certified by HSC or other authorized independent auditor in a consistent and timely manner. Annual financial reports include information on revenue, expenditure, and certain assets and liabilities. The statements on operating revenues and expenses, however, do not present a budget outturns analysis, with the basis being the original estimates (PI-29).

VII. External Scrutiny and audit

- Audi reports of the Municipality's annual financial statements are not submitted to the local council, and this action is not required according to local governments legislation. Moreover,

financial audits do not yet result in professional audit opinions (PI-30). These invalidate any scrutiny of annual financial reports by the local council, as a result.(PI-31).

4.2 Effectiveness of the internal control framework

4.2. Effectiveness of the internal control framework

An effective internal control system plays a vital role across every pillar in addressing risks and providing reasonable assurance that operations meet the four control objectives: (i) operations are executed in an orderly, ethical, economical, efficient, and effective manner; (ii) accountability obligations are fulfilled; (iii) applicable laws and regulations are complied with; and (iv) resources are safeguarded against loss, misuse and damage.

Public Internal Financial Control (PIFC) is the overall internal control system performed by the Municipality of Berat, which is compatible with international standards. It aims to ensure that the financial management and control of the organization complies with the relevant legislation, budget requests, and the principles of sound financial management with transparency, efficiency, effectiveness, and economy.

PIFC is designed so as to cover all activities aiming control of incomes, expenditures, activities and, liabilities of the Municipality. It also includes central harmonization and coordination of financial management and control as well internal audit. PIFC systems aim to provide adequate and transparent methods and organizations to provide a reasonable assurance that public funds are being used for the objectives selected by the budgetary authority (i.e. Mayor and Local Council).

PIFC is a term and concept developed by the European Commission to assist the understanding and implementation of well-developed and effective control systems during the EU Accession process and to ensure sound PFM. Its aim is to ensure that public funds (both national and EU) are well managed and cost effectively controlled.

The PIFC system consists of three main pillars¹⁰⁷:

- Strong financial management and control systems to carry out the tasks of planning, programming, budgeting, accounting, reporting, archiving and monitoring;
- Functionally independent and objective Internal Audit (IA) service, supporting management/Accounting Officer and giving an objective assurance and advice, that risk management and control and governance processes are established in accordance with the rules and standards, and with the principles of sound financial management, in order to improve the achievement of objectives; and
- Central services in the Ministry of Finance (MoF) - for developing and implementing a harmonized methodology and standardized quality of the FMC system and of the internal audit service applying to the municipalities (known as the Central Harmonization Unit or CHU FMC and CHU IA).

Legal foundations

The Internal control framework of Berat Municipality is built on a solid legal foundation, embodied in the Law 10296 on Financial Management and Control (2010) then amended in 2016, and the related FMC Manual and instructions, in line with European standards. The legal basis was broadened with the approval of law no.9720 (2007) on Internal Audit in the Public Sector, then amended in 2015.

¹⁰⁷ "Finance Management and Control Manual", Chapter II-FMC General Rules, p. 13, Ministry of Finance, 15 July 2010.

As noted in preceding sections, many financial laws have been amended over the years to reflect more modern management concepts in local government. They set out concepts of accountability, authority and responsibility, and delegation of authority and provide for better management mechanisms including internal control, internal audit, and management responsibility. As a part of the legislative improvement process, in 2008 the Assembly approved the law No.9936 then amended in 2016 on the Management of the Budgetary System, known as the new organic budget law, where the introduction of PIFC is set out. The law sets out rules and procedures in broad lines for drafting and implementing the budget and every year, guidelines are to be provided for the application of this law. This law provides the rules of budgetary accounting in accordance with approved classification and sets forth sanctions for budgetary discipline. The law defines inspection, auditing, and reporting for the budgetary system.

The law on Accounting, which was originally approved in 1993, was amended by a new law passed in April 2004. This law sets out the standards of accounting for government and also provides for a group of other acts that are required to complete the framework for this law and for accounting, in general.

The law on the Status of the Civil Servant, approved in 1999, then updated in 2013, touches on several aspects of the administration of human resources. This law sets out some key internal control rules on the recruitment of civil servants, but does not extend to the analysis and use of these sources at the functional level. Neither does it stipulate organizational responsibilities for the development of human resources. In addition, while this law regulates the activity of human resources, it does so only for a small part of the entire public system.

The law on Public Procurement, its sub-regulatory acts, and a manual on public procurement comprise the framework for procurement. The legal framework on public procurement, according to the latest EC annual report on Albania¹⁰⁸, is largely in line with the EU directives on classical and utilities procurement, and relevant administrative and budget provisions. Full harmonisation with the directives in the water, energy, transport and postal services sectors as well as in defence and security has yet to be achieved. It is conveyed that the PPA has strengthened its monitoring function with the launching of a procurement performance and compliance monitoring system based on performance indicators, and yet further support to contracting authorities is in general needed, as well as the strengthening of the e-procurement system, monitoring of contract implementation and analysis of public procurement market trends. The Berat Municipality's capacity to manage public procurement procedures needs to be improved substantially. Compliance is generally weak, especially in more complex procedures

A new law has been drafted on internal audit, and positive developments have been noticed in the organization and functioning of the internal auditor profession in the public sector. However, a clearer division between the auditing activity and inspection is still required.

A major harmonization of the legal and regulatory framework has been realized in the area of PIFC. Most of the methodologies and guidelines were drawn up and published starting 2010 in the Ministry of Finance website. The FMC manual was subject to updates, most recently in 2015 and 2016.

¹⁰⁸ European Commission Staff Working Document, Albania 2016 Report, SWD (2016) 364 final, Brussels, 9 November, 2016.

The internal control framework

The new PIFC system is based on the COSO model¹⁰⁹. Financial Management and Control in the public sector¹¹⁰ is achieved through:

1. The creation of an efficient and effective control environment;
2. Effective risk management;
3. The proper implementation of control activities;
4. Management of communication and information;
5. Monitoring the control activities of the public sector entity.

The Ministry of Finance is leading the public finance reform, based on best practice applied by European Member States and in conformity with European Commission requirements as specified in Chapter 32 of the EU Acquis Communautaire related with PIFC. In this context the MoF has assumed the responsibility of law to provide the guidance to the Municipality of Berat in the implementation of PIFC as the basis for monitoring and control of public finances. A dedicated unit within MoF (the Central Harmonization Unit/PIFC) collaborates with the Municipality's Financial Management Directorate and Internal Audit Unit with the purpose to review and resolve problems and to introduce cooperation in the frame of the established effective internal control systems.

In keeping with the set concept, CHU/PIFC has undertaken several activities during the last years for the establishment and development of the system within the Municipality, including: the adoption of the initial strategic documents, drafting of laws, the creation of organizational capacities and capacity building, and the implementation of the system with the public units. Whilst various municipalities of Albania continue in the process of adopting and applying the FMC Manual, a confusion remains about the concept of "control" across municipalities in the transition to the new control system, as scholars and local public officials regard it with the old communist concept, which was considered the responsibility of auditors or inspectors, and not management¹¹¹.

Effectiveness of internal controls in the Municipality of Berat

Albania has a well-developed PIFC legal framework in place, nevertheless the Municipality of Berat has many problems with implementation of internal controls, as noted in the relevant assessment indicators of Section 3.

Payroll management in the Municipality is weak in absence of a full establishment list, directly linking the roster of public employees and the payroll. A new Civil Service law has been approved and its implementation is on-going.

Over the past few years, the public procurement system in Albania has improved a great deal from a legal, institutional and practical point of view. E-procurement has been introduced. Procurement planning is compulsory but not performed adequately within the Municipality. The Public Procurement Agency's website publishes forecasts, tenders and contract awards in a great amount of detail.

Public accounting in Albania is presently done on cash basis for revenues and on a modified cash basis for expenditures. The municipality's computerization of financial transactions and integration with Treasury-controlled AGFIS is in progress, with manual labour being predominant thus

¹⁰⁹ Committee of Sponsoring Organizations of the Treadway Commission (COSO) is a private sector initiative, jointly sponsored and funded by: American Accounting Association (AAA), American Institute of Certified Public Accountants (AICPA), Financial Executives International (FEI), Institute of Management Accountants (IMA), The Institute of Internal Auditors (IIA), dedicated to providing thought leadership through the development of frameworks and guidance on enterprise risk management, internal control and fraud deterrence.

¹¹⁰ See Annex 3 for a broad description on each of the five key elements in the PIFC control model of Albania.

¹¹¹ Albania Rule of Law Program (2014), *ibid*, and Almida Kafia (2014), Public Internal Financial Control: Evidence from Albania, *European Journal of Economics and Business Studies*, May-August 2015, Vol. 2, No. 1.

endangering the effectiveness of commitment controls and other public financial internal controls. To complement, AGFIS includes modules that are used for the management of some of the Government's assets, for commitment accounting, and for the management of debtors and creditors. The goal is to develop the accounting standards and extend the functionality of the AGFIS so as to turn it into a proper integrated financial management information system.

It is widely recognized that the reform of the PIFC legal framework has been intense over the past five years thus resulting in a framework that is generally compatible with international standards. The legal basis for internal audit has been revised to raise the status of internal auditors. A key PFM weakness in the Municipality of Berat is that financial internal controls are not fully compliant viewed in the context of the current AGFIS environment and that non-compliance is insufficiently reported and sanctioned. There is limited awareness and understanding in the transversal nature required in PFM systems for preventing room for malpractice and fraudulent activity. Audits are overly focused on penalising rather than focusing on implementing systems and business processes for improved compliance. As capacity is a limiting factor, training will constitute a key component in the reforms aimed at improving the quality and impact of internal control and audit.

HSC has developed a capacity development strategy and a twinning arrangement is in place. The HSC has performed an audit to the Municipality of Berat in 2014 and found serious problems with effectiveness of internal controls in financial management thus resulting in financial malpractice and fraudulent and irregular expenditure. A new law to modernize its mandate and jurisdiction, in line with international standards, had been enacted and a more meaningful progress in its audit activities is envisaged.

The MoF CHU/PIFC has instructed the Mayors to prepare and sign a statement and annual report on the quality and functioning of the internal control system over the previous budget for his/her Municipality, which includes all its spending units and controlled entities¹¹². Through the statement, the Mayor assumes responsibility for management with efficiency, effectiveness and economy of financial and non-financial entity and asserts that the system of internal control supports the achievement of objectives, policies and goals of his unit. In practice, the Mayor of Berat does not submit such a key report.

4.3 PFM strengths and weaknesses

As public financial management concerns the efficiency and effectiveness of the use of public resources, the interdependence of the components of the budget cycle means that weaknesses in one part can adversely affect other parts thereby constraining the achievement of better budgetary outcomes. Conversely, improvements in one area which are not matched by corresponding changes in other areas can undermine the initial reforms. The strengths and weaknesses of Berat Municipality's financial management and internal controls system found in the assessment have an impact on the three measures of budget effectiveness – aggregate fiscal discipline, allocative efficiency and efficient service delivery. This is summarized below.

a) Aggregate fiscal discipline

The objective of enabling fiscal discipline is not being achieved within the Municipality due to ineffective control of the total budget and management of fiscal risks.

¹¹² Instruction No. 28, dated 15 December 2011, on the Presentation of the Quality Statement and Annual Report on Internal Control System in Public Sector.

The fact that the budget preparation takes place within an environment of reduced and highly volatile receipts does not help the local government achieve aggregate fiscal discipline in a prudent manner. The challenge lying ahead lies on trying to spend in a more efficient and economical manner, that is, the Municipality seeking to achieve more with less resources in a prospective environment led by a fast growing population in the Berat territory demanding for more and better services.

The planning process is seriously hampered by the lack of credible information on available capital and own resources, and spending ceilings not being a mandate, thus eroding the credibility of the budget. Also the ability of the local tax and service authorities not being able to collect fees for services rendered and past due bills puts the local budget coming under increasing strain.

b) Strategic allocation of resources

The objective of enabling strategic allocation of resources is not being fulfilled due to the inefficacy and poor coordination between planning and executing of the budget, not in line with national and regional priorities not achieving policy objectives.

Weaknesses in local tax administration and the enforcing of salary and non-salary internal controls, constitute a concern to the local authorities and its pursuit to further increase the revenue base and create more fiscal space for investing in key infrastructure projects and heightening the territory's economic competitiveness meaningfully. The excessive use of virements and the amendments and expansion of the budget with formal ex-post regularisation continued to erode budget credibility and hinder fiscal discipline at large.

The preparation of the budget on a three-year rolling basis under the MTBP helped setting the framework for relative budget priorities, which should be reflected by means of spending ceilings by main budget heads. The strategic policy and sectoral/programmatic objectives set out in the urban vision and development plans and medium-term strategies could possibly provide the basis for guiding inter- (and intra-) departmental allocations.

The PEFA assessment presented the state of affairs whereby local finance and economic planning authorities fail to link policy, planning and budgeting thus becoming the single most important factor contributing to poor budgeting outcomes at the strategic and operational levels. In Berat Municipality, the systems and processes are largely fragmented with policy making, investment planning and budgeting taking place independently of each other. A bulk of capital expenditures funded under RDF are not accounted for through the planning process, and a large portion of recurrent expenditures are pre-committed to the wage bill. For this reason, annual budgeting is reduced to allocating resources mainly across the procurement of non-RDF and locally funded capital projects and to the salary portion of the recurrent budget.

In addition, line departments tend to budget and spend on an ad hoc basis because even small discretionary allocations are rarely predictable. Unpredictability of funding, particularly in the release of funds to RDF-related projects from one year to the next and within the budget year, is one of many factors that contribute to the poor operational performance of Berat Municipality.

Other weaknesses relating to the strategic allocation of resources are the failure by budget authorities to direct resources to policy priorities because budgeting is treated as an annual funding exercise, not a policy-based exercise - and the lack of authority and responsibility given to line managers to manage resources at their disposal according to law. Other underlying causes of resource misallocation lie on the failure to cost the development strategy and medium term investment plans and establish policy linkages between the budget year and subsequent years'

allocations. Lack of performance budgeting and MTBP allocations not being aligned to major program outputs and outcomes had not facilitated the allocation of resources to achieve strategic objectives either.

Evidence assessed also shows the lack of predictability in the release of RDF funds not allowing line departments to plan and manage resources adequately, within the time frame of the annual budget cycle and over the longer term. This turned out into a loss of control management and value for money.

Increasing predictability of resource flows and the criteria by which funding decisions are made do not seem to have been the objective of the medium-term approach. The resource allocation process has been plagued by uncertainty, much of which is self-inflicted. The common tendency to make overly optimistic projections of own revenues is one example of Berat Municipality itself increasing the uncertainty of resource flows.

Thus, the complete mismatch between policy decisions and available resources has become a major source of uncertainty, again self-inflicted because it could be avoided by implementing a rigorous process that links policy making, planning and budgeting.

Key to increasing predictability and strengthening the links between policy, planning and budgeting is an effective forum at the centre of Berat government and associated institutional mechanisms that facilitate the making and enforcement of strategic resource allocation decisions. The role of the Strategic Management Group in achieving this objective has been largely ineffectual.

c) Efficient service delivery

The efficient character of service delivery in Berat benefits essentially from effective payroll controls as well as from the availability of information on resources received by primary service delivery units locally (education, social care and roads maintenance). The process, however, is weakened essentially by the absence of proper financial programming and procurement planning and ineffective internal controls for non-salary expenditures.

Municipal authorities have not been able to use budgeted revenues to achieve the best levels of public services within available resources.

Low levels of predictability in the release of RDF funds and other funds, weak linkages between in-year budget adjustments and procurement plans and the ineffectiveness of financial internal controls within public investment management and procurement management are among the shortcomings identified hampering the operational efficiency of service delivery.

Staff appointments, salary increases and procurement processes are considered deficient, which are likely to limit the provision of basic public services and the efficiency of ongoing institutional activities in Berat. The ability for planning and management of service delivery is also affected by the deficiencies in the in-year budget reports and adjustments to budget allocations.

d) Integrity of financial data

- The three above mentioned budgetary outcomes are influenced by the integrity of fiscal information, which is well supported by the good reconciliations of bank accounts but not by the poor quality of annual public accounts (financial statements). The integrity of fiscal information is also affected by the inadequate or lacking local council scrutiny of the annual budget appropriation bill and external audit reports;

- There are major concerns regarding the quality of financial data. The audits undertaken by HSC have not been able to reveal deficiencies affecting the quality of financial data managed by the Municipality of Berat, particularly those relating to the inventory of assets - including their ownership, usage and valuation;
- The PEFA assessment reveals serious gaps in the completeness of financial reports and in accounting standards. Also, the indicator assessment in section 3 pinpoint the risks to data integrity from lack of audit trails and use of multiple stand-alone computer systems to generate financial records in several important areas, even if the general use of the Treasury's centralized receipt and payment systems provide some degree of assurance of the completeness and accuracy of the financial data.

5 Government PFM reform process

5.1 Approach to PFM reform

In recent years Albania has faced substantial challenges in maintaining budgetary discipline and in strategically allocating the public resources. The Government of Albania adopted on 10 November 2005 (Decision of Council of Ministers no 692) the Integrated Planning System (IPS), which is a set of operating principles to ensure that government policy planning and monitoring as a whole takes place in as efficient and harmonized way as possible. The IPS is the key national decision-making system for determining strategic direction and the allocation of resources. There are two core processes that cover all government organizations and activities:

- *National Strategy for Development and Integration (NSDI)*, which establishes the government's medium to longer term goals and strategies for all sectors based on a national vision; and
- *The MTBP*, which requires each ministry to develop a 3-year plan to deliver programme outputs to achieve its policy objectives and goals within the ministry's expenditure ceiling as set out in the government's fiscal plan.

However, in practice, the sector strategies have not had this guiding function as they have tended to be free-standing, one-off documents with little reference to assessments of what financial and human resources could possibly be available to implement the strategies. Introducing MTBP as an instrument for aligning the budget with the general and sector policies of NSDI represents one of the main challenges. Moreover, the process itself for initiating, appraising, prioritizing, and approving, and eventually contracting for capital investment projects has been much less orderly than intended and what would be desirable. In addition, as the Ministry of Finance during the past years have had to take on the primary responsibility for adjusting the budget mid-year, the line ministries' faith in the MTBP process has suffered. The preparatory budget ceilings were not respected and the quality of the budget requests has declined.

In order to address these issues, in December 2014 the Government of Albania approved the "Public Finance Management (PFM) Strategy 2014-2020". This is an ambitious series of actions aimed at ensuring that the country develops "a public finance system that promotes transparency, accountability, fiscal discipline and efficiency in the management and use of public resources for improved service delivery and economic development".

The main thematic priorities of the reform strategy over the medium-term are summarized below:

- Prudent macroeconomic framework and fiscal policy with the objective of decreasing the debt/GDP ratio over the medium-term;
- Elimination of arrears and prevention of their recurrence;
- Tightened commitment control, control of multi-year commitments and pre-commitments, and an enhanced financial control system;
- A prudent, well-functioning multi-year budget process;
- Strengthened revenue collection, and compliance with the objective of decreasing tax evasion and the tax gap;
- A well-trained and capable internal audit function;
- Increased transparency and better accountability mechanisms;
- Efficient public procurement system to improve the quality of public spending.

The PFM reform strategy is organized on six pillars:

- Sustainable and prudent fiscal framework;
- Well-integrated and efficient planning and budgeting of public expenditure;
- Efficient execution of the budget;
- Transparent government financial reporting;
- Effective internal controls;
- Effective external oversight of the public finances.

While the general responsibility for the reforms implementation oversight rests with the Ministry of Finance, the PFM strategy involves the entire government sector, i.e., including the municipalities, High State Control and Parliament. Thus the overall responsibility for the successful implementation of the strategy is shared among all these public sector stakeholders. To ensure the effective implementation of the reform strategy and to facilitate coordination of efforts, a Steering Committee has been established by the Prime Minister Order no. 202 dated 25 August 2014. The PFM Reform Steering Committee is the oversight committee with responsibility for directing and monitoring PFM reform activities.

As reported by the Ministry of Finance in its 2015 Annual Monitoring Report, although the PFM strategy implementation lacked a structured and coordinated approach to monitoring informal meetings and discussions were held during the year 2015 among the head of pillars/activities on the on-going activities. Furthermore, many of the reform activities of the PFM strategy are reported and fall under the National Program for Integration in EU, the Public Finance Policy Based Guarantee from the WB (Policy and Results Matrix) and the IMF three years Program.

5.2 Recent and ongoing reform actions

The Ministry of Finance coordinates PFM reform and is responsible for reporting on implementation of the PFM Strategy and Action Plan. The role of other key institutional actors was limited to their respective arrears such as High State Control taking a lead on external audit reform, General Directorates of Tax and Customs leading revenue management reforms, or Public Procurement Agency leading efforts in procurement legislative framework, hence a better coordination is needed.

As mentioned in the first annual monitoring report of the PFM strategy, the Ministry of Finance has made a good progress in the implementation of its Public Financial Management Reform Strategy. In particular, the following areas have benefited the most:

- The National Strategy for Development and Integration 2015-2020, which form the framework of the comprehensive strategic development for the country, was approved with the Decision of Council of Ministers no 348 dated 11.5.2016;
- The amendments to the Organic Budget Law aiming to provide some aspects of the fiscal rules in order to reduce the debt/GDP ratio creating in this manner conditions for long-term sustainability of public finances and other important changes related to public investments were approved by the Parliament on 2 June 2016;
- Strengthened capacities in the compilation and dissemination of government finance statistics (GFS) data and in improving the forecasting methodologies within the Department of Macroeconomics and Fiscal Policy through a technical assistance provided to the Ministry of Finance and INSTAT by the State Secretariat for Economic Affairs;
- Improved 2016 annual budget as included an estimation of budgetary ceilings for the period 2017-2018 making the ceilings for the three years of the Medium Term Budgeting Program (MTBP) binding;

- Strengthened the legal and institutional framework of public procurement by amending the existing Public Procurement Law and issuing several Council of Ministers decisions and instructions aiming to encouraging the use of modern procurement technique. Actions to enhance the e-procurement system to make it capable of meeting the new requirements under the new EU directives and to support economic operators in their participation in public tenders were also performed;
- Prepared and published in the Ministry of Finance (MoF) website for the first time the Government Finance Statistics Annual Report for 2014 in accordance with the latest Handbook of International Monetary Fund (GFSM2014). Also, the Reporting unit finalized the registration in AGFIS of all the foreign-funded projects for the period 2010-2014 and is completing the local government financial statements, which will be reported under the Government Consolidated Financial Statements that are intended to be finalized and published within the first half of 2016;
- Improved several laws in the Financial Management and Control (FMC), Public Financial Inspection and the Internal Audit areas and enhanced the capacities through a Twinning project between Ministry of Finance of Austria and Ministry of Economy and Finance of France, on the “Implementation of a modern system for Financial Management and Control and Public Financial Inspection in Albania” that started in September 2014. Finally, 7 pilot entities, including three LGU are being assisted by the twinning to implement FMC requirements;
- A new Law which regulates the functional, operational and financial independence, mandate and organization of the High State Control was introduced by the end of 2014. The law also introduced some new International Standards for State Audit Institutions based requirements such as the use of financial and/or performance audit. New audit methodologies have been prepared following the new law and extensive capacity building activities were held during 2015. In addition, a Twinning project between Albania High State Control and State Audit Office of Croatia and Poland, on the “Strengthening of external auditing capacities” started in March 2016. The Twinning project is financed by EU under IPA 2013 and the main objectives are: (a) improvement of legislative framework for audits, (b) Development of audit methodologies, and (c) strengthening of HSC institutional capacity;
- The Albanian Government Financial Information System (AGFIS) is being rolled out to 8 additional Budget institutions (BI), not including Municipality of Berat after being implemented to 7 entities.

Locally, Berat Municipality has been audited extensively thus indicating existence of irregular and wasteful expenditure as well as presence of malpractice and malfunctioning in a range of financial processes, such as procurement, payroll, revenue collection and asset inventorying and valuation. Action plans had been prepared on the basis of audit findings and administrative measures recommended by auditors and instructions were issued to execute (Decisions). Actions taken consisted mainly of administrative sanctions and removal of public officials found responsible.

PFM reform action plans and capacity building programs within the Municipality are steered, controlled and executed mainly under MOF, the National Treasury and other central PFM institutions. A comprehensive PFM reform strategy 2014-2020 has been laid out within MOF so as to cover legislative reform, capacity development, process transformation and change management, and development of a full-fledged IFMIS facility with a view to improve PFM processes and systems and the efficiency of service delivery within the general government inclusive of local governments¹¹³.

As noted in Section 4, a number of legal and regulatory reforms as well as institutional strengthening and reform initiatives in PFM had taken place locally over the past five years, which had resulted in initial progress in the performance of financial management and effectiveness of

¹¹³ Albania Public Finance Management Strategy 2014-2020, Ministry of Finance, December 2014.

internal controls. One salient feature is the creation of the Internal Audit Unit and the build-up of basic technical capacities under the guidance of MOF CHU/PIFC. HSC has played a role in monitoring solely the progress of administrative Decisions within the Municipality. On-going reforms did not seem to have progressed meaningfully in strengthening of personnel and procurement management processes, systems and internal controls.

As have been shown in this assessment, there are major weaknesses in PFM that must be addressed with some urgency in order to strengthen fiscal discipline and align management with international standards. Those which are most critical are internal controls which have impact on most of the municipal government's financial management operations. Particularly procurement of public works must be brought more to the forefront of reforms given the huge part of government expenditure it represents.

Berat Municipality's prospects for reform implementation should be regarded as negative considering the low impact of the reform programmes not resulting in major visible contributions in improving budgeting, financial recording and reporting and fiscal transparency. The improving of budgetary planning and the MTBP process, the soundness of TSA and the resultant monitoring of cash resources, the improving of cash flow forecasting, and support to the establishment of Policy to Guide Uniformity in Procurement Reform Processes in Government are just few examples of successful reforms. A continuation of the PFM reform programme mentioned above is vital. However, it is essential that MOF, the Treasury and other PFM institutions continue to work jointly with the Municipality and line management units and facilitate ownership of the reform process to better facilitate the reforms and ensure their sustainability.

5.3 Institutional considerations

The commitment to continuing improvements in PFM in Albania has political support at a high level especially through the Minister and Deputy Ministers of Finance. However, a number of issues need to be more substantially addressed in this framework such as:

- Well-functioning of PFM systems are meant to enable the government to deliver on the main outcomes of the budgetary system, namely (1) aggregate fiscal discipline, (2) strategic allocation of resources and (3) efficient use of resources for service delivery. The degree of achievement of these outcomes has major implications for the economy as a whole in terms of growth and human development. The current PFM reform programme is not based on an assessment of the extent to which these budgetary outcomes are achieved and what weaknesses in the PFM systems may be most important in hindering the achievement of the outcomes;
- Some reforms are unlikely to achieve their objectives unless other PFM functions have reached certain levels of performance – an often mentioned example is the lacking impact of MTBP budgeting in an environment with low levels of aggregate fiscal discipline. Such linkages need to be addressed through sequencing of reforms at the technical level;
- Capacity constraints remain another important challenge to PFM reform efforts. In Albania, frequent reorganizations of the public sector have eroded the ability of the Budgetary Institutions in general and of the MoF in particular to deliver on its core functions. The MOF is clearly understaffed in a number of key areas, which has undermined its ability to conduct sound technical work and economic analysis. In several areas, most notably macro-fiscal policy and public investment management, reorganizations have resulted in an unfocused mandate, poor coordination, and the fragmentation of core public finance functions across separate entities. These issues make it impossible for the MOF to build a solid foundation for carrying out its role in the public sector;

- The development of manuals and procedures, delivery of targeted training and capacity building should be included in the strategy where significant changes are envisaged. Inclusion of an assessment of the supporting activities will provide a more robust basis for costing the strategy.

All of these factors call for reconsideration of PFM reform prioritisation and sequencing, and for establishment of an institutional framework for deciding reform sequencing as well as subsequent coordination of PFM reform implementation, financing and monitoring.

Annex 1. Performance Indicator Summary

PEFA INDICATOR/Dimension Title	Score	Description of requirements met
HLG-1. Predictability of Transfers from a Higher Level of Government	D+	Scoring Method M1.
HLG-1.1 Annual deviation of actual total HLG transfers from the original total estimated amount provided by HLG to the SN entity for inclusion in the latter's budget	A	Aggregate transfers from the national government fell short the original estimates by 0.03% in 2013, and exceeded by 46% and 16% in 2014 and 2015, respectively.
HLG-1.2 Annual variance between actual and estimated transfers of earmarked grants	D	Actual earmarked grants fell short the original estimates by 0.2% in 2013, and exceeded by 81% and 29% in 2014 and 2015, respectively.
HLG-1.3 In-year timeliness of transfers from HLG	A	Transfer disbursements are timely and regular, in accordance with a pre-defined schedule.
PI-1. Aggregate expenditure outturn	D	On the aggregate, actual expenditure deviated from the originally budget estimates by 17%, 10% and 21% in 2013, 2014 and 2015, respectively.
PI-2. Expenditure composition outturn	C+	Scoring Method M1.
2.1 Expenditure composition outturn by function	C	Variance in expenditure composition by functional classification averaged 18%, 4% and 14.4% in 2013, 2014 and 2015, respectively.
2.2 Expenditure composition outturn by economic type	B	Variance in expenditure composition by economic classification averaged 12%, 9% and 9% in 2013, 2014 and 2015, respectively.
2.3 Expenditure for contingency reserves	A	Actual expenditure charged to a contingency vote averaged 0.1% over the past three years.
PI-3. Revenue outturn	D	Scoring Method M2.
3.1. Aggregate revenue outturn	D	Collection of revenue averaged, respectively, 76%, 84% and 80% of originally budgeted estimates.
3.2. Revenue composition outturn	D	Variance in revenue composition was more than 15% in two of the past three years: 29% in 2013, 30% in 2014 and 29% in 2015.
PI-4. Budget classification	A	The 2015 budget classification is based on economic, administrative and functional (and sub-functional) classification and can produce information generally compatible with the GFS 2014 and COFOG standards.
PI-5. Budget documentation	D	Only the requirements for two of the four basic elements are fulfilled and one of the eight additional requirements are fulfilled.
PI-6. Central government operations outside financial reports	A	Scoring Method M2.
6.1. Expenditure outside financial reports	A	Expenditure outside the municipality's budgetary reports is estimated at 0% of total expenditure.
6.2. Revenue outside financial reports	A	Revenue outside the municipality's budgetary reports is estimated at 0% of total expenditure.

PEFA INDICATOR/Dimension Title	Score	Description of requirements met
6.3. Financial reports of extra-budgetary units	NA	No extra-budgetary units were identified under Berat Municipality.
PI-7. Transfers to subnational governments	NA	Not applicable.
7.1. System for allocating transfers	NA	There is no subnational level below municipalities.
7.2. Timeliness of information on transfers	NA	There is no subnational level below municipalities.
PI-8. Performance information for service delivery	D+	Scoring Method M2.
8.1. Performance plans for service delivery	C	Information is published annually, with a focus only on the mission and objectives of all service delivery programs. No quantifiable information is provided on the output and outcomes to be achieved for next budget year..
8.2. Performance achieved for service delivery	D	Information is not published on the activities performed with the respective output (and outcome) indicators for the majority of service programs and departments.
8.3. Resources received by service delivery units	C	Resources from the major service delivery unit are monitored and reported systematically through in-year budget execution reports.
8.4. Performance evaluation for service delivery	D	Evaluations of the efficiency or effectiveness of main public service delivery services have not been carried out within the last three years.
PI-9. Public access to information	D	The Municipality makes available to the public none of five basic elements, and two of the additional information elements.
PI-10. Fiscal risk reporting	D+	Scoring Method M2.
10.1. Monitoring of public corporations	D	There is a no consolidated report issued and monitored within the Municipality on the municipal entities' financial outturn and net assets value. No audited financial statements had been issued and published for the Water and Sewerage Company and/or the FK Tomori Football Club in the past three years. HSC conducted only a special audit on the effectiveness of financial management and internal controls of the Company in 2015. There is no central finance function responsible in the Municipality for monitoring the two companies above and assessing the financial risks to the City on an annual basis. There is no evidence supporting the municipality received annual financial statements to assess and publish the financial performance and risks by the one largest of the two public corporations in the last completed FY.
10.2. Monitoring of subnational governments (SNGs)	NA	Not applicable. There is no subnational level below municipalities.
10.3. Contingent liabilities and other fiscal risks	C	There is no consolidated financial report issued by the Municipality that assesses the overall significant risks and contingent liabilities within its service delivery operations and the public corporations under its

PEFA INDICATOR/Dimension Title	Score	Description of requirements met
		control. The Water and Sewerage Company quantifies and consolidates some significant contingent liabilities such as pensions and insurance funds in their annual financial reports, according to the evidence WSC provided to the assessors. Loan guarantees issued by MOF are recorded in its financial reports. Other contingent liabilities such as fire or other calamity or emergency, or court litigations are not included.
PI-11. Public investment management	D+	Scoring Method M2.
11.1. Economic analysis of investment proposals	D	Economic analyses are not carried out to assess the feasibility of the major investment projects proposed for new year's budget.
11.2. Investment project selection	C	Prior to their inclusion in the budget, most major investment projects with identified funding are prioritized internally by the Department of Public Works. These, however, are not selected on the basis of standard or clearly defined criteria for project selection following national or regional development priorities.
11.3. Investment project costing	C	Projections of capital cost of major investment projects, together with the capital costs for the forthcoming two fiscal years, are included in the budget documents.
11.4. Investment project monitoring	D	Only the capital expenditure aspects and physical progress of major investment projects is monitored and reported by the Public Works Department on an annual basis. Any matters relating to operating and maintenance not initially assessed in the costing of projects do not form part of the monitoring of project costs.
PI-12. Public asset management	D+	Scoring Method M2.
12.1. Financial asset monitoring	D	There is no recorded value of the Municipality's equity shares in the public corporations. Information on financial performance is prepared but <u>not</u> published annually .
12.2. Nonfinancial asset monitoring	C	Fixed asset registry operating sub-optimally, with only partial information being collected on their usage, age, location, and net value.
12.3. Transparency of asset disposal	C	Partial information included in annual financial reports and submitted to the local council, not disclosed to the public.
PI-13. Debt management	C	Scoring Method M2
13.1. Recording and reporting of debt and guarantees	D	Recording and reporting of short-term debts has been a process plagued with error, presently being streamlined under MOF assistance. Debt service with the Council of European Development Bank is kept on record.
13.2. Approval of debt and guarantees	B	Guaranteeing of municipal loans is controlled solely by MoF including approval, recording, and monitoring.

PEFA INDICATOR/Dimension Title	Score	Description of requirements met
13.3. Debt management strategy	NA	This dimension is not used - as set out in the concept note.
PI-14. Macroeconomic and fiscal forecasting	D	Scoring Method M2.
14.1. Macroeconomic forecasts	NA	This dimension is not used - as set out in the concept note.
14.2. Fiscal forecasts	D	During the two years before the last, the municipality has prepared forecasts of revenue and expenditure aggregates for the budget year and the following two years (with fiscal balance implicit but obvious). Explanation of estimates and underlying assumptions were included for recurrent and capital expenditure, and aggregate incomes from revenues. All of this information was included in the budget documentation for the 2014 and 2015 budget cycles. The Municipality did not prepare a medium term budget for 2016 due to the short time available in connection with TAR but has again prepared mid-term forecasts for the 2017-2019 planning cycle.
14.3. Macro fiscal sensitivity analysis	NA	This dimension is not used - as set out in the concept note.
PI-15. Fiscal strategy	D	Scoring Method M2.
15.1. Fiscal impact of policy proposals	D	The municipality does not prepare estimates of the impact of revenue and expenditure policy changes but shows only estimates based on changed policy.
15.2. Fiscal strategy adoption	D	The municipality does not have an overall fiscal strategy.
15.3. Reporting on fiscal outcomes	NA	No reporting can be done against a fiscal strategy as such a strategy does not exist.
PI-16. Medium-term perspective in expenditure budgeting	D	Scoring Method M2.
16.1. Medium-term expenditure estimates	D	Three-year estimates of expenditure are presented in the budget for FY 2015, as the municipality did not prepare a medium term budget due to the limited time available after the territorial reform..
16.2. Medium-term expenditure ceilings	D	No medium-term budget ceilings have been issued to the administrative/spending units during the past several years.
16.3. Alignment of strategic plans and medium-term budgets	D	There are no strategic medium-term development plans on which to base budget priorities and expenditure estimates.
16.4. Consistency of budgets with previous year estimates	NA	This dimension is not rated as it would not be useful to compare the MTBP 2016-2018 for the new municipality with the estimates of the previous MTBP for the pre-TAR municipality.
PI-17. Budget preparation process	D	Scoring Method M2.
17.1. Budget calendar	NA	A clear budget calendar exists which allows budgetary units sufficient time to complete their estimates, but the calendar was generally not adhered to in 2015 due

PEFA INDICATOR/Dimension Title	Score	Description of requirements met
		to the amalgamation of municipality and communes in the middle of the year. They were limited and did not follow usual standards as the budget preparation process during 2015 was disrupted by the transition arrangements of TAR.
17.2. Guidance on budget preparation	NA	Instructions for the preparation of the annual budget has been issued in 2015, but they do not include expenditure ceilings (as in the previous year) given that at the time information was limited on municipal expenditure assignment upon approval of new decentralisation law as well as liabilities inherited from former communes.
17.3. Budget submission to the legislature	D	In none of the last three years has the annual budget proposal been submitted to the Council at least a month before the start of the budget year.
PI-18. Legislative scrutiny of budgets	D+	Scoring Method M1.
18.1. Scope of budget scrutiny	A	The Council's review covers fiscal policies, medium-term fiscal forecasts, medium term priorities and details of revenue and expenditure as all of these items are included in the budget proposals.
18.2. Legislative procedures for budget scrutiny	D	The Council has established simple procedures for budget review but they are only partially adhered to and insufficient for effective budget scrutiny.
18.3. Timing of budget approval	C	The Council has approved the budget before the 31 st of December for both the FY2016 and FY2015 budgets. The FY2014 budget was approved almost two months after the start of the year.
18.4. Rules for budget adjustments by the executive	B	There are clear rules for the Mayor to amend the budget in-year without Council approval. They set strict limits for the Mayor's powers and are always adhered to.
PI-19. Revenue administration	D+	Scoring Method M2.
19.1. Rights and obligations for revenue measures	D	Information on taxes and fee rates, including rights and redress procedures are not easily accessible for businesses nor households.
19.2. Revenue risk management	B	The department of taxes has adopted a systematic approach for assessing and prioritising compliance risks for revenues from businesses; but it has not intensified efforts towards improved household compliance throughout the territory.
19.3. Revenue audit and investigation	C	A simple compliance improvement plan is prepared and followed on an annual and monthly basis, covering audits mainly for the business taxpayer segment. The household taxpayer segment is not covered systematically.
19.4. Revenue arrears monitoring	D	The stock of revenue arrears at the end of 2015 constitutes 31% of own revenue outturn. Almost 85% of that stock is older than one year.
PI-20. Accounting for revenues	D+	Scoring Method M1.

PEFA INDICATOR/Dimension Title	Score	Description of requirements met
20.1. Information on revenue collections	A	The Budget and Finance Department obtains revenue collection data at least monthly from all entities and consolidates the information into progress reports for the management.
20.2. Transfer of revenue collections	D	Revenues collected by tax agents and the central government tax authority are only transferred monthly to the municipality's Treasury account. All other revenue is directly paid to the treasury account.
20.3. Revenue accounts reconciliation	A	All entities in charge of collecting revenue for the local government undertake complete reconciliation monthly within two weeks of the end of the month.
PI-21. Predictability of in-year resource allocation	C+	Scoring Method M2.
21.1. Consolidation of cash balances	B	The cash and bank account balances controlled directly by the Finance Directorate are reported on a weekly basis.
21.2. Cash forecasting and monitoring	C	A cash flow forecast is prepared for the fiscal year but this is updated at least quarterly, though comprising current expenditures mainly, on the basis of actual cash inflows and outflows.
21.3. Information on commitment ceilings	C	Departments and Programs are provided reliable information on commitment ceilings with only one month in advance.
21.4. Significance of in-year budget adjustments	C	Significant in-year adjustments to budget allocations took place no more than twice in 2015 but these are not conducted in a fairly transparent way.
PI-22. Expenditure arrears	D+	Scoring Method M1.
22.1. Stock of expenditure arrears	D*	Data for 2015 is not comparable to data for 2014 and 2013, as 2015 is based on consolidated data from municipality and communes whereas 2013 and 2014 apparently excludes the communes.
22.2. Expenditure arrears monitoring	C	Data on the stock and composition of expenditure arrears has been generated annually for FY 2015, on an ad-hoc basis.
PI-23. Payroll controls	C+	Scoring Method M1.
23.1. Integration of payroll and personnel records	B	The Municipality's payroll is supported by full documentation for all changes to personnel records each month and checked against the previous month's payroll data. Staff hiring and promotion is controlled on the basis of a pre-approved establishment list attached to an annual staffing plan and a spending limit for next budget year.
23.2. Management of payroll changes	B	Personnel records and payroll are updated on a monthly basis, generally in time for the following payroll payment, and require only a few retroactive adjustments.
23.3. Internal control of payroll	C	Authority and basis for changes to personnel records and the payroll are clear. Sufficient controls exist to ensure integrity of the payroll data, noticeably, there is

PEFA INDICATOR/Dimension Title	Score	Description of requirements met
		no evidence of audit trails in the HRD control environment.
23.4. Payroll audit	C	Partial payroll audits have been undertaken within two of the last three completed fiscal years.
PI-24 Procurement	B	Scoring Method M2.
24.1. Procurement monitoring	C	Databases or records are maintained for contracts including data on what has been procured, value of procurement and who has been awarded contracts. HSC states there is no sufficient evidence suggesting all data uploaded in the central database are accurate, complete and timely for the <u>majority</u> of procurement methods for goods, services and works.
24.2. Procurement methods	A	The total value of contracts awarded through competitive methods in the last completed fiscal year represents 96% of total value of contracts.
24.3. Public access to procurement information	C	Three of the six key procurement information elements are complete and reliable for municipal units representing most procurement operations and are made available to the public in a timely manner.
24.4. Procurement complaints management	B	The procurement complaint system meets criterion (1) and three of the other criteria.
PI-25. Internal controls on non-salary expenditure	C+	Scoring Method M2.
25.1. Segregation of duties	C	Segregation of duties is prescribed throughout the municipality's expenditure process. However, incompatible division of responsibilities still exist thus restraining the efforts to prevent fraud and malpractice within Berat's municipal organization.
25.2. Effectiveness of expenditure commitment controls	C	Expenditure commitment control procedures exist which provide partial coverage and are partially effective
25.3. Compliance with payment controls	B	Most payments are compliant with regular payment procedures. The majority of exceptions are properly authorized and justified.
PI-26. Internal audit effectiveness	D+	Scoring Method M1.
26.1. Coverage of internal audit	D	Internal audit is operational for municipal departments and service programs representing only one third of total expenditures and none of the municipal entities collecting the majority of local own revenue.
26.2. Nature of audits and standards applied	B	Internal audit activities are focused on evaluations of the adequacy and effectiveness of internal controls as well as irregular and wasteful expenditure. Audit activities meet professional standards in various high risk areas.
26.3. Internal audit activity and reporting	B	An annual audit program was completed in its most part in the last completed fiscal year, , as evidenced by the distribution of their reports to the audited municipal units.

PEFA INDICATOR/Dimension Title	Score	Description of requirements met
26.4. Response to internal audits	B	Management provided a partial response to audit recommendations for most municipal entities audited within twelve months of the report being produced.
PI-27. Financial data integrity	C+	Scoring Method M2.
27.1. Bank account reconciliation	B	Bank reconciliation for Treasury-controlled local government bank accounts takes place at least monthly, usually within 4 weeks from the end of each month. Other bank accounts are reconciled on a monthly and quarterly basis away from the chief finance officer's desk
27.2. Suspense accounts	NA	There is no practice of recording suspense accounts in Berat Municipality.
27.3. Advance accounts	C	Reconciliation of advance accounts takes place at least annually, within two months from the end of the year. Advance accounts relating to contractors are cleared in a timely way.
27.4. Financial data integrity processes	C	Access and changes to records is restricted and recorded, but major risks of asset loss exist on the absence of proper standards and procedures of data safety and protection.
PI-28. In-year budget reports	D+	Scoring Method M1.
28.1. Coverage and comparability of reports	D	Coverage and classification of data does not allow direct comparison to the original budget for the main administrative headings.
28.2. Timing of in-year budget reports	B	Budget execution reports are prepared monthly, and issued within four weeks from the end of each month. Analysis of changes in initial allocations between administrative headings is lacking.
28.3. Accuracy of in-year budget reports	C	Concerns exist regarding data accuracy thus weakening the analysis of budget execution. Expenditure is captured at commitment stage only.
PI-29. Annual financial reports	D+	Scoring Method M1.
29.1. Completeness of annual financial reports	D	Financial reports for municipal government are prepared annually. They do not compare the outturn with the original, approved budget. They include information on revenue, expenditure, and cash balances.
29.2. Submission of reports for external audit	D	Financial reports for the Municipality are not submitted for external audit.
29.3. Accounting standards	C	Accounting standards applied to all financial reports are consistent within the existing financial instructions and ensure consistency of reporting over time. The national standards used in preparing annual financial reports are disclosed; these, however, do not generally conform to international public sector accounting standards (IPSAS) and differences are not explained
PI-30. External audit	D+	Scoring Method M1.
30.1. Audit coverage and standards	D	Financial reports of municipal departments and programs representing the majority of expenditures

PEFA INDICATOR/Dimension Title	Score	Description of requirements met
		and a minor share of total revenues have been audited using national auditing standards during the period 2011-2013, which is the latest available completed fiscal years. The financial statements of the last three fiscal years never received an opinion by HSC. The audits have nonetheless been useful in highlighting relevant financial irregularity and wasteful expenditure and other material issues and systemic and control risks.
30.2. Submission of audit reports to the legislature	NA	There is no audit of financial reports specified in 29.1..
30.3. External audit follow-up	NA	There is no audit of financial reports specified in 29.1..
30.4. Supreme Audit Institution (SAI) independence	C	A new Law regulates the functional and operational independence, mandate and organization of High State Control. It enables HSC to operate independently from the executive with respect to the procedures for appointment and removal of the Head of the HSC as well as the execution of its budget. It has unrestricted access to records and information but its mandate is dependent on the MoF for the planning and final allocation of the HSC' budget
PI-31. Legislative scrutiny of audit reports	NA	Scoring Method M2.
31.1. Timing of audit report scrutiny	NA	Audit reports are not submitted to the legislature.
31.2. Hearings on audit findings	NA	Audit reports are not submitted to the legislature
31.3. Recommendations on audit by the legislature	NA	Audit reports are not submitted to the legislature.
31.4. Transparency of legislative scrutiny of audit reports	NA	Audit reports are not scrutinized by the legislature.

Annex 2. Summary of observations on the internal control framework

Internal control components and elements	Summary of observations
1. Control environment	
1.1 The personal and professional integrity and ethical values of management and staff, including a supportive attitude toward internal control constantly throughout the organization	<p>The Municipality is in the process of strengthening the internal control environment that includes policies for promoting personal integrity and codes of professional conduct and ethics of the management and other employees of the organization (PI-23, PI-24, PI-25, PI-26 and PI-27). The Office of the Mayor has issued reprimands and administrative sanctions against public officials charged with involvement and/or responsibility in certain events reported in the 2011-2013 audit by HSC (PI-30). These actions included revoking of professional licenses and removal of personnel. Several other actions, however, remain outstanding as of now, according to HSC, which does not ensure the professional integrity and ethical values of management. It has not been able to “create the conditions for lawful management, effective and appropriate and ethical behaviour of employees of the entity” (Law 10296 on FMC, Article 9, paragraph 4, item g). It has not complied with other supplementary legislation (i.e., Law No 7961 on the Labour Code). As of today, the Strategic Management Group embodying the internal control function has not complied with its obligation to prepare and document the audit trail, which contravenes Law 10296 on FMC, Article 16, paragraph 2, an audit trail helps to ensure that the municipal operations are documented in a form that enables internal auditors, external and supervisory authorities to understand the control environment (PI-23, PI-25 and PI-26). For the future work of the municipality the internal audit unit will be focused on improving standards of auditing with and performing audit missions with integrity, independence, objectivity, as well as professionalism. However, increasing the quality of audit work, the exercise of periodic checks, as well as a range of controls in a higher number of municipal units remain the challenge of the work of the ongoing internal audit (PI-26).</p>
1.2 Commitment to competence	<p>Management of Berat Municipality is highly committed to build an internal control environment under CHU-FMC technical guidance to meet the highest standards of competence and for enabling transformative financial management in the city government</p>
1.3 The “tone at the top” (i.e. management’s philosophy and operating style)	<p>In pursuance of Law No. 10296 on FMC, Article 8 (Managerial accountability), together with Article 58 of Law No. 152/2013 On “Civil Service”, Berat management is committed to develop a culture of change around accountability and transparency.</p> <p>It has also established a managerial policy which sets lines of accountability and responsibility for setting and achieving the purposes and objectives of the municipal organization composed of directorates, departments and service programs. The PIFC framework</p>

Internal control components and elements	Summary of observations
	<p>sets the opportunity for the Management of the Municipality to create an adequate and effective system of financial management and control to manage public funds lawfully, economically, efficiently and effectively, and yet the conditions are not enabled as yet to achieve these goals. And yet, the municipality has failed to appoint key officers such as the risk coordinator, as required by law. The extent of managerial accountability and transparency will rely heavily on the progress of government accounting and reporting reform, which is long-term in nature controlled by MoF through a multi-pronged, PFM reform strategy. The promotion of managerial accountability and transparency will nonetheless depend on a succession of reforms to enable accurate financial record-keeping, systematic financial management and openness which can –with the reinforcement of favourable political and economic factors- induce a culture of accountability and transparency¹¹⁴.</p>
1.4 Organizational structure	<p>The Municipality has not complied with the requirement of Law 10296 on FMC, Article 20 (Control environment), paragraphs 1 and 2, which states that the Office of the Mayor is responsible “for the establishment and improving the control environment, which include organizational structure, ensuring segregation of duties, hierarchy and clear rules, rights, responsibilities and reporting lines”. No data was provided to the assessors on the Municipality’s segregation of internal control duties and its current organizational structure is not suitable to enable proper operation of the public internal financial control function.</p>
1.5 Human resource policies and practices	<p>The Municipality has launched a process of improving the internal control environment by developing management policies and work style, policies and practices of human resource management, and the professional skills of personnel (PI-25). Presently, for example, the Internal Audit Unit is staffed with a Director and two audit specialists, all trained in the use of the COSO-led PFIC internal control model and adoption of modern IIA-based audit methods and techniques (PI-26). One salient factor not included in the changing control environment is the introduction of performance management across the organization, which can induce a positive change in the behavioural attitude of financial management staff, as part of the PFM environment in general.</p>
2. Risk assessment	<p>The Municipality complies with the responsibility established by Law 10296 with its Internal Audit Unit being responsible for:</p> <ul style="list-style-type: none"> a) coordinating the activities related to the identification and assessment of risks that endanger the achievement of the objectives of the service delivery units and the establishment of risk management system, in proportion to its size; b) advising and providing instructions to other managers of the public entity, in cooperation with the central harmonization unit for financial management and control; and

¹¹⁴ See in *American Government Accounting Standards*, Prof. James L. Chan, Chapter 3: The History of American Government Accounting Reform, September 2008.

Internal control components and elements	Summary of observations
	c) the presentation of a general report on the organization's risks to the Mayor.
2.1 Risk identification	According to HSC, no obligation is fulfilled for the preparation, documentation and approval of the audit trail, as required by Article 16, paragraphs 2 and 3 of Law No. 10296 on Financial Management and Control. Furthermore, the HSC found that the Municipality has not been able to design proper medium-term development programs and annual action plans for achieving the internal control objectives, the identification of risk and its management strategy (PI-30).
2.2 Risk assessment (significance and likelihood)	Internal controls in revenue and procurement are assessed as those with the highest risk of non-compliance and misconduct, as part of compliance audits (PI-24). Followed in order of risk is the Municipality's ability to collect local fees and overdue payables, and asset registry and valuation (PI-12, PI-22 and PI-25).
2.3 Risk evaluation	No risk assessment of internal controls made as part of external or .
2.4 Risk appetite assessment	There is no good practice developed within the municipal management on risk management as yet, numerous risks remained nonetheless un-assessed more in some competencies than others thus affecting negatively the ability of the Municipality to counter potential loss in public assets in a systematic manner.
2.5 Responses to risk (transfer, tolerance, treatment or termination)	CHU-FMC and CHU-IA are the PFM institutions responsible of proposing and agreeing with the city council on any corrective measures in the internal control framework on behalf of the general government. The Municipality's Mayor and Finance Officer draw up on the CHU-FMC's guidance and under the Internal Audit Unit's assistance to instruct the heads of financial management and relevant departments and service programs and enforce the risk mitigation actions accordingly (PI-16, PI-23, PI-24 and PI-25).
3. Control activities	
3.1 Authorization and approval procedures	<p>Article 22 of Law 10296 requires that the Mayor adopt control activities, including written policies and procedures, and prepare to give reasonable assurance that risks are reduced to acceptable limits as determined in process management risk. Furthermore, control activities are sought to be suitable and costs of implementing them do not exceed the expected benefits.</p> <p>Control activities include, at a minimum:</p> <ul style="list-style-type: none"> a) the procedures and delegating authority, authorizing the transfer and registration of standard and special cases; b) segregation of duties in the field of granting authorization in that form, so that the same employee not be responsible at the same time for the proposal, approval, execution, accounting and control, as directed by the Minister of Finance; c) dual signature system, which does not allow the financial commitment made without the signatures of the authorizing officer and the executive officer of the unit; d) dual signature system, which does not allow for payments to be made without

Internal control components and elements	Summary of observations
	<p>the signature of the authorizing officer and the executive officer of the unit or officials delegated by them;</p> <p>d) the rights to use the assets and information of the entity and the protection of assets; f) the procedures for accounting for comprehensive, accurate, regular and timely to all transactions, in accordance with the instructions of the Ministry of Finance;</p> <p>e) procedures for reporting, monitoring and evaluation of efficiency and effectiveness of operations;</p> <p>f) monitoring procedures;</p> <p>g) rules for the management of human resources;</p> <p>h) rules for documentation of all transactions and activities related to the operation of the unit;</p> <p>i) rules to ensure the safeguarding of information and assets of the unit.</p> <p>Control activities described in the previous paragraph consist of controls before the fact (ex-ante) and after the fact (ex-post). Exceptionally, the ex-ante controls, to work processes or transactions that are deemed more vulnerable to major risks, they can be exercised by financial controllers or other persons designated by the Mayor (PI-25). The terms and procedures for exercising control ex-ante and ex-post approved by the Mayor, in accordance with the instructions of the Minister of Finance. Ex-post controls are carried out by persons not responsible or persons participating in the ex-ante controls. Ex-post control is also exercised by internal auditors and external, public financial inspectors, which are regulated by special laws. In the Municipality of Berat, control activities in the payment authorization and approval procedures have concentrated mainly within procurement and payroll, which are considered the PIFC competence with the highest risk in the city government, according to HSC. In its latest audit report to the Municipality of Berat, the HSC found several violations to the appointment of contractual staff and authorization of wage increases, and to the public procurement rules, instructions on the selection of competitive bidders and awarded contractors, procurement of minor purchases, and controls of construction works (PI-23, PI-24 and PI-25). Corrective measures in the control environment are in place and an initial positive impact against fraudulent activity has been achieved, according to the Director of Internal Audit.</p>
3.2 Segregation of duties (authorizing, processing, recording, reviewing)	A general segregation of duties is laid out in Law 10296, Art. 9, including those relevant ones set for the head of the municipality, s within the purview of Mayors and local finance and internal audit officers responsible for managing the control activities. As a result, there is a general FMC Manual and a segregation of jobs with the respective duties and responsibilities described in a civil service manual. There is no Manual on FMC and updates on file within the Internal Audit Office, no other official document that specifies the duties that relate to authorizing, processing, recording and monitoring the control activities (PI-25).

Internal control components and elements	Summary of observations
3.3 Controls over access to resources and records	Access to files and records are a main concern, affecting the integrity of financial recording and reporting. Safe and secure means lacking, no proper data warehousing, no scanning facilities, and IT policy for protection against potential stealing, fire, hacking.
3.4 Verifications	Physical inspection continues to be the most known and accepted practice in the receipt of goods and services rendered, monitoring of project implementation, and verification of public works, as a legacy of the old communist rules. Manual verification also remain a common internal control tool in certain parts of records management, accounting and reporting thus severely affecting the overall integrity of financial data and managerial accountability and transparency.
3.5 Reconciliations	Bank account reconciliations take place on a regular basis only for the one TDA account controlled directly by the Finance Directorate (PI-27). Special bank accounts on capital projects are not controlled within the Finance Directorate. Problems in inventorying of property and reconciliation of asset valuation and expenditure arrears across the Territory (PI-12 and PI-22).
3.6 Reviews of operating performance	<p>HSC has audited the operations of the Centre of Economic Education for the period 2011-2013 and held the Regional Directorate of Education responsible of several irregularities. Likewise, HSC audited the Regional Directorate of Culture and Monuments, the Tomori Football Club, and the Board of Park Travelers, and the Municipal Tendering Committee (PI-24 and PI-26).</p> <p>An internal control review was also performed by the Internal Audit Unit within the Economic Directorate of Education (PI-26).</p> <p>The audits above led to positive actions which ultimately led to the improvement in records management, approval of personnel changes, and most importantly to the operating performance of kindergarten, tourist information, and road maintenance services.</p>
3.7 Reviews of operations, processes and activities	<p>It found fraudulent economic rewards to park employees, determination of salary increases and other rewards to football manager and players, irregularities in the reconstruction of the Tomori Stadium, the registration of 22 forests parks and pastures owned by the municipality, and inventorying of schools, among others. The Internal Audit Unit reviewed the work done by the administration of this spending unit for the implementation of recommendations made by the Group of internal auditors as well as the Municipality of Berat by the Group Auditors of HSC that include:</p> <ul style="list-style-type: none"> • Gaps, irregularities and violations identified during the last HSC audit; • The objections and suggestions for improving the internal audit work in the management of public funds; • The Internal Audit Unit has taken the initiative to developing a process aimed at filing and following up the audit recommendations and responses by the audited departments and service delivery units.

Internal control components and elements	Summary of observations
3.8 Supervision (assigning, reviewing and approving, guidance and training)	Not available.
4. Information and communication	The municipality has not launched an information and communication plan with which to promote greater transparency on FMC and audit activities, efforts in place, and impact in service delivery.
5. Monitoring	The Mayor is responsible for setting up a system to monitor the financial management and control, in order to assess the effectiveness of internal controls affecting functioning of the Municipality's service operations and ensuring it is updated, whenever circumstances change. Monitoring and evaluation of the system are realized primarily through ongoing monitoring, self-assessment and internal audit. Internal audit is not part of the system of financial management and control. Monitoring on the progress of internal controls is not actively pursued as part of the CHU-FMC and CH-IA-led capacity building efforts (PI-25 and PI-26).
5.1 Ongoing monitoring	The Internal audit unit plays an active role in monitoring the audit recommendations proposed and actions taken within the organization. The monitoring function, however, requires further improvement.
5.2 Evaluations	<p>Internal audit unit is not adequately staffed to evaluate the impact of audit recommendations being implemented to improve service delivery across the Municipality as yet. The internal audit activity currently focuses on routine evaluation of internal control systems, risk management and governance processes provide reasonable assurance that:</p> <ul style="list-style-type: none"> • The main objectives set out in the programs and plans of the subjects will be achieved; • resources are used sparingly, efficient and effective subjects activity is in compliance with policies, procedures, laws and regulations; • significant financial information is accurate, reliable and timely; • Recommendations are provided in an objective and timely manner. <p>Evaluation of the public procurement function in various spending units of the Municipality of Berat has been a focus of the evaluation work of the Internal audit unit (PI-26). The objective of the audit engagement was to assess the management and control systems in place, the overall risks faced by the entity being audited, identifying gaps and undertaking corrective actions. The objectives of the engagement are whether internal control systems are adequate and effective and whether the activity of the entity is in compliance with legal rules and procedures.</p>
5.3 Management responses	Response by the Municipality on the audit recommendations is quite limited (PI-26 and PI-30), not based on an action plan, not addressing properly the weaknesses in internal controls identified in audit reports by HSC and the Internal Audit Unit. Systemic weaknesses are reported to MOF CHU-PFIC for taking proper corrective measure within the Municipality.

Annex 3A. List of documentation consulted

1. Albania Public Finance Management Strategy 2014 – 2020, Government of Albania, 2014;
2. Budget Execution Data 2010 – 2014 on five selected municipalities, PLGP/USAID;
3. Consolidated Due Diligence Report, Municipality of Berat, STAR Project, 2016;
4. National Crosscutting Strategy on Decentralisation and Local Self Governance 2015 – 2020, Government of Albania, 2015;
5. Public Financial Management Strategy 2014-2020 2015 Monitoring Report, Ministry of Finance, March 2016;
6. Quick PFM Assessment on Three Selected Municipalities, DLDP, 2016;
7. Law 115/2014 “On the Administrative-Territorial Organisation of Local Self-Government Units in the Republic of Albania”, 2014;
8. Law no.9936 dated 26.06.2008, “On the Management of the Budgetary System in the Republic of Albania” (as amended July 2016);
9. MOF (2012) – Standard Instruction on the Medium Term Budget Preparation; and Standard Instruction on Budget Execution;
10. MOF Annual budget preparation and execution instruction;
11. Law on Financial Management and Control (2010);
12. Law on State Debt, and State Guarantees in the Republic of Albania (2006);
13. Law on local government borrowing (2008);
14. Law on Tax Procedures (2008);
15. Law On National Taxes (2008);
16. Law on Income Tax (1998);
17. Law on Value Added Tax (2014);
18. Law on excise duties (2002);
19. Law on the System of Local Taxes and Fees (2006);
20. Law “On Concessions and Public Private Partnerships” (2013);
21. Law “On commercial companies” (2008);
22. Law on Public Procurement (2006);
23. Law on Internal Auditing in the Public Sector (2015);
24. Law on the Organisation and Functioning of the High State Control (2014);
25. The Constitution (1999);
26. Law on Organisation and Functioning of the Council of Ministers;
27. Law 139/2015 “On Local Self-Government”, Republic of Albania;
28. Law on the right to information (2014);
29. Law on Public Notice and Consultation;
30. Ministry of Finance, March 2016: Public Financial Management Strategy 2014-2020, 2015 Monitoring Report.

Annex 3B. List of Persons Interviewed

	Name	Position	Institution
1	Fran Brahimi	Director of Local Government Finance	Ministry of Finance
2	Enea Hoti	Advisor to the Minister	Ministry of Local Government Affairs
3	Bajram Lamaj	Senior Auditor	High State Control
4	Andi Serjanaj	Chief of Cabinet	Municipality of Berat
5	Nevila Caushllari	Director Taxes and Markets	Municipality of Berat
6	Anila Cuka	Head of Finance and Accounting	Municipality of Berat
7	Albana Shyti	Budget specialist	Municipality of Berat
8	Luljeta Monopati	Director Audit Unit	Municipality of Berat
9	Sokol Toska	Tax specialist	Municipality of Berat
10	Elton Nino	Urban planning specialist	Municipality of Berat
11	Orieta Hysanji	Finance Specialist/Audit	Municipality of Berat
12	Vjollca Tahiraj	Water company finance director	Municipality of Berat
13	Luiza Bazaj	Director Budget and Finance	Municipality of Berat
14	Shaqe Pupa	Human Resources	Municipality of Berat
15	Fjoralda Kollidani	Procurement specialist	Municipality of Berat
16	Bukurie Sheme	Finance specialist	Municipality of Berat
17	Ledina Gjoroveni	Secretary to Council	Municipality of Berat
18	Hajrie Mbrati	Director Transport Emergency and Services	Municipality of Berat
19	Petrit Sina	Mayor	Municipality of Berat
20	Gezim Zema	General Secretary	Municipality of Berat
21	Stela Koxhaj (phone interview)	IT specialist	Municipality of Berat

Annex 4. Subnational Government PFM System in Albania

A4.1 Country economic context

Albania is a middle-income country, with GDP per capita at 3840 USD in 2015.¹¹⁵ Albania's economy grew steadily at an average of 6% annually until the onset of the global financial crisis in 2008, driven by the construction and the services sector. An economic slowdown was experienced since 2009, which caused the labour for demand to fall while unemployment and poverty rose. Employment and labour participation declined by 8 percentage points during 2009-2013. All in all, the shrinking labour demand and wage income caused poverty rates to increase to 14.3% from 12.14% in 2008. During the same period inequalities in welfare across the country also increased, with a sharper increase in poverty rates in urban areas (from 10.2% to 13.6%), likely due to internal migration flows. GDP growth was sustained due to expansionary fiscal policy, which in turn led to rapidly rising public debt and accumulation of debt arrears.

Table A4.1 Some facts about Albania

Name	Republic of Albania
Population:	2.821.977 inhabitants (-8.0% compared to 2001 census) (estimated 500.000 emigrants living abroad)
Total surface	28,748 km ² (land: 27,398 km ² , water: 1,350 km ²)
Land boundaries:	717 km border; Greece 282 km, Macedonia 151 km, Montenegro 172 km, Kosovo 112 km
Coastline:	362 km on Adriatic and Ionian Sea (strategic location along Strait of Otranto)
Average age of inhabitants:	35.3 years (from 30.6 years in 2001);
Natural resources	Petroleum, natural gas, coal, bauxite, chromite, copper, iron ore, nickel, salt, timber, hydropower.

Source: Population and Housing Census 2011, INSTAT.

Meanwhile fiscal and external imbalances continue to present challenges. Poor economic conditions in Greece and Italy mean lower remittances and the return of some emigrants, while weak domestic confidence is holding back credit demand despite unprecedentedly low interest rates. Nevertheless the country is currently making progress in addressing these imbalances, and meeting all the performance criteria agreed with the IMF under the current (2014-17) Extended Fund Facility (EFF) arrangement.

Table A4.2 Main macroeconomic indicators

	2008	2009	2010	2011	2012	2013	2014	2015
Inflation (y-o-y, average, in %)								
Core Inflation (in %)	2.8	1.4	1.8	3.2	1.7	0.2	0.1	-0.2
Total inflation (in %)	3.4	2.3	3.6	3.5	2.0	1.9	1.6	1.9
Economic Growth								
Real GDP growth rate (in %) ¹	7.5	3.3	3.7	2.5	1.4	1.1	2.0	2.7

¹¹⁵ World Bank, <http://www.worldbank.org/en/country/albania/overview>.

	2008	2009	2010	2011	2012	2013	2014	2015
Nominal GDP (ALL billion)	1,089	1,148	1,240	1,301	1,333	1,351	1,401	1,443*
GDP per capita (Euro)			3,088	3,191	3,305	3,323	3,457	3,575*
Labour Market								
Population (/000)	2,947	2,928	2,913	2,905	2,900	2,897	2,894	2,889
Employed (/000)	974.1	899.3	1,153	1,127	1,097	990	1,006	1,051
Unemployment Rate (in %) ³	12.7	13.7	14.2	14.3	13.8	16.4	17.9	17.4
Fiscal Sector (General Government)								
Fiscal Balance (incl. grants, % on GDP)	-5.5	-7.0	-3.1	-3.5	-3.4	-5.2	-5.9	-4.5
Public Debt (% of GDP)	54.7	59.4	57.7	59.4	62.1	70.4	71.8	73.0
Revenues (% of GDP)	26.7	26.0	26.2	25.4	24.8	24.2	26.2	26.1
Expenditures (% on GDP)	32.3	33.0	29.3	28.9	28.2	29.2	31.3	29.7
External Sector								
Current Account (% on GDP)	-15.6	-15.3	-11.9	-13.5	-10.7	-11.2	-13.2	-9.8
Goods imports (fob, % on GDP)	37.7	35.1	36.2	39.4	36.7	35.7	38.6	35.9
Goods exports (fob, % on GDP)	10.3	8.6	13.2	15.2	15.9	18.2	18.4	17.4
Foreign direct investments (inflow, % on GDP)	7.5	8.2	8.8	6.8	6.9	9.5	8.2	9.3
Foreign Reserve Assets (EUR million)	1,675	1,646	1,904	1,912	1,972	2,015	2,192	2,879
Monetary and Financial Sector								
Repo rate (end of period)	6.25	5.25	5.00	4.75	4.00	3.00	2.25	1.75
M3 Aggregate (y-o-y, end of period)	7.7	6.8	12.5	9.2	5.0	2.3	4.0	1.9
Credit to Private Sector (y-o-y, end of period)	32.2	11.7	10.1	10.4	1.4	-1.4	2.0	2.3
12M Yield (annual average)	8.16	9.17	7.98	7.34	7.03	5.16	3.4	3.3
Average USD/Lek ER	83.9	95.0	103.9	100.8	108.2	105.7	105.5	126.0
Average EUR/Lek ER	122.8	132.1	137.8	140.3	139.0	140.3	139.4	139.7

Source: INSTAT, Ministry of Finance, Bank of Albania.

¹ Last update on 2015 Q3.

² Labour Force Survey Results, referring to 15-65 years old range.

³ According to Labour Force Survey Results.

*The GDP data for 2015 are derived from IMF.

A4.2 Legal and Regulatory Framework for PFM

The legal and regulatory framework for PFM in Albania has origins in the Constitution (1999). The main PFM law is the Law on the Management of the Budgetary System (2008) which regulates the management of public finance in general government entities.

Table A4.3 presents an overview of the main laws and regulations that guide the PFM systems in Albania. The main guidance of the legal framework in respect to specific areas is discussed in more detail in the narrative of the respective Performance Indicators.

The legal framework regulating the budget system, planning, execution, monitoring and control of the budget applies uniformly to all general government entities. The main framework law was adopted in 2008, with amendments in summer 2016 to among other further regulate some areas of fiscal discipline. This law regulates a series of issues pertinent to local governments as well,

including structure, principles of budgets; elements of intergovernmental transfers; processes of budget preparation, execution and control/inspection. New legislation regulating expenditure control and internal audit has been adopted in the last two years, adjusting or improving the previous laws in financial management and control, internal and external audit.

The framework law in tax management is the Tax procedures law, which applies to both central as well as local governments. This law is currently under review by the government. Amendments and/or a new tax procedure law are expected to be discussed soon. Following the adoption of a new VAT law in 2014; ongoing efforts are currently undertaken in respect to the excise law and the law on local taxes and fees. Renewed emphasis has been placed by the government in ensuring stability and predictability of local financial resources, through the a) anchoring of the size of the total pool to a macroeconomic variable; b) exploring the potential for increasing the number and sources for sharing of national taxes; as well as c) devolving more revenue raising authority to local level through increased discretion in setting tax and user charge levels. A new local finance law that is currently being prepared by the government is expected to tackle these issues within 2016.

Table A4.3 Overview of the main laws and regulations governing PFM in Albania

Area	Description
General	The Constitution (1999) sets the basis for PFM.
Budget preparation and execution	<ul style="list-style-type: none"> • Law on the management of the Budgetary System in the Republic of Albania (2008) and the standard budget instructions (2012) – Standard Instruction on the Medium Term Budget Preparation; and Standard Instruction on Budget Execution define in detail the roles, functions and responsibilities in management of government revenue and expenditure. They also define the accounting, control and reporting systems. Annual budget preparation and execution instruction are also issued every year; • Law on Financial Management and Control (2010), defining management responsibilities for execution and control of budgets.
Debt	<ul style="list-style-type: none"> • Law on State Debt, and State Guarantees in the Republic of Albania (2006) defines the authorities and procedures for debt administration; • Law on local government borrowing (2008) defines local borrowing limitations as well as authorities and procedures for local debt.
Tax administration	<ul style="list-style-type: none"> • General laws governing tax administration: Law on Tax Procedures (2008); • <i>General laws for direct and indirect taxes:</i> <ul style="list-style-type: none"> - Law On National Taxes (2008); - Law on Income Tax (1998); - Law on Value Added Tax (2014); - Law on excise duties (2002); - Law on the System of Local Taxes and Fees (2006).
Public sector entities	<ul style="list-style-type: none"> • Law “On Concessions and Public Private Partnerships” (2013); • Law “On commercial companies” (2008); • Law “On State Companies” (1992) repealed – state companies should have been incorporated or dissolved within a few years from this law.
Expenditure control and internal audit	<ul style="list-style-type: none"> • Law on Public Procurement (2006); • Law on Internal Auditing in the Public Sector (2015).
External Audit	<ul style="list-style-type: none"> • The Constitution (1999) Articles 162-165; • Law on the Organisation and Functioning of the High State Control (2014).
Legislative oversight	<ul style="list-style-type: none"> • The Constitution (1999) Articles 155-160; • Law on Organisation and Functioning of the Council of Ministers.

Area	Description
Decentralisation	<ul style="list-style-type: none"> • Constitution (1999) Articles 108-113 establishes the principles of decentralisation and subsidiarity; • Law on Local Self Government (2015).
Transparency	<ul style="list-style-type: none"> • On the right to information (2014); • On Public Notice and Consultation.

Public Internal Financial Control (PIFC) is the overall internal control system governing the internal control framework for the entire public sector in Albania and is compatible with European standards.

PIFC aims to provide adequate and transparent methods and organizations to provide a reasonable assurance that public funds are being used for the objectives selected by the budgetary authority (i.e. Mayor and Local Council – as well as the national government as concerns earmarked transfers).

As a part of the legislative improvement process, in 2008 the Parliament approved the law No.9936 on the Management of the Budgetary System in the Republic of Albania”, known as the new organic budget law, where the introduction of PIFC is set out. The law sets out rules and procedures in broad lines for drafting and implementing the budget and every year, guidelines are to be provided for the application of this law. This law provides the rules of budgetary accounting in accordance with approved classification and sets forth sanctions for budgetary discipline. The law defines inspection, auditing, and reporting for the budgetary system.

On this main legal foundation and in line with national and international professional developments in the internal control field, in 2010 the new Financial Management and Control law no.10296, dated 08.07.2010 was approved and also the existing law no.9720, dated 23.04.2007 “On Internal Audit in the Public Sector”, was amended.

PIFC is composed of three pillars:

- Sound financial management and control (FMC) systems as a primary responsibility of managers in each unit of public expenditure;
- Independent and objective function of Internal Audit (IA), to support management and to provide reasonable assurance that control systems are established in accordance with rules and standards, according to the principles of a sound financial management;
- Central Harmonization Unit (CHU) in the Ministry of Finance, to design and implement a methodology, to harmonize and standardize the quality system for FMC and IA.

In order to complete the legal framework a comprehensive Law on Local Government Finances is being prepared (an open discussion draft was issued 26th September 2016). It intends to bring together all principles and procedures with regard to local government sources of revenues, expenditure management and related intergovernmental dialogue and consultation. The key objectives of the new law are to ensure the adequacy of local government financial resources; strengthen local government taxing powers; guarantee the equity, transparency and predictability of intergovernmental transfers; support the effective and transparent use of local financial resources in accordance with the strategic priorities and local needs, ensure fiscal discipline and enable efficient delivery of public services; enable local governments to effectively use their right to borrow resources; ensure a continuous dialogue between the two levels of governance on the key issues that affect local government functions and responsibilities and their financial resources.

A4.3 Institutional arrangements for Subnational Government

Albania's administrative structure has undergone radical change since the end of the nineties, which marked the beginning of the decentralization reform process. A territorial and administrative reform became a strategic priority envisaged after Albania ratified in 1999 the European Charter of Local Self Government. In 2014 the Albanian Government embarked on the process of implementing the TAR, included its principles in the new Constitution and adopted the first "National Strategy on Decentralization and Local Government".

The Albanian Parliament approved on July 31, 2014 the Law 115/2014 "On the administrative and territorial division of local government units in the Republic of Albania", which reduced the number of local government units from 373 communes and municipalities and 12 regional councils to 61 municipalities and 12 regional councils. Such an administrative consolidation represents the merger of in average 6-7 former LGUs into one new municipality (with a range from 4 to 14 LGUs).

There is no level of general government below municipalities. A regional level of general government exists. It is made up of representatives of the municipalities and funded from municipal contributions. The regions have only a coordinating function among municipalities in each regional and the budget is minimal.

The main purpose of the TAR is to increase the efficiency of local administration, enhancing the quality and standards of service delivery, proper development of territory by enabling greater human and financial resources, more responsibilities and authority at the local level and orientation towards a transparent and participatory decision-making.

A new Strategy on Decentralization and Local Governance was adopted by the Government in 2015. It was followed by the adoption of the new organic law on "Local Self-Government" in December 2015, aiming at consolidating the decentralization process and delegation of functional and fiscal autonomy to the local level.

As of January 1, 2016 local governments manage a broad range of public services in the area of housing and community amenities, pre-university education, environment, social welfare, and economic development, agriculture and rural development, public security, etc. Some new functions in the area of pre-school education, fire protection, irrigation and agriculture were transferred to the local level from the beginning of 2016.

The new consolidated municipalities were constituted following the June 2015 local elections and took office during July and August. Consolidation of the five municipalities with 36 communes' finances took place through the amalgamation of the communes' treasury accounts into one single treasury account for each new municipality and the resulting elimination of separate commune treasury accounts. The accounts of the pre-TAR municipalities and communes were closed in July 2015 and the balances transferred to the new municipalities. Subsequently, budgets for the remaining 5 months of the fiscal year were created for each new municipality by mechanically adding the balances on the budgets of each of the merged LGUs. These tasks were, reportedly, executed through a smooth and swift process confronting no major challenges, in part due to the assistance provided by the STAR-project which prepared financial statements as at July 2015 for all LGUs and as well as the corresponding consolidated ones for the new municipal territories.

The transition of financial consolidation under the TAR is still ongoing and covers a broad range of responsibilities in financial management, such as the merger of budgeting and financial planning,

local tax authority and the treasury, accounting and internal control functions, as well as the recording and reporting of consolidated financial flows and accounts including payment arrears.

The major concerns lie, in turn, within the scope of non-financial assets management as municipalities are still striving to reconcile and consolidate the inventory of fixed assets and other official property, as well as to establish their values.

The transition in merging the bookkeeping and ledgers has become a formidable task provided as the accounting standards and procedures are for the most part lacking harmonization thus hampering proper consolidation of financial statements. According to officials from the High State Control (HSC), the existing finance management arrangements are not commensurate with the local accounting and internal control needs thus leading local government units to adapt and essentially create new standards and operate under different books and software out of the debacle.

In order to complete the legal framework for local governments, the MOF is currently drafting a comprehensive Law on Local Government Finances. This is the first time such a law is established in Albania. It aims at incorporating all principles and procedures with regard to local governments' sources of revenues (own revenues and transfers), public finance management and related intergovernmental dialogue and consultation. A first draft has been prepared and it is expected that the law will be finalized before the end of 2016 for presentation to the parliament for approval.

A4.4 Institutional arrangements for PFM in local government

The national parliament is the main authority in the management of the system of public finance, with clearly defined authorities in terms of budget adoption and oversight, while the Council of Ministers is the authority in charge of setting policy priorities and proposes the budget for adoption to parliament. The Minister of Finance is responsible for the management of the entire budgetary system and internal financial controls.

The budgetary system in Albania includes general government entities: the central government; local government and special funds. Local governments are hence part of the budgetary system; but the local budget is distinct from the state budget.

At the local level the Mayor is responsible for setting policy priorities, planning, execution and monitoring of the budget. The budget is adopted by the locally elected municipal council. Subsequently, the Prefect of the national government's regional administration (Qark) shall endorse the municipal budget, but the Qark verifies the legality of the budget only and has no say in the priorities and budget allocations reflected in the budget.

The preparation of medium term budget programmes is a statutory requirement for local governments, as well as other general government entities. The law on the management of the budgetary system regulates a series of issues pertinent to local governments as well, including structure, principles of budgets; elements of intergovernmental transfers; processes of budget preparation, execution and control/inspection.

The budget cycle is annual and it coincides with the calendar year. Municipal government have to prepare medium term budget projections over a three year period in order to increase transparency and predictability of budgets as well as present the expected effects of budget programmes that extend over the course of several years.

The budget is prepared on a programme basis. Each programme is a subset of a function or sub-function according to COFOG classifications and it has clearly defined strategic goals, objectives and outputs that need to be achieved over the budget period. Budget planning at the central level is carried out through an Oracle based software but it has no interface with the budget execution software. It has not been extended to local governments, who prepare budget manually.

Public finance is management through the Unified Treasury Account, held with the Bank of Albania. The Minister of Finance may hold a limited number of accounts with the Bank of Albania in case it is necessary for the management of special funds or external projects. The treasury is managed centrally by the Ministry of Finance through dedicated Albanian Government Financial Information System (AGFIS). AGFIS is currently being expanded to include further modules as well as establish interfaces with the budget preparation process. The treasury is organised in 36 regional offices which serve all public institutions in the relevant jurisdictions. Other than banking functions, treasury executes an ex-ante control function through verification of expenditure claims.

Municipalities are not connected to the treasury system, although Tirana Municipality has obtained access on a pilot basis since May 2016, but does not use its functionalities in full. Budget execution procedures require a three-step authorisation procedure and are very time-consuming. Budget monitoring and accounting remain largely manual.

Internal Audit in Albania is overseen by the General Department of Harmonisation for Internal financial Control in the public sector; under the Ministry of Finance. The High State Control as the external audit has jurisdictional control over all public sector entities including central and local governments and their subordinate agencies, special funds, and Public Enterprises.

A4.5 Fiscal Arrangements for Municipalities

Municipal budgets are financed from multiple sources, comprising:

- Own taxes;
- Fees and user charges;
- Other non-tax revenue;
- Unconditional block grants from the state budget;
- Shared taxes (the Simplified Profit Tax, The Vehicle Registration Tax and the Property transaction tax), which are decided, assessed and collected by the national government;
- Specific transfers, which are earmarked grants from national government. Following the adoption of the new local governance law in November 2015, these transfers are financing newly transferred functions were financed such as water and irrigation, forestry and fire protection, and teachers at pre-school facilities. The transfers are expected to cover recurrent costs associated with said functions;
- Earmarked transfers for recurrent costs in delegated functions undertaken by municipalities (and communes) for several years on behalf of national government (i.e., civil registry and national business centre), or as shared functions¹¹⁶ such as social welfare services);
- Earmarked grants from the state budget through the Regional Development Fund (RDF) mechanism for major projects. As municipal budgets are not sufficient to cover needs for major capital improvements, RDF has provided substantial funding to municipalities (and formerly

¹¹⁶ E.g. in the area of pre-university education, municipalities are supposed to provide and maintain infrastructure such as school and kindergarten buildings, whereas national government provides funding of salaries for education staff through specific grants. With the adoption of the new local self-governance law the concept of "shared functions" is no longer in force. Maintenance of school facilities is an "own" function; while social welfare payments are delegated functions.

communes). It funds about 200 projects p.a. and has provided about ALL 16 billion in 2015 and 12 billion in 2016. There is no separate law for RDF and no extra-budgetary fund. The RDF is regulated in the annex to the annual state budget law. RDF funds are budgeted under each relevant ministry in 5-6 programs such as water supply, schools etc. Roads construction/rehabilitation however, is outside these ministerial allocations;

- Earmarked project grants from local and foreign donors, provided in kind or in cash transfer;
- Municipalities may budget a deficit only if this relates to investment projects and may borrow from foreign and domestic sources for financing such projects. Municipalities may also incur short-term debt provided that it is repaid in full within November of each fiscal year.

By law, municipalities' annual budgets have to be balanced, except where a loan has been approved for financing an investment project.

Earmarked grants are allocated to municipalities after the start of the fiscal year and have to be accounted for to the respective supervising national ministry. Any unspent balances shall be returned to the state budget at the end of the fiscal year.

Starting in 2016, specific transfers are allocated to municipalities through the annual budget law in the form of block grants to finance the specific functions. Municipalities may allocate such funds to their discretion within the given function. Unspent balances may be carried over to the following fiscal year.

Unconditional grants and shared taxes are entirely fungible with own revenue collections and any unspent balances at the end of the fiscal year may be carried over to the following fiscal year.

All municipal staff – including those financed through earmarked grants from the state budget – are hired and managed by the municipal administration, which is responsible for timely and correct payment irrespective of whether the related grants have been received timely or are considered sufficient for undertaking the function in question.

Municipalities may borrow for the purpose of long term project financing (ref. budget deficit above) and to bridge short term liquidity problems. As per Law No. 9936/2008, all borrowing has to be approved by the Minister for Finance.

A4.6 Fiscal and budgetary trends

As tables A4.2 and A4.4 show, total General Government revenue has been running at about 26 per cent of GDP, while total expenditure has been 30 per cent or more. The 2008 global crisis led to a fiscal deficit of 7 per cent of GDP in 2009, and although this was reduced to 3 per cent in 2010 the subsequent trend was upward until the deficit reached 5.9 per cent in 2014. Measures in accordance with the current IMF EFF arrangement brought the deficit down to 4.5 per cent of GDP in 2015, and a further improvement to 2.5 per cent is expected for 2016. The succession of fiscal deficits has resulted in an increase in total government debt from 55 per cent of GDP in 2008 to 73 per cent at the end of 2015, with particularly large increases in 2012 and 2013. The prospect is that 2016 will see a modest reversal of this upward trend, but substantial further fiscal consolidation will be needed – of the order of 3 per cent of GDP – to achieve the objective of bringing this ratio down by 2020 close to the legal maximum of 60 per cent of GDP required by current Albanian legislation as well as by the EU as a condition of membership.

Table A4.4 General government revenue and expenditure (in ALL billion)

	2013	2014	2015
TOTAL REVENUE	323.7	366.7	377.5
As % of GDP	24.0	26.3	26.2
Grants	5.7	10.1	11.2
Tax and Social Insurance	296.4	335.8	340.6
Local Government own revenue	10.8	12.4	11.7
LG own revenue as % of GDP	0.8	0.9	0.8
Non tax revenues	21.6	20.7	25.7
TOTAL EXPENDITURE	394.1	448.6	443.0
As % of GDP	29.2	32.2	30.7
CG Current expenditure	298.8	315.2	321.8
LG Current expenditure	29.8	32.9	34.1
As % of GDP	2.2	2.4	2.4
Capital expenditure inc. net lending	65.5	66.4	69.9
Arrears	0	33.8	17.6
AGGREGATE DEFICIT	-70.4	-82.1	-65.5
As % of GDP	-5.2	-5.9	-4.5
General Government Debt as % of GDP	70.4	72.0	73.0

Source: IMF CR16/289.

As Table A4.4 shows, local government accounts for only a relatively small part of total General Government revenue and expenditure. This is a reflection of the limited responsibilities given to municipalities, and the limited sources of revenue available to them. Overall, the revenue which municipalities collect through their own decisions corresponds to only about 3 per cent of total government revenue (and less than one per cent of GDP). Their expenditure represents somewhat less than 8 per cent of total government expenditure, with investment, which accounts for at least a quarter of municipal expenditure, almost entirely dependent on finance from central government. By contrast central government capital expenditure represents only about an eighth of total expenditure. Very little of the expenditure required for public education and health services falls to be met by municipalities, although they have recently been given more responsibility for the provision and operation of facilities in the areas of education, health and irrigation and drainage. Total expenditure by municipalities amounted to about US\$170 per head of population in 2015. All municipal revenue and expenditure takes place within the national Treasury system managed by the Ministry of Finance; all revenue received by municipalities from non-government sources is paid into the Treasury account at the Bank of Albania, and all payments on behalf of municipalities are met from it.

The allocation of municipal expenditure by economic classification is shown in Table A4.5 and the functional allocation in Table A4.6. Current expenditures represented more than 70% of total expenditures during the period 2010-2015. Within this category, personnel and transfers account for the largest share. Personnel costs remained generally stable over the period, and operational costs increased only a little. Capital expenditures represented on average about 26.2% of total expenditures; they declined from 2010 to 2012, and subsequently recovered to their former level. Expenditure on transfers increased significantly from 2013.

Table A4.5 Gross current and capital expenditure of all municipalities (/000 ALL)

	2010	2011	2012	2013	2014	2015
I. Current expenditures	38,742	36,703	37,843	40,594	44,778	42,688
Personnel	10,117	10,362	10,124	10,822	10,951	10,972
Operational	8,898	8,279	8,504	8,832	9,686	9,596
Office materials and other admin.	527	530	452	426	395	395
Services from third parties (energy, water, phone)	3,807	3,281	3,883	3,932	4,434	4,740
Transport Expenditures	876	908	974	1,022	1,068	826
Travelling and allowances	353	238	167	146	161	114
General maintenance expenditures	928	941	828	809	779	752
Other operating expenditures	2,407	2,381	2,199	2,496	2,850	2,769
Subsidies	2,407	771	1,665	852	572	499
Transfers	17,273	17,259	17,515	20,056	23,543	21,565
Interest Payment	47	32	35	32	27	55
II. Capital expenditures	16,564	13,581	10,825	13,035	15,473	16,531
Total Expenditures	55,305	50,284	48,668	53,629	60,251	59,218

Source: Ministry of Finance.

The main responsibilities of municipalities are the provision and maintenance of the local infrastructure, including roads, local amenities, refuse disposal, public lighting and control of building. The largest expenditure category is social protection, where municipalities act as agent for the central government in selecting the recipients of means-tested benefits according to centrally determined criteria, and making the payments out of conditional grants provided by central government. The costs of municipal administration are covered by General Public Services, with most other expenditure classified as Economic Services or Housing and Community Amenities.

Table A4.6 Functional allocation of expenditures (61 Municipalities, ALL million)

	2010	2011	2012	2013	2014	2015
Total Expenditures	55,305	50,284	48,805	53,629	60,251	59,218
General public administrative services	11,543	11,198	11,241	10,853	11,190	11,106
Public order and safety	174	159	174	190	212	190
Economic affairs	8,192	6,867	5,077	7,483	8,979	10,909
Environmental protection	0	0	0	0	0	0
Housing and community amenities	11,498	8,439	8,487	9,481	9,441	9,969
Health	19	86	88	44	11	46
Recreation, culture and religion	1,507	1,877	1,585	1,553	1,569	1,542
Education	4,867	4,295	4,462	3,733	5,109	4,200
Social protection	17,506	17,363	17,691	20,292	23,738	21,258

Source: Ministry of Finance.

Only a relatively small part of municipalities' income is fully under their control. At the national level about three quarters of municipalities' total income is derived from conditional and unconditional grants from central government, and from predetermined shares of taxes collected by central government. The main sources of revenue under municipal control are annual property taxes on buildings and land, annual fees charged for the provision of municipal services (which are very similar to property taxes), and the infrastructure impact tax levied in respect of new buildings. The potential revenue from property taxes is limited by central government restrictions on tax rates, as well as by inadequacies in the documentation of chargeable properties; it appears that municipalities have in many cases made only limited efforts to collect property taxes from

households, considering that the potential revenue did not justify the trouble involved. The yield from the infrastructure impact tax is potentially important, but it has been reduced during the 2013-15 period by the centrally-imposed ban on the issue of new building permits. The different streams of municipal revenue are shown in Table A4.7.

Table A4.7 Municipal revenues (61 Municipalities, ALL million)

	2010	2011	2012	2013	2014	2015
Revenues from taxes	9,171	9,111	7,787	7,713	8,993	8,339
Small business tax	2,429	2,614	2,246	2,073	1,679	2,039
Property Taxes	1,605	1,563	1,970	1,840	3,101	3,315
Tax on Hotels	123	120	282	78	85	101
Tax on Infrastructure.	2,622	3,206	1,642	1,796	2,439	1,420
Tax on Transf. Immovable Property	291	378	536	614	581	606
Tax on Billboards	398	259	390	373	374	357
Other taxes	1,703	971	722	939	736	501
Revenues from fees and charges	3,572	3,558	4,320	3,972	4,538	4,661
Fees for local public services	1,251	1,249	1,693	1,656	2,001	2,065
Fees for the occupation of public space	299	334	446	347	418	328
Administrative charges and other n.e.c.	2,023	1,976	2,180	1,970	2,119	2,268
Unconditional grant	10,215	10,110	10,476	10,942	12,014	11,252
Shared taxes	1,171	1,309	877	1,509	1,065	1,016
Conditional grant	25,807	23,412	22,726	25,178	28,582	26,356
M. of Social Welfare and Youth	16,927	16,896	17,179	19,709	23,134	20,138
M. of Transport and infrastructure	5,486	2,685	2,173	2,667	1,771	2,005
M. of Interior	583	574	460	500	550	1,695
M. of Education	2,633	2,206	2,403	1,694	2,731	1,800
Other institutions	178.9	1052.7	511.4	607.2	397.1	717.1
Net Annual Local Borrowing	148	86	69	468	654	-
Carryovers (incl. RDF)	5,537	3,557	3,108	4,234	4,931	8,364
Total revenues	55,621	51,144	49,364	54,016	60,778	59,988

Source: Ministry of Finance.

Table A4.8 Overview of Amalgamation of the Municipalities selected for PEFA Assessment

Municipality Name	No. communes absorbed	No. population ¹¹⁷			Total Revenues ¹¹⁸ ALL million			Own source revenues ⁴ ALL mill			Share of own source revenues to total	
		Pre-TAR	TAR	increase	Pre-TAR	TAR	increase	Pre-TAR	TAR	increase	Pre-TAR	TAR
Tirana	13	418,495	557,422	33%	8,245	10,305	25%	4,733	5,880	24%	57%	57%
Berat	4	36,946	60,031	62%	778	1,139	46%	202	262	30%	26%	23%
Kucova	3	12,654	31,262	147%	286	548	92%	79	116	47%	28%	21%
Fier	9	55,845	120,655	116%	1,005	2,015	100%	305	530	74%	30%	26%
Tropoja	7	5,340	20,517	284%	146	538	268%	22	30	36%	15%	6%

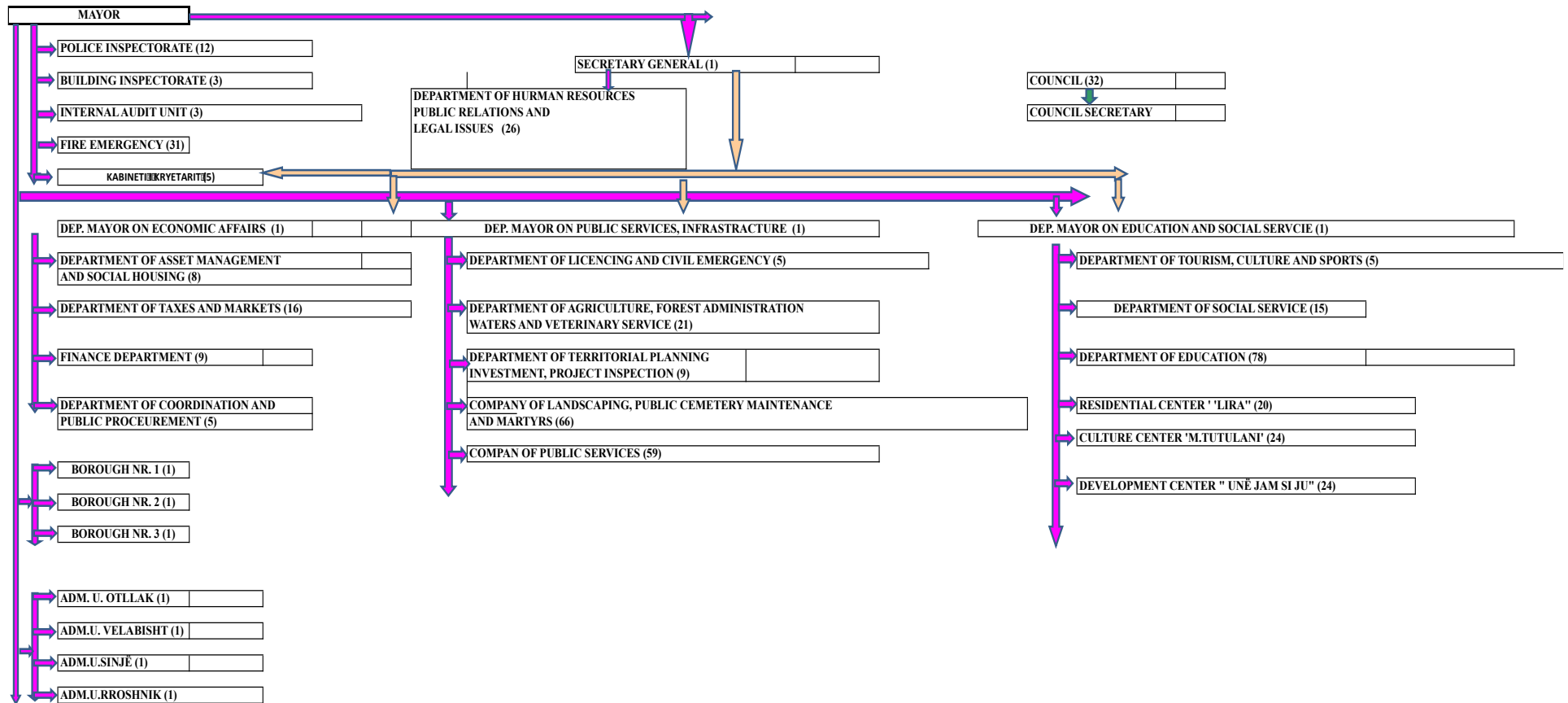
Pre-TAR: the municipality as it was defined prior to amalgamation of municipalities and communes under TAR i.e. up till June 2015.

TAR: the new municipality after amalgamation i.e. from August 2015 onwards, but based on pre-TAR data.

¹¹⁷ Source: Census 2011, Institute of Statistics.

¹¹⁸ Source: End-of year budget execution data for 2014 fiscal year, Ministry of Finance & PLGP/USAID.

Annex 5. Organizational chart of Municipality of Berat – Departments and number of staff, 2016



Annex 6A Data and Calculations for PI-1, 2 and 3, and HLG-1

Data for year = 2013						
administrative or functional head	budget	actual	adjusted budget	deviation	absolute deviation	percent
Pre-university education	58.075	52.071	48.872,8	3.198,2	3.198,2	6,5%
Culture and tourism	28.235	24.127	23.761,1	365,9	365,9	1,5%
Youth and Sports	21.112	12.975	17.766,7	-4.791,7	4.791,7	27,0%
General Public Services	89.738	85.288	75.518,7	9.768,8	9.768,8	12,9%
Roads and public transport	75.306	39.691	63.373,5	-23.682,5	23.682,5	37,4%
Local Community services	93.260	94.470	78.482,7	15.987,3	15.987,3	20,4%
Social care	18.397	14.636	15.481,9	-845,9	845,9	5,5%
Housing and territorial planning			0,0	0,0	0,0	
Public order & civil protection			0,0	0,0	0,0	
Economic Development and employment			0,0	0,0	0,0	
21 (= sum of rest)			0,0	0,0	0,0	
allocated expenditure	384.123	323.258	323.257,6	0,0	58.640,4	
interests						
contingency	4.500	867				
total expenditure	388.623	324.125				
overall (PI-1) variance						84,2%
composition (PI-2) variance						18,1%
contingency share of budget						0,2%
			1000			
Data for year = 2014						

	budget	actual	adjusted budget	deviation	absolute deviation	percent
administrative or functional head						
Pre-university education	62.889	54.646	57.384,7	-2.738,7	2.738,7	5%
Culture and tourism	32.999	27.555	30.110,8	-2.555,8	2.555,8	8%
Youth and Sports	16.980	16.500	15.493,9	1.006,1	1.006,1	6%
General Public Services	100.549	94.000	91.748,6	2.251,4	2.251,4	2%
Roads and public transport	112.845	107.200	102.968,4	4.231,6	4.231,6	4%
Local Community services	106.914	97.637	97.556,5	80,5	80,5	0%
Social care	18.751	14.906	17.109,8	-2.203,8	2.203,8	13%
Housing and territorial planning	78		71,2	-71,2	71,2	100%
Public order & civil protection			0,0	0,0	0,0	
Economic Development and employment			0,0	0,0	0,0	
allocated expenditure	452.005	412.444	412.444,0	0,0	15.139,2	
interests		0				
contingency	5000	371				
total expenditure	457.005	412.815				
overall (PI-1) variance						91,2%
composition (PI-2) variance						3,7%
contingency share of budget						0,1%
Data for year = 2015						
administrative or functional head	budget	actual	adjusted budget	deviation	absolute deviation	percent
Pre-university education	80.569	54.072	63.334,0	-9.262,0	9.262,0	15%
Culture and tourism	33.256	25.074	26.141,9	-1.067,9	1.067,9	4%
Youth and Sports	20.000	29.700	15.721,6	13.978,4	13.978,4	89%
General Public Services	167.012	122.734	131.285,2	-8.551,2	8.551,2	7%

Roads and public transport	118.819	106.946	93.401,4	13.544,6	13.544,6	15%
Local Community services	107.068	88.546	84.163,9	4.382,1	4.382,1	5%
Social care	19.226	14.971	15.113,2	-142,2	142,2	1%
Housing and territorial planning	6.398		5.029,3	-5.029,3	5.029,3	100%
Water and sanitation	11.390	1.101	8.953,6	-7.852,6	7.852,6	88%
allocated expenditure	563.739	443.144	443.144,0	0,0	63.810,2	
interests						
contingency	7281	0				
total expenditure	571.020	443.144				
overall (PI-1) variance						78,6%
composition (PI-2) variance						14,4%
contingency share of budget						0,0%

Annex 6B PI-2.2 Expenditure Composition Outturn by Economic Type

Data for year = 2013						
Economic head	budget	actual	adjusted budget	deviation	absolute deviation	percent
Compensation of employees	167.820	155.550	139.967,7	15.582,3	15.582,3	11,1%
Use of goods and services	167.299	132.959	139.533,1	-6.574,1	6.574,1	4,7%
Consumption of fixed capital	32.000	14.762	26.689,1	-11.927,1	11.927,1	44,7%
Interest			0,0	0,0	0,0	
Subsidies	17.904	17.854	14.932,6	2.921,4	2.921,4	19,6%
Grants	3.000	3.000	2.502,1	497,9	497,9	19,9%
Social benefits	600		500,4	-500,4	500,4	100,0%
Other expenses			0,0	0,0	0,0	
Total expenditure	388.623	324.125	324.125,0	0,0	38.003,3	
overall variance						83,4%
composition variance						11,7%
Table 3						
Data for year = 2014						
Economic head	budget	actual	adjusted budget	deviation	absolute deviation	percent
Compensation of employees	170.443	153.352	142.155,3	11.196,7	11.196,7	7,9%
Use of goods and services	180.353	166.185	150.420,6	15.764,4	15.764,4	10,5%
Consumption of fixed capital	78.289	66.436	65.295,7	1.140,3	1.140,3	1,7%
Interest			0,0	0,0	0,0	

Subsidies	22.500	22.500	18.765,8	3.734,2	3.734,2	19,9%
Grants	4.342	4.342	3.621,4	720,6	720,6	19,9%
Social benefits	1.078		899,1	-899,1	899,1	100,0%
Other expenses			0,0	0,0	0,0	
Total expenditure	457.005,0	412.815	381.157,9	31.657,1	33.455,2	
overall variance						90,3%
composition variance		1000				8,8%
Table 4						

Data for year = 2015						
Economic head	budget	actual	adjusted budget	deviation	absolute deviation	percent
Compensation of employees	223.334	179.757	186.268,2	-6.511,2	6.511,2	3,5%
Use of goods and services	209.871	162.842	175.039,3	-12.197,3	12.197,3	7,0%
Consumption of fixed capital	91.479	63.792	76.297,0	-12.505,0	12.505,0	16,4%
Interest			0,0	0,0	0,0	
Subsidies	26.000	29.700	21.684,9	8.015,1	8.015,1	37,0%
Grants	10.397	7.053	8.671,5	-1.618,5	1.618,5	18,7%
Social benefits	2.658		2.216,9	-2.216,9	2.216,9	100,0%
Other expenses			0,0	0,0	0,0	
Total expenditure	563.739	443.144	470.177,8	-27.033,8	43.064,0	
overall variance						78,6%
composition variance						9,2%

Annex 6C PI-3 Revenue Outturn

Data for year = 2013						
Economic head	budget	actual	adjusted budget	deviation	absolute deviation	percent
Tax revenues						
Taxes on income, profit and capital gains (SBT)	55.834	41.649	42.175,4	-526,4	526,4	1,2%
Taxes on payroll and workforce			0,0	0,0	0,0	
Taxes on property	23.239	19.680	17.554,1	2.126,1	2.126,1	12,1%
Property sale tax			0,0	0,0	0,0	
Taxes on goods and services (Vehicles)			0,0	0,0	0,0	
Infrastructure impact tax	20.000,0	6.905	15.107,4	-8.201,9	8.201,9	54,3%
Advertisement tax (billboard tax)	4.106,0	2.792	3.101,6	-309,1	309,1	10,0%
Other taxes	45.876	19.519	34.653,4	-15.134,7	15.134,7	43,7%
User charges and fees						
Solid waste fee	31.191	27.840	23.560,8	4.278,9	4.278,9	18,2%
Other	29.947	37.833	22.621,1	15.212,4	15.212,4	67,2%
Grants						
Grants from foreign governments			0,0	0,0	0,0	
Grants from international organizations			0,0	0,0	0,0	
Grants from other government units			0,0	0,0	0,0	
Other revenue						
Property income	8.500	7.403	6.420,7	982,6	982,6	15,3%
Sales of goods and services			0,0	0,0	0,0	
Fines, penalties and forfeits	2.000	3.083	1.510,7	1.572,2	1.572,2	104,1%

Carry over revenue from previous year			0,0	0,0	0,0	
Premiums, fees, and claims related to nonlife insurance and standardized guarantee schemes			0,0	0,0	0,0	
Sum of rest			0,0	0,0	0,0	
Total revenue	220.693	166.705	166.705,1	0,0	48.344,3	
overall variance						75,5%
composition variance						29,0%
Table 3						
Data for year = 2014						
Economic head	budget	actual	adjusted budget	deviation	absolute deviation	percent
Tax revenues						
Taxes on income, profit and capital gains (SBT)			0,0	0,0	0,0	
Taxes on payroll and workforce			0,0	0,0	0,0	
Taxes on property	41.624	40.191	34.922,6	5.268,4	5.268,4	15,1%
Property sale tax			0,0	0,0	0,0	
Taxes on goods and services (Vehicles)			0,0	0,0	0,0	
Infrastructure impact tax	26.000	1.241	21.814,1	-20.573,1	20.573,1	94,3%
Advertisement tax (billboard tax)	2.939	2.208	2.465,8	-257,8	257,8	10,5%
Other taxes	19.292	15.859	16.186,0	-327,0	327,0	2,0%
User charges and fees						
Solid waste fee	45.262	49.119	37.974,9	11.144,1	11.144,1	29,3%
Other	32.709	30.641	27.442,9	3.198,1	3.198,1	11,7%
Grants						
Grants from foreign governments	0	0	0,0	0,0	0,0	
Grants from international organizations	0	0	0,0	0,0	0,0	

Grants from other government units			0,0	0,0	0,0	
Other revenue						
Property income	9.500	6.505	7.970,5	-1.465,5	1.465,5	18,4%
Sales of goods and services			0,0	0,0	0,0	
Fines, penalties and forfeits	3.000	5.530	2.517,0	3.013,0	3.013,0	119,7%
Carry over revenue from previous year			0,0	0,0	0,0	
Premiums, fees, and claims related to nonlife insurance and standardized guarantee schemes			0,0	0,0	0,0	
Sum of rest			0,0	0,0	0,0	
Total revenue	180.326	151.294	151.294,0	0,0	45.246,9	
overall variance						83,9%
composition variance						29,9%
Table 4						
Data for year = 2015						
Economic head	budget	actual	adjusted budget	deviation	absolute deviation	percent
Tax revenues						
Taxes on income, profit and capital gains (SBT)			0,0	0,0	0,0	
Taxes on payroll and workforce			0,0	0,0	0,0	
Taxes on property	60.764	45.516	48.335,6	-2.819,6	2.819,6	5,8%
Property sale tax			0,0	0,0	0,0	

Taxes on goods and services (Vehicles)			0,0	0,0	0,0	
Infrastructure impact tax	26.000	8.090	20.682,1	-12.592,1	12.592,1	60,9%
Advertisement tax (billboard tax)	3.308	2.650	2.631,4	18,6	18,6	0,7%
Other taxes	31.214	16.764	24.829,9	-8.065,9	8.065,9	32,5%
Social contributions						
Solid waste fee	49.359	48.807	39.263,4	9.543,6	9.543,6	24,3%
Other	36.863	45.017	29.323,2	15.693,8	15.693,8	53,5%
Grants						
Grants from foreign governments			0,0	0,0	0,0	
Grants from international organizations			0,0	0,0	0,0	
Grants from other government units			0,0	0,0	0,0	
Other revenue						
Property income	8.302	5.496	6.604,0	-1.108,0	1.108,0	16,8%
Sales of goods and services			0,0	0,0	0,0	
Fines, penalties and forfeits	5.997	4.100	4.770,4	-670,4	670,4	14,1%
Carry over revenue from previous year			0,0	0,0	0,0	
Premiums, fees, and claims related to nonlife insurance and standardized guarantee schemes			0,0	0,0	0,0	
Sum of rest			0,0	0,0	0,0	
Total revenue	221.807	176.440	176.440,0	0,0	50.512,0	
overall variance						79,5%
composition variance						28,6%

Annex 6D HLG-1 High level transfers

Data for year =		2013				
Type of transfer	budget	actual	adjusted budget	deviation	absolute deviation	percent
Unearmarked transfers	180.189	180.440	180.128,1	311,8	311,8	0,2%
Education	-	-	0,0	0,0	0,0	
Culture			0,0	0,0	0,0	
General public services	7.500	7.353	7.497,7	-144,4	144,4	1,9%
Local community services			0,0	0,0	0,0	
Roads and transport	-	-	0,0	0,0	0,0	
Social care	253.287	253.034	253.201,4	-167,4	167,4	0,1%
Sports			0,0	0,0	0,0	
Housing			0,0	0,0	0,0	
Water and sanitation			0,0	0,0	0,0	
Total expenditure	440.976	440.827	440.827	0,0	623,6	
overall variance						99,97%
composition variance						0,14%
Table 3						
Data for year =		2014				
Type of transfer	budget	actual	adjusted budget	deviation	absolute deviation	percent
Unearmarked transfers	246.988	244.956	361.233,5	-116.277,5	116.277,5	32,2%
Education	-	28.102	0,0	28.102,0	28.102,0	
Culture			0,0	0,0	0,0	

General public services	8.313	8.221	12.158,8	-3.938,0	3.938,0	32,4%
Local community services			0,0	0,0	0,0	
Roads and transport	-	254.116	0,0	254.116,0	254.116,0	
Social care	325.887	314.625	476.627,6	-162.002,6	162.002,6	34,0%
Sports			0,0	0,0	0,0	
Housing						
Water and sanitation						
Total expenditure	581.188	850.020	850.019,8	0,0	564.436,0	
overall variance						146,3%
composition variance						66,4%
Data for year = 2015						
Type of transfer	budget	actual	adjusted budget	deviation	absolute deviation	percent
Unearmarked transfers	315.506	297.326	365.618,3	-68.292,3	68.292,3	18,7%
Education		29.788	0,0	29.788,0	29.788,0	
Culture			0,0	0,0	0,0	
General public services	15.038	14.989	17.426,7	-2.437,6	2.437,6	14,0%
Local community services			0,0	0,0	0,0	
Roads and transport		298.730	0,0	298.730,0	298.730,0	
Social care	509.162	332.245	590.033,0	-257.788,0	257.788,0	43,7%
Sports			0,0	0,0	0,0	
Housing						
Water and sanitation						
Total expenditure	839.706	973.078	973.078,1	0,0	657.036,0	
overall variance						115,9%
composition variance						67,52%

Annex 7. Disclosure of quality assurance arrangements

Composition of the Oversight team	
Ministry of Finance	Fran Brahimi
Ministry of State for Local Issues	Enea Hoji
High State Control	Bajram Lamaj
Berat Municipality	Luiza Bazaj and Anila Cuka
SECO/Swiss Embassy	Philipp Keller
USAID/PLGP	Kevin McLaughlin (co-chair)
World Bank	Hilda Shijaku
EU Delegation	Edina Halapi
UNDP	Vladimir Malkaj
SDC/DLDP	Edlda Bagaviki/Valbona Karakaci

Composition of the Assessment Team	
ECORYS Project Director	Corina Certan
ECORYS Project Manager	Sander de Vos
International PFM Expert – Team Leader	Frans Ronsholt (Tirana and Tropoja)
International PFM Expert	Jorge Shepherd (Tirana and Berat)
Local PFM Expert	Elona Gjika (Tirana and Tropoja)
Local PFM Expert	Sabina Ymeri (Tirana and Berat)

Review of Concept Note		
Concept note draft distributed 1st September, 2016		
Reviewer	Comments received	Date of SECO/USAID response
MOF	13 th September, 2016	15 th September, 2016
HSC	13 th September, 2016	15 th September, 2016
PEFA Secretariat	13 th September, 2016	15 th September, 2016
SDC	13 th September, 2016	15 th September, 2016
DLDP	12 th September, 2016	15 th September, 2016
Concept Note final approved by Oversight Team 20 th September, 2016		

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Berat Municipality	17 th January 2017	27 th January 2017
EU Delegation	15 th December 2016	27 th January 2017
SECO	29 th December 2016	27 th January 2017
PLGP	20 th January 2017	27 th January 2017
PEFA Secretariat	15 th December 2016	27 th January 2017
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P.O. Box 4175
3006 AD Rotterdam
The Netherlands

Watermanweg 44
3067 GG Rotterdam
The Netherlands

T +31 (0)10 453 88 00
F +31 (0)10 453 07 68
E netherlands@ecorys.com

W www.ecorys.nl

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