



# **Public Expenditure and Financial Accountability (PEFA) assessment of Tirana Municipality, Albania**

Final Report

Client: SECO

Rotterdam, 20 March 2017



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Rotterdam, 20 March 2017



Public Expenditure and Financial Accountability (PEFA) assessment  
of Tirana

Final report

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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# 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 Oversight Team members from the Ministry of Finance, the Prime Minister's Office and the High State Control, as well as the Director General of Financial Management and the many other officials of Tirana Municipality, who made themselves available, generously contributed their observations and opinions, and provided the information needed for the field mission.



# Abbreviations

AGFIS	Albanian Government Financial Management 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 controls
FY	Fiscal year
GFS	Government Finance Statistics
GDTF	General Department of Tax
HLG	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
IPS	Integrated Planning System
IPSAS	International Public Sector Accounting Standards
JSC	Joint Stock Company
LGU	Local Government Unit
MOF	Ministry of Finance
MOSLI	Minister of State for Local Issues
MTB	Medium-term budget
NA	Not Applicable
NDSI	National Strategy for Development and Integration
OT	Oversight team
PEFA	Public Expenditure and Financial Accountability Program
PFIC	Public financial internal control
PFM	Public Financial Management
PI	Performance indicator
PIM	Public investment management
PLGP	Planning and Local Government Project
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
USAID	United States Agency for International Development
WB	World Bank

### **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 Tirana 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 Berat, Fier, Kuçova 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 the whether the Municipality has 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) as well as the integrity of the fiscal data on the basis of which many of the findings rely as summarized below. 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.

### *Aggregate Fiscal Discipline*

Overall fiscal discipline is not a primary concern, although a number of issues need to be addressed. The Municipality is bound to balance its budget as it has very limited means of borrowing and in other ways run a fiscal deficit. Almost 40% of municipal budget revenue is received in terms of unconditional transfers from the state budget; with a high degree of predictability of both amounts and in-year timing.

A major concern is the poor performance in the Municipality's own revenue collections, which accounts for a good 60% of budgetary revenue and has seen actual revenue outturns consistently more than 35% below estimates. Consequently, annual aggregate budgetary expenditure has had to be curtailed and has consistently been more than 25% below the original budget estimates during 2013-2015. Whilst there is scope for improvement in many aspects of revenue

administration – and several measures have been taken to improve collection systems - the main issue in low revenue outturn appears to have been poor revenue forecasting.

Underperforming revenue collection forces the Municipality to cut the expenditure allocations during the year. As there are no effective expenditure commitment controls in place, budget institutions may eventually generate expenditure arrears on contracts which have already been entered but for which funds will no longer be available after the budget cuts. Effective systems of monitoring the existence and developments in expenditure arrears are missing and pose a risk to fiscal discipline.

A second concern is the lack of a fiscal strategy. Whilst, the pre-TAR expenditure arrears of the Municipality itself have largely been settled, a significant stock of arrears has been taken over from the former communes. The Municipality is also indebted to the MOF due to the latter having assumed debt servicing on old municipal loans. Insufficient provisions, if any, have been made in the annual budget estimates for those liabilities and a multi-year approach to paying them off is needed.

### *Strategic Allocation of Resources*

Municipalities in Albania have only limited scope for choice in the allocation of resources. They have little responsibility for the provision of the main health and education services, and their involvement in social protection is essentially that of an agent of central government. A strategic development plan for the Municipality has so far been missing as a basis for deciding medium- to long term priorities for resource allocation. Lack of proper economic analysis and selection criteria for major investment projects further highlight the ad hoc nature of strategic resource allocation so far.

At the annual level, the approved budget of the Municipality is clearly not a useful reflection of the likely operations of the Municipality for the coming year. If the budget is intended to represent the political priorities of municipal government – as it is supposed to be - it has at least been highly unrealistic. Apart from the changes to aggregate expenditure discussed above, the expenditure outturn composition by both functions and economic breakdown is significantly different from the original budget. The major in-year cuts in expenditure allocations necessitated by poor outturn on own revenue collections affect different expenditure categories and service functions to very different degrees.

Funding from the state budget through earmarked grants outside the Municipality's originally approved budget – at about 40% of budget expenditure – seriously undermines the value of the approved budget as a plan for the Municipality's annual operations. Part of those transfers are quite predictable as they do not fluctuate much from year to year (grants for social care, civic registration services etc.), whereas others are difficult to foresee and may require co-financing from the approved budget. The latter concerns in particular RDF grants which are allocated mid-year, but it may also affect the functions that have been decentralized to the Municipality from 2016.

Transparency of the budget and the overall financial operations shows a number of important weaknesses. The ability of the Municipal Council to scrutinize and challenge the budget estimates prior to budget approval is very limited due to the extremely short period allowed in practice for this process and the lack of technical support. Whilst the approved budget is publicized, in-year budget execution reports and annual financial statements are not made public. This hinders any meaningful contributions from civil society to discussion of the Municipality's activity and

expenditure priorities both at the annual budget approval process and during the (significant) in-year reallocations.

#### *Efficiency in Use of Resources for Service Delivery*

The lack of a medium- to long term anchor for planning affects efficient planning of resources and is exacerbated at the annual operational planning for the Municipality's service delivery institutions due to unreliable resource allocations - whether this is because original budget allocations are cut or resources for additional activities are allocated during the year. It is further complicated because there are links between approved budget allocations and earmarked/specific transfers such as investment co-financing or staffing for functions funded off-budget.

At the operational level, control of employment and payroll appears to operate reasonably well as does the payment function for non-salary expenditure. Also, recent gains in transparency and monitoring of procurement augur well for improvements in value for money of expenditure. However, problems with clarity of bid selection criteria and procedures mean that more has to be done to ensure such value-for-money.

The external audit by HSC is thorough and includes many important recommendations for improving expenditure efficiency, but the compliance approach – rather than systems approach – to the audit and the lack of a formal structure for responding to audit findings and rectifying problems limit the impact of the audits.

#### *Integrity of Financial Data*

There are major concerns regarding the quality of financial data. The audit undertaken by HSC has revealed a range of issues concerning the completeness and quality of financial data maintained by Municipality of Tirana. HSC's report for 2013, 2014 and part of 2015 has in particular highlighted the deficiencies in the inventory of assets - including their ownership, usage and valuation. The assessment highlights 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.

#### **Ongoing and planned PFM reform program**

In December 2014 the Government of Albania approved an ambitious "Public Finance Management Strategy 2014-2020", while simultaneously approving the TAR and formulating the "National Crosscutting Strategy on Decentralization and Local Governance 2015-2020". While the general responsibility for reform implementation oversight rests with MOF, the PFM strategy involves the entire government sector i.e. also the municipalities.

Whereas the disruptions caused by TAR implementation has affected implementation of the PFM reform agenda, the Municipality of Tirana nevertheless moves forward with reforms. Internal Audit capacity is being enhanced, the central AGFIS information system was rolled out to the Municipality in May 2016 and a strategic development plan for the Municipality is in the making as an anchor for setting medium-term expenditure priorities.

Many challenges remain for the reform agenda both at national and municipal level. In particular, (a) the current PFM reform agenda is not based on an assessment of the extent to which the main budgetary outcomes are achieved and what weaknesses in the PFM systems may be most important in hindering such achievement; (b) some reforms are unlikely to achieve their objectives

unless other PFM functions have reached certain levels of performance and such linkages need to be addressed through sequencing of reforms at the technical level; (c) the Municipality still needs to resolve problems carried over from the former communes such as expenditure arrears and assets inventory; (d) capacity constraints constitute an important challenge to reform efforts, not least at municipal level; and (e) phasing in of the new delegated functions of the Municipality – with the related funding measures – is yet to be firmed up.



Municipality of Tirana - Summary Assessment 2016 ratings							
PFM Performance Indicator		Scoring Method	Dimension Ratings				PI Score
			i.	ii.	iii.	iv.	
<b>Pillar I: Budget reliability</b>							
HLG1	Transfers from Higher Level of Government	M1	A	D	A		<b>D+</b>
PI-1	Aggregate expenditure out-turn		D				<b>D</b>
PI-2	Expenditure composition out-turn	M1	D*	D	A		<b>D+</b>
PI-3	Revenue out-turn	M2	D	D			<b>D</b>
<b>Pillar II: Transparency of public finances</b>							
PI-4	Budget classification		A				<b>A</b>
PI-5	Budget documentation		D				<b>D</b>
PI-6	Central government operations outside financial reports	M2	A	A	NA		<b>A</b>
PI-7	Transfers to sub-national governments	M2	NA	NA			<b>NA</b>
PI-8	Performance information for service delivery	M2	D	D	C	D	<b>D</b>
PI-9	Public access to fiscal information		D				<b>D</b>
<b>Pillar III: Management of assets and liabilities</b>							
PI-10	Fiscal risk reporting	M2	C	NA	D		<b>D+</b>
PI-11	Public investment management	M2	D	C	C	C	<b>D+</b>
PI-12	Public asset management	M2	C	C	C		<b>C</b>
PI-13	Debt management	M2	D	B	NA		<b>C</b>
<b>Pillar IV: Policy-based fiscal strategy and budgeting</b>							
PI-14	Macroeconomic and fiscal forecasting	M2	NA	C	NA		<b>C</b>
PI-15	Fiscal strategy	M2	D	D	NA		<b>D</b>
PI-16	Medium-term perspective in expenditure budgeting	M2	D	D	D	NA	<b>D</b>
PI-17	Budget preparation process	M2	NA	NA	D		<b>D</b>
PI-18	Legislative scrutiny of budgets	M1	A	D	C	B	<b>D+</b>
<b>Pillar V: Predictability and control in budget execution</b>							
PI-19	Revenue administration	M2	C	B	C	D	<b>C</b>
PI-20	Accounting for revenue	M1	A	D	D*		<b>D+</b>
PI-21	Predictability of in-year resource allocation	M2	C	C	D	C	<b>D+</b>
PI-22	Expenditure arrears	M1	D*	D			<b>D</b>
PI-23	Payroll controls	M1	B	A	C	C	<b>C+</b>
PI-24	Procurement management	M2	A	B	B	B	<b>B+</b>
PI-25	Internal controls on nonsalary expenditure	M2	C	C	A		<b>B</b>
<b>Pillar VI: Accounting and reporting</b>							
PI-26	Internal audit	M1	D*	B	D	A	<b>D+</b>
PI-27	Financial data integrity	M2	B	A	NA	D	<b>B</b>
PI-28	In-year budget reports	M1	D	B	C		<b>D+</b>
PI-29	Annual financial reports	M1	C	D	C		<b>D+</b>
<b>Pillar VII: External scrutiny and audit</b>							
PI-30	External audit	M1	D	NA	NA	C	<b>D+</b>
PI-31	Legislative scrutiny of audit reports	M2	NA	NA	NA	NA	<b>NA</b>



# 1 Introduction

## 1.1 Rationale and purpose

The current report presents the PEFA assessment of the Municipality of Tirana, constituting one of five municipal PEFA assessments being conducted simultaneously by teams of assessors contracted by SECO and USAID. The other municipalities are Berat, Fier, Kuçova 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); represented by Bajram Lamaj;
    - Representatives of each of the five municipalities, (Tirana: Jonida Halili);
  - 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 Tirana assessment:** Irene Frei, SECO;
  - **Assessment Team for Tirana:** International PFM consultants Frans Ronsholt (team leader) and Jorge Shephard, as well as local PFM consultants Elona Gjika and 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 1<sup>st</sup> September 2016;
- Invited reviewers: MOF, HSC, MOSLI, PEFA Secretariat, SDC, DLDP, EU Delegation, WB, UNDP, five municipalities;
- Reviewers who provided comments: MOF HSC , SDC , PEFA Secretariat all on 13 September; and DLDP on 12<sup>th</sup> September; for details, ref. Annex 7;
- Final Concept Note approved by OT on 20<sup>th</sup> September, 2016.

#### Review of the Assessment Report for Tirana:

- Assessment report draft circulated on 28<sup>th</sup> November, 2016:
- Invited reviewers: Municipality of Tirana, World Bank, SECO, PEFA Secretariat;
- Reviewers who provided comments: Municipality of Tirana, WB, SECO, PEFA Secretariat and PLGP. For details, ref. Annex 7.
- Revised report of 27<sup>th</sup> January 2017 submitted for follow-up review.
- Final Report completed 20<sup>th</sup> 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 Albania 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:

- Representative sample of population size, rural/urban and geographical coverage, average income, political balance;
- Municipal commitment, staff capacities and data availability;
- Synergies with donor support activities.

Tirana was included in the sample as the economically and financially most important municipality in the country, with high average income and the largest potential for 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 Shephard, 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 FY 2014, and FY 2015 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 Tirana Municipality, however, the impact of TAR on the overall level of financial operations is relatively modest, e.g. 13 communes with combined revenue of no more than 25% 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 macrofiscal 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 which a municipality would not be expected to undertake.

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 <sup>th</sup> September 2016	OT meeting
15 <sup>th</sup> -16 <sup>th</sup> September	PEFA capacity building workshop for all five municipalities
19 <sup>th</sup> -23 <sup>rd</sup> September	Data collection/interviews in Tirana (Municipality and central govt institutions)
25 <sup>th</sup> -29 <sup>th</sup> September	Field visits to Berat and Tropoja Municipalities in parallel
30 <sup>th</sup> September	Wrap-up meeting with Swiss Embassy, USAID/PLGP, MOF and HSC.
30 <sup>th</sup> Sept – 4 <sup>th</sup> October	Follow up meetings with Tirana Municipality and central government institutions
28 <sup>th</sup> November	Draft Report v1 distributed for review
12 <sup>th</sup> -16 <sup>th</sup> December	Field mission including workshops with each of Berat, Tirana and Tropoja,
16 <sup>th</sup> 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 28<sup>th</sup> of June 2016 as part of the scoping mission and on 12<sup>th</sup> 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 of 1999, 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 2000<sup>1</sup> 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.<sup>2</sup> 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.<sup>3</sup>

**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 councils and mayors 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 responsibilities of municipalities are the provision and maintenance of the local infrastructure, including roads, local amenities, waste disposal, public lighting and control of building construction; social services, pre-university education infrastructure as well as water supply 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. Overall the majority (75%) of municipal expenditure is financed through the state budget in terms of unconditional and earmarked transfers as well as shared taxes. 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.<sup>4</sup>

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

<sup>2</sup> 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.

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

<sup>4</sup> 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.<sup>5</sup> 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

Tirana is the capital and the biggest city in Albania, with a population exceeding 560,000 inhabitants (2015). More than 70% of its population is based in the urban area of the municipality. Approximately 130,000 inhabitants live in the peri-urban and rural communes around the city, which became part of the Municipality of Tirana in 2015, as a result of the Territorial Administrative Reform. The population of the Municipality expanded by about 33% by absorbing the territory of 13 former communes (ref. Annex 4, table A4-8).

Tirana is the economic centre of the country and is receiving a substantial influx of residents from other urban and rural areas<sup>6</sup>. Approximately 40,000 small and large companies are based in Tirana, of which 90% in the urban area. Most companies operate in the trade and services sector (88%). Around 8% of businesses operate in the industry sector, mostly concentrated in urban Tirana and peri-urban areas such as Kashar<sup>7</sup>.

Tirana is the most developed city in the country and the GDP per capita in the region of Tirana is 35% higher than the national average<sup>8</sup>. However, Tirana still faces significant challenges in terms of accessibility; quality of life and lack of basic infrastructure. The main strategic priorities of the municipality in the medium term focus on local economic development through support for employment and entrepreneurship; improving infrastructure and transport as well as increasing the quality of services provided.<sup>9</sup>

## 2.3 Fiscal and budgetary trends

Table 2-2, 2-3 and 2-4 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 13 former communes. Prior to the amalgamation, these communes had total revenue corresponding to 25% of the revenue of the pre-TAR municipality of Tirana.

The main sources of revenue for the Municipality of Tirana's budget are own tax and non-tax collections (accounting for 36% of total revenue in 2015); shared taxes collected by central government and transferred to the Municipality (16%) and unconditional grant from the state budget (17%) of the municipality's total budgetary revenue<sup>10</sup>. Earmarked transfers account for 31% of the municipality's own revenue and are in the assessment considered extra-budgetary.

<sup>5</sup> See Table A4-3 for a list of applicable legislation in the PFM sector.

<sup>6</sup> For a description of the country economic context refer to annex 4, section A4.1.

<sup>7</sup> National Registration Center, 2015.

<sup>8</sup> INSTAT, 2011. The Tirana Region contribution to national GDP was 36% in 2011.

<sup>9</sup> Tirana MTBP 2016 – 2018, <http://www.tirana.al/wp-content/uploads/2016/01/Relacioni-i-PBA-2016-2018-dok-3.pdf>.

<sup>10</sup> If calculated on the basis of fungible/discretionary sources of revenue as presented in PI-3., the respective weights are own taxes and fees 61%; shared taxes 19% and unconditional transfer 20%..



Own revenue collections have fluctuated over the years and was lower in 2015 than in 2013 as a result of a combination of factors but mainly due to a plunge in collections of the infrastructure impact tax. Overall, the municipality has consistently improved year-on-year performance in most of its key revenue sources but the performance is considerably below initial estimates in each of the years.

**Table 2.2 Municipality of Tirana Revenue and Expenditure (000 ALL, Actuals)**

	2013	2014	2015
Total revenue and grants (unconditional)	5 295 495	5 878 635	5 521 387
- Own revenue	3 600 151	3 586 991	2 878 976
-Shared tax	575,518	1,103,823	1,303,124
-Unconditional Grants	1,101,276	1,187,822	1,339,286
-Other (donations)	18,549	-	-
Total Expenditure from fungible sources	5,749,627	5,975,774	6,387,966
Staff compensation	1,932,230	2,062,613	2,190,673
Non staff recurrent expenditure	2,204,535	2,358,915	2,640,483
Capital expenditure	1,607,862	1,554,246	1,556,693
Interest	5,000	0	117
Earmarked grants (revenue = expenditure)	2,017,963	2,110,695	2,468,499
Earmarked grants other than RDF	1,744,267	1,999,148	2,197,770
RDF grants	273,696	111,547	270,729
<b>TOTAL REVENUE (actuals of own revenue and all grants/transfers)</b>	<b>7 313 457</b>	<b>7 989 330</b>	<b>7 989 886</b>

Source: Municipality of Tirana.

The unconditional transfer from the state budget has remained at steady levels over the years, as have earmarked grants e.g. for social care. In 2016, following the adoption of the new local government law, new functions were transferred to municipalities such as kindergarten and pre-school education staff costs; water and irrigation; forestry and fire protection, to be financed through "specific transfers". The level of funding is reportedly not adequate and has created hardship for the municipality over the course of 2016.

Major projects are financed through the state budget's Regional Development Fund as 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 during 2013 - 2015 as well as 2016, targeting mainly road infrastructure projects.

The municipality has recently taken a loan from the Abu Dhabi Development Fund under a sovereign guarantee. Debt service on other sovereign guarantee loans taken before 2013 has not been honoured by the municipality in the last three years due to the difficult financial situation. Unfunded mandates from the national government, underperformance in revenue collection as well as inadequate financial control systems have caused the municipality to create expenditure arrears over the years.

**Table 2.3 Municipality of Tirana budget allocation by function**

Data for year =	2013		2014		2015	
	actuals	% of total	actuals	% of total	actuals	% of total
Pre-university education	936 867	16%	1 165 841	20%	1 150 852	18%
Culture and tourism	129 372	2%	115 353	2%	127 898	2%
Youth and Sports	95 565	2%	77 525	1%	59 944	1%
General Public Services	895 618	16%	912 835	15%	1 326 491	21%
Roads and public transport	1 252 101	22%	1 041 361	17%	1 064 350	17%
Local Community services	1 892 501	33%	2 046 651	34%	2 242 870	35%
Social care	127 953	2%	119 494	2%	106 079	2%
Housing and territorial planning	154 449	3%	246 295	4%	60 239	1%
Public order & civil protection	188 884	3%	211 623	4%	189 085	3%
Economic Development and employment	71 317	1%	38 796	1%	45 051	1%
Water and sanitation		0%		0%	14 990	0%
allocated expenditure	5 744 627	100%	5 975 774	100%	6 387 849	100%
interests	5 000	0%	0	0%	117	0%
total expenditure	5 749 627	100%	5 975 774	100%	6 387 966	100%

**Table 2.4 Municipality of Tirana budget allocation by economic classification (FY 2015)**

	Total value (thousand ALL)	Value per capita (ALL)	Percent of total (%)
Total Expenditure from fungible sources	6 387 966	11 460	100%
Staff compensation	2 190 673	3 930	34%
Non staff recurrent expenditure	2 640 483	4 737	41%
Capital expenditure	1 556 693	2 793	24%
Interest	117	0	0%

## 2.4 Legal and regulatory arrangements for PFM

The legal and regulatory framework for PFM which is relevant to Tirana 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.

Tirana's Municipal Council comprises 61 members, which are elected every 4 years – last time in connection with TAR in June 2015. It has 14 committees.

The organizational structure of Tirana Municipality is presented in Annex 5. The Municipality is headed by the Mayor, and there are 4 deputy mayors. The municipal administration has 10 general directorates and 4 special offices reporting directly to the Mayor. In addition, there are 18 dependent, budgetary institutions. Total staffing is about 5500 of which about 1300 belong to the central administration whereas the remaining 4200 are working in dependent budget institutions.

Tirana Municipality has equity shares in seven Joint Stock Companies as listed in table 2-3.

**Table 2.5 Joint Stock Companies with Tirana Municipality Ownership**

Name	Municipal ownership	Net capital	Income from activity	Income from Subsidy	Operating expenses
2015 data in ALL million					
Economic Zone (UPNA)	100%	22	26	0	25
University Student Residence No.1	100%	7971	229	160	445
University Student Residence No.2	100%	639	104	78	191
University Student Residence No.3	100%	166	7	18	43
Tirana Water & Sewerage Company <sup>11</sup>	82.5%	7190	2941 <sup>12</sup>	0	2408
Tirana Football Club	34%	625	9	0	22
Eco Tirana	51%	No data – established June 2016			

Source: Monitoring report 2015 by Tirana General Directorate for Economic Development.

Three municipal institutions operates with some degree of autonomy from the central administration, namely Tirana Parking; Funeral Services (annual 2015 income: ALL 69 million) and Automobile Parts Manufacturing (AMG), of which the two last mentioned are in status of transition.

For Tirana Parking all of its revenue and expenditure is included in the budget and in reporting as any other revenue and expenditure. All of its revenue collections and expenditure are managed through a Treasury Branch sub-account to the Tirana Municipality account. However, it has been given authorization to spend up to 10% of its collections for operational costs and minor investments, without having to go through the general municipal administration in terms of release of funds, procurement process and payments.

Funeral Services operates currently as a budgetary institution although its operations are self-financing. It is in the process of becoming incorporated as a public corporation owned by the municipality.

AMG is generating revenue by leasing out its assets (workshops and manufacturing facilities) to the private sector, generating a revenue surplus for the municipality. It is also operating as a budgetary institution with revenue and expenditure included in the budget. AMG is in the process of being returned to its official owner, a central government ministry, which for a period had transferred its operations to Tirana Municipality.

<sup>11</sup> In connection with the TAR, the shares of the Water and Sewerage Company of Tirana will be dissolved and the company transferred to the Municipality of Tirana. As a result of Prime Minister's Decision (i-KM) No.63, dated 27 January 2016 on the "Reorganization of Operators to Provide Services of Drinking Water, and Collection, Disposal and Treatment of Wastewater", the Municipality will be responsible for undertaking and completing the physical inventory, valuation and registration of the collection, treatment and disposal units in the asset and accounting structure of the Company by 31 December 2016.

<sup>12</sup> According to the Municipality's Economic Development Directorate, the Water and Sewerage Company operates commercially with 1,100 workers and serves about 1 million residents in the municipalities of Tirana, Kamza and Vora. It has a Supervisory Board with representatives of Tirana Municipality to oversee its financial performance.



## 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)

#### Background

Municipality of Tirana receives five types of grants from the national government:

- Unconditional block grants;
- A share of certain taxes collected by the national government (SBT, vehicle registration, property transaction tax and mineral rent tax<sup>13</sup>) – the transfer is unconditional;
- Specific 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 selected 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.

As far as earmarked grants are concerned, municipalities do not include such funds in their budgets, which are formulated on the basis of unconditional grants, shared taxes and own revenue collections, as per instructions. Municipalities keep records on separate off-budget formats, and formally inform the Municipal Council on such additional budget allocations as and when they are decided. Budget execution reports and the balance sheet of the Municipality of Tirana, however, present the consolidated expenditure from all sources of financing.

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, have to be accounted for by the Municipality and any unspent balance returned to the respective ministries.

#### HLG-1.1 Outturn of transfers from higher level government

The unconditional block grant has been equal to or higher than the original estimate during each of the last three years<sup>14</sup>. The difference results from the fact that the municipality of Tirana adopted its budget prior to the adoption of the state budget law in Parliament and it had based its estimates on

<sup>13</sup> A shared tax on mineral extraction, quarries, etc. Tirana received revenues since January 2016, the former municipality of Tirana did not have any quarries in its territory prior to the territorial reform.

<sup>14</sup> In 2015 the difference is due to the territorial reform, which increased the budget of Tirana by the budget balance of the communes that were consolidated.

the draft law adopted in Government (Table 3-1); the size of the unconditional transfer was increased during parliamentary review of the annual budget law.

The main deviations from the estimates for unconditional transfers originate from differences in the planning of revenues from shared taxes. The Simplified Profit tax has performed better than planned in both 2014 and 2015, whereas the opposite is the cases for the other shared taxes.<sup>15</sup>

**Table 3.1 Estimates against outturns for transfers from the State Budget to Municipality of Tirana**

	2013		2014		2015	
	Estimate	Outturn	Estimate	Outturn	Estimate	Outturn
<b>Unconditional transfers</b>						
Unconditional block grant	937,521	1,101,276	1,187,822	1,187,822	1,256,650	1,339,286
Simplified Profit Tax	-	-	600,000	614,587	684,782	708,248
Property transfer tax	360,000	296,050	375,000	260,109	407,353	325,791
Vehicle registration tax	288,000	279,469	300,000	229,126	321,662	269,086
<b>Total unconditional</b>	<b>1,585,521</b>	<b>1,676,794</b>	<b>2,462,822</b>	<b>2,291,644</b>	<b>2,670,447</b>	<b>2,642,610</b>
<b>Outturn - unconditional</b>		<b>105.8%</b>		<b>93.1%</b>		<b>99.0%</b>
<b>Earmarked transfers</b>						
Education (RDF& recurrent expenditure)	14,188	84,351	11,995	102,028	11,955	149,974
General public services	89,080	84,780	67,930	65,407	259,083	192,612
Road Infrastructure (RDF)	0	203,251	0	21,515	0	125,533
Social care	1,656,572	1,645,580	2,069,821	1,921,746	2,313,760	1,993,203
Water and sanitation (RDF)	-	-	-	-	0	7,177
<b>Total earmarked</b>	<b>1,759,841</b>	<b>2,017,962</b>	<b>2,149,746</b>	<b>2,110,696</b>	<b>2,584,799</b>	<b>2,468,500</b>
<b>Total</b>	<b>3,345,362</b>	<b>3,694,756</b>	<b>4,612,568</b>	<b>4,402,340</b>	<b>5,255,246</b>	<b>5,110,911</b>
<b>Outturn – all transfers</b>		<b>110.4%</b>		<b>95.4%</b>		<b>97.3%</b>
<b>Composition variance</b>		<b>14.7%</b>		<b>5.1%</b>		<b>11.2%</b>

Note: Data are for the pre-TAR municipality for 2013 and 2014, whereas 2015 figures represent the amalgamated municipality including the 13 former communes. Details of variance calculation provided in Annex 6A.

The estimates for earmarked transfers in table 3-1 assume that transfers for delegated functions are considered planned even though the detailed estimates are not included in the municipal budget and not known to the Municipality until a month into the fiscal year. On this basis, the overall outturn on transfers from the State Budget has been lower than planned in 2015 and 2014, whereas it was higher in 2013.

#### *HLG-1.2 Earmarked grants outturn*

Non-earmarked transfers as well as transfers for social care (cash benefits for recipients of social assistance and disability benefits) account for a considerable part of total transfers from the national government to the municipality. Although they constitute a significant share of intergovernmental transfers, variances in estimates and outturns for these revenue streams are relatively modest compared with variance for other sources. It should be emphasised that the municipality of Tirana does not formally include estimates of earmarked transfers for 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, (ref. PI-1 and PI-2). Although they are not consolidated in the original budget estimate- as presented to the council; the

<sup>15</sup> The simplified profit tax (formerly small business tax) became a shared tax in January 2014, hence it is not included in the calculations for 2013.

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. These earmarked transfers are further consolidated into budget execution reports. Hence for the purposes of the calculation of 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) social protection and education 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 pre-defined 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 allocations 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 priorities 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 the 2013 – 2015 period the municipality of Tirana received numerous RDF grants in the education programme and road infrastructure programme. The variance in estimates and outturn for this type of grants in the 2013, 2014 and 2015 budgets is striking.

#### *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.

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.<sup>16</sup> The first tranche has been 30% of the unconditional transfer in the three years under consideration.<sup>17</sup>

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

<sup>16</sup> Interview with Arba Isaj, budget department, Municipality of Tirana.

<sup>17</sup> Budget implementation instruction; interview with Fran Brahim and Mariel Frroku, Ministry of Finance.

presented by the municipality. In cases when there are delays in project implementation, that would risk the execution of the full grant by December 31<sup>st</sup>; 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 less than 10% the total transfers in 2013, 2014 and in 2015.<sup>18</sup>

PI	Dimension	Score	Justification for score
<b>HLG-1</b>	<b>Transfers from a higher level of government</b>	<b>D+</b>	<b>Scoring Method M1.</b>
HLG-1.1	Outturn of transfers from higher level government	A	Aggregate transfers from the national government were higher than 95% of the original estimates in 2013 and 2014, but lower in 2015 (suggesting score A). 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	Compositional variance was higher than 10% in each of 2013 and 2015, and just over 5% in 2014. 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 block grant 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.

<sup>18</sup> Excluding RDF grants.



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 block grant); 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.<sup>19</sup> The budget estimates do not include estimates of expenditures whose financed from earmarked grants from the state budget. In turn, budget execution reports include all expenditures financed from the state budget in the form of earmarked grants. The standard budget instruction on the implementation of the budget<sup>20</sup> clearly stipulates that the local budget is unitary, and it shall include financial resources from all sources.

The assessment for this indicator refers only to the original budget estimate as approved by the council and it covers expenditure whose sources originate from locally generated revenue; unconditional grant and shared taxes. Earmarked transfers are discussed under PI-6 and HLG-1.

The results presented in Table 3-2 show that actual expenditure fell short of budget estimates by 27% in years 2013 and 2014 and by 36% in 2015. 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 expenditures<sup>21</sup> and actual expenditure outturns as reported at the end of each fiscal year.<sup>22</sup>

**Table 3.2 Comparison of budgeted estimates against actuals**

	2013	2014	2015
Aggregate budgeted expenditure	8 079 752	8 417 272	12 034 829
Aggregate outturn	5 749 627	5 975 774	6 387 966
Aggregate expenditure deviation	-2 330 125	-2,274,063	-3,744,202
Aggregate expenditure outturn in %	71,2%	71,0%	53,1%

PI	Dimension	Score	Justification for score
PI-1	Aggregate expenditure outturn	D	Aggregate expenditure outturn was below 85% in each of the last three years. Actual expenditure outturn was 71.2%; 71.0% and 53.1% respectively, in years 2013, 2014 and 2015. Although data for 2015 are not completely in line with indicator requirements and not directly comparable to the previous year before TAR, the deviations are considered sufficient significant to score the indicator with confidence.

<sup>19</sup> 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.

<sup>20</sup> Ministry of Finance, budget instruction on "Standard procedures for budget implementation", dated 06.02.2012, paragraph 100.

<sup>21</sup> Budget estimates reported on the basis of budget approval decisions of the Tirana municipal council for 2013 and 2014. The 2015 plan has been computed as the sum of the planned expenditures approved by the municipal council of Tirana and the communal councils of the 13 communes that were merged with the municipality of Tirana in July 2015.

<sup>22</sup> Expenditure outturn reconciliation act between the TDO and the Municipality of Tirana for years 2013, 2014 and 2015.

### *Ongoing reforms*

A 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 draft law was in the process of discussion and consultation at the end of 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 budgeted and actual expenditure by functional/or programme based classification. For all three years the variance in expenditure composition is significant at 14.3% and 19% respectively in years 2013 and 2014. Variance in expenditure composition by programmes remains high in 2015, at 47.2%. However, 2015 is an outlier year following the disruption of normal financial management procedures of the municipality of Tirana 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 Tirana and the 13 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<sup>23</sup>. Unallocated expenditure estimates of the communes amounts to 18.8% of the aggregate estimate for the consolidated 2015 Tirana budget estimate. As a result of these challenges the 2015 data are not taken into account for the rating of this dimension.

The largest deviations occurred in the following functions<sup>24</sup>:

- General public services (43% in 2013 and 33% in 2014);
- Housing and territorial planning (54% in 2013 and 56% in 2014);
- Economic development and employment (50% in 2013 and 81% in 2014).

Significant deviations occurred due to the underperformance in revenue collections, leading to the need for 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 is 31.5%, 37.5% and 32.0% respectively for the years 2013, 2014 and 2015. Variance is particularly high for capital expenditures (43%, 45% and 70% respectively in 2013 – 2015). The municipality also fell short of

<sup>23</sup> The commune budget estimates for 2015, as presented in the relevant local council decisions on the approval of the 2015 budget allocated expenditure to the "General Public Services" function and to the "Education" function. Capital expenditure was presented separately in all cases, unallocated to any specific functions. Several communes appear to report expenditure corresponding to other functions under the "general Public services" function.

<sup>24</sup> Detailed data and calculations presented in Annex 6B.

its commitment in paying interest on loans onlent by the Ministry of Finance (expenditure variance respectively 84%, 100% and 99% respectively in 2013 – 2015). Expenditures related with compensation of staff and employees and use of goods and services demonstrate lower differences, at less than 5% in all years.

**Table 3.3 Expenditure outturns by economic classification(actuals/estimates)**

	2013	2014	2015
Staff compensation	91%	96%	79%
Use of goods and services	92%	95%	73%
Capital expenditure	57%	55%	30%
Interest	15%	0%	1%
Subsidies	0%	0%	0%
Grants	3%	1%	2%
Social benefits	15%	11%	36%
Other expenses	0%	0%	0%

Ref. Annex 6C; Note: Capital expenditure = consumption of fixed capital due to cash basis of accounting.

### 2.3 Expenditure from contingency reserves

The decision on the approval of the local budget includes two budget line items that are unallocated: the reserve fund and the contingency fund; which are almost identical in nature. 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.<sup>25</sup> For the purpose of calculating the amount of expenditure actually charged to the contingency vote, these two sources are considered as “contingency vote”. The average amount of expenditure actually charged to the “contingency vote” over the last three years is 0%.

PI	Dimension	Score	Justification for score
<b>PI-2</b>	<b>Expenditure composition outturn</b>	<b>D+</b>	<b>Scoring Method M1.</b>
2.1	Expenditure composition outturn by function	D*	Variance in expenditure composition by function is 14% in 2013 and it exceeds 15% in 2014 at 19%. A reliable estimate cannot be given for FY2015, given the data availability on 2015 budget estimates.
2.2	Expenditure composition outturn by economic type	D	Variance in expenditure composition by economic classification is was higher than 15% in all of the three last years, at 31.5%, 37.5% and 32.0% respectively in 2013, 2014 and 2015. 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 variances are so significant that a score can be assigned with confidence.
2.3	Expenditure from contingency reserves	A	Actual expenditure charged to a contingency vote was nil in each of the last three years 2013 – 2015.

### Ongoing reforms

None identified.

<sup>25</sup> See Law 9936 “On the management of the budgetary system in the Republic of Albania” for exact definitions.

### 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

The data for this indicator includes only revenue administered and collected by the Municipality itself and its directly contracted collection agencies (such as Tirana Water & Sewerage Company). Shared taxes, which are nationally determined as well as administered and collected by the national tax administration, are not included here. They are considered transfers from central government and assessed – together with other transfers – under HLG-1.

The basis for the assessment of this indicator is the pre-TAR Municipality of Tirana for 2013 and 2014, whilst for 2015, the budget estimates were calculated as the sum of the original 2015 budget estimates of the pre-TAR municipality of Tirana and the 13 communes and the 2015 outturn of the new Municipality of Tirana (including the 13 former communes).

#### 3.1 Aggregate revenue outturn

The aggregate revenue outturn has consistently been much lower than the original estimate, at outturns of 55%, 64% and 48% respectively in years 2013, 2014 and 2015 (ref. Table 3-4 below). Apart from revenue from Municipal property/assets and from fines/penalties, all other main revenue categories have grossly underperformed in each of the three years. Underperformance in the collections of the infrastructure impact tax came as the result of a slowdown in new developments pending the approval of a new territorial development plan for the municipality of Tirana. Overall, the municipality has consistently 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, possibly to do with the way in which revenue forecasts are prepared, ref. PI-14.

#### 3.2 Revenue composition outturn

Compositional variance in revenue outturn has been calculated on the basis of nine revenue categories (re. table 3-4) of which the Small Business Tax ceased to be collected by the Municipality as from 2014. Compositional variance is estimated at 24.5% in 2013, 12.1% in 2014 and 51.3% in 2015, which indicate serious issues with the accuracy of the revenue forecasts.

**Table 3.4 Budgeted versus Actual Revenue Collections 2013 - 2015 (thousand ALL)**

	2013 Budget	2013 Actual	2014 Budget	2014 Actual	2015 Budget	2015 Actual
Small Business Tax	1,496,500	843,099	0	0	0	0
Property taxes	598,850	454,889	1,146,397	756,756	1,255,708	812,156
Infrastructure impact tax	1,375,000	624,719	1,700,400	1,004,843	1,750,750	128,325
Advertising tax	450,200	241,191	491,000	227,081	517,465	225,378
Other taxes	795,000	150,502	242,150	104,843	267,839	117,018
Solid waste fee	1,123,000	755,100	1,250,000	809,739	1,295,266	831,665
Other fees & user charges	504,581	335,882	630,083	476,167	742,667	446,195
Property income	51,100	95,597	54,000	84,145	73,721	166,535
Fees penalties and forfeits	100,000	99,173	103,500	123,416	131,410	151,703
<b>Total Own Revenue Collection</b>	<b>6 494 231</b>	<b>3 600 152</b>	<b>5 617 530</b>	<b>3 586 990</b>	<b>6 034 825</b>	<b>2 878 975</b>
<b>Outturn</b>	<b>(2894,079)</b> 55.4%		<b>(2,030,540)</b> 63.9%		<b>(3155,850)</b> 47.7%	

Source: Municipality of Tirana. Details of variance calculation provided in Annex 6D.

PI	Dimension	Score	Justification for score
<b>PI-3</b>	<b>Revenue outturn</b>	<b>D</b>	<b>Scoring Method M2.</b>
3.1	Aggregate revenue outturn	D	Revenue collection was 55% of budget estimates in 2013, 64% in 2014 and 48% in 2015; i.e. it actual revenue was far below 92% of the budgeted revenues in all years. 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 variances are so significant that a score can be assigned with confidence.
3.2	Revenue composition outturn	D	Variance in revenue composition exceeded 15% in two of the three years: it was 24.5% in 2013, 12.1% in 2014 and 51.3% in 2015. As with dimension 3.1 the findings are sufficiently robust to assign a score.

### 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”.<sup>26</sup>

## 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.

<sup>26</sup> This is not really elaborated further however, no sure that it can be referred to as reform.

It covers budgetary municipal government and is assessed on the last completed fiscal year – in this case for the last 12 months from September 2015 to September 2016.

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, extrabudgetary funds); as well as sub-classifications to the level of spending unit. Hence, expenditures of the Municipality of Tirana 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, subprogrammes 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 Tirana planned and reported expenditures in 8 out of the 10 main functions in 2015<sup>27</sup>, and reported programmes at the sub-functional level;
- Classification by source of financing – includes data on the source of financing by 5 different types (general government financing, own revenue, loans, etc.).

The same budget classification system and chart of accounts was used during 2016.

The Municipality of Tirana 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). The Municipality of Tirana has live access to the system since May 2016.

PI	Dimension	Score	Justification for score
PI-4	Budget classification	A	The budget classification and Chart of Accounts are based on economic, administrative and functional (and sub-functional) classification and can produce information compatible with the GFS 2014 standards.

#### 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 FY2016<sup>28</sup>.

<sup>27</sup> Local governments do not have any expenditure related with the defence and health functions.

<sup>28</sup> Source: “Medium Term Program Budget for the Period 2016-2018 with budget details for the Municipality of Tirana for the year 2016, approved by the Council by decision no. 58 of 30<sup>th</sup> December 2015”.

**Table 3.5 Critical Elements of Budget Documentation**

Full description of PEFA 2016 requirements	Requirements fulfilled? (Yes/No)	Information included in 2016 budget
<b>BASIC ELEMENTS</b>		
<b>1. Forecast of the fiscal deficit or surplus or accrual operating result.</b>	Yes	Budget balance on cash basis is presented in Statement 3 of the budget document.
<b>2. Previous year's budget outturn</b> , presented in the same format as the budget proposal.	No	No information for 2014 included.
<b>3. Current fiscal year's budget</b> presented in the same format as the budget proposal. This can be either the revised budget or the estimated outturn.	No	2015 information is included only for the main categories of revenue. For the investment budget (capital expenditure) the project expenditure up to and including 2015 is shown for each project. No 2015 expenditure for 2015 shown for comparison.
<b>4. Aggregated budget data</b> 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 (program classification) for 2016 shown in statement 3. No data for 2015 and 2014 shown for comparison. Details of revenue and expenditure shown in statement 1 (revenue) statement 3/1 (recurrent expenditure) and statement 4 (capital expenditure).
<b>ADDITIONAL ELEMENTS</b>		
<b>5. Deficit financing</b> , describing its anticipated composition.	Yes	Borrowing and repayment of loan principal shown in statement 3.
<b>6. Macroeconomic assumptions</b> , 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.
<b>7. Debt stock</b> , including details at least for the beginning of the current fiscal year presented in accordance with GFS or other comparable standard.	No	Only new borrowing, loan repayment and interest payments are shown.
<b>8. Financial assets</b> , 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.
<b>9. Summary information of fiscal risks</b> , 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. In particular, the stock of expenditure arrears is not shown.
<b>10. Explanation of budget implications of new policy initiatives and major new public investments</b> , with estimates of the budgetary	No	Tax and non-tax policy changes in revenue measures are explained in chapter III of the annex to the budget



impact of all major revenue policy changes and/or major changes to expenditure programs.		proposal but the estimates do not show what difference the changes make.
<b>11. Documentation on the medium-term fiscal forecasts.</b> 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.	Yes	Statement includes a detailed breakdown of revenue for each of the years 2016, 2017 and 2018. Expenditure estimates are presented for recurrent and capital expenditure aggregates for 2016, 2017 and 2018 on page 2 of the decision and for capital expenditure in detail in statement 4.
<b>12. Quantification of tax expenditures.</b> 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 one of the four basic elements are fulfilled. Two additional requirements are also fulfilled.

#### Ongoing reforms

None 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 year. 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

#### Background

In Tirana, five potential sources of extra-budgetary operations were identified<sup>29</sup>, namely:

- earmarked grants from the state budget;
- operations of semi-autonomous institutions;
- quasi-fiscal operations municipal owned public enterprises;
- donations and sponsored projects;
- community contributions to municipal projects.

*Earmarked grants* are explained in detail under HLG-1 and in Annex 4. As they are not incorporated into the municipal budget they are considered extra-budgetary. The amounts are very important – largely corresponding to the size of the Municipality's entire budgetary operations (ref. table 3-1) – but are fully reported in the in-year and end-year budget execution reports and financial statements.

*Semi-autonomous institutions* include Tirana Parking, Funeral Services and Automobile Parts Manufacturing (AMG). As explained in section 2.4 their financial transactions are undertaken

<sup>29</sup> Through meetings with HSC, General Directorate of Economic Development, Budget Department and Revenue Department.

through the Municipality's account at the Treasury District Office and included in both the annual municipal budget and the financial reports. Therefore, no operations of these three institutions appear to be extra-budgetary.

*Operations of public corporations:* The three student residence companies owned by the Municipality have consistently had operating losses during the past four years – in the order of ALL 75 million p.a. combined – despite receipt of annual subsidies. Income from activity (dormitory rentals and canteens) would have to increase by more than 20% to cover the losses. This may be considered hidden subsidies and will eventually have to be covered by the budget – unless rentals/prices are increased sufficiently. However, such quasi-fiscal operations are not taken into account for rating the indicator.

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

*Donations and sponsored projects* provide revenue to the municipality both in cash and in kind<sup>30</sup>. Donations and sponsorships in-kind are recorded by the Unit for Donations and Sponsorships under the Revenue Department. They are not included in budget estimates and budget execution reporting. The total value of donations and sponsorships in-kind amounted to ALL 273.5 million for the period January-August 2016. However, donations in kind are not taken into account for rating the indicator.

Contributions in cash are determined by the agreement entered with the donor. They are typically handled through special bank accounts and managed by the municipality's project implementation unit (PIU). No such projects have been operational during the past couple of years. A new project<sup>31</sup> to be managed along those lines is about to start but no funds have been disbursed to the Municipality yet.

Internal reports of the Treasury Branch for the period January-August 2016 shows cash expenditure on grants totalling ALL 15.9 million. This refers to repayment of unspent funds from a cash advance on some long completed EU projects and will be reported in the Municipality's budget execution reports for FY2016.

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 Tirana Municipal territory, there was no evidence to suggest that such extra-budgetary funds had been collected under Tirana Municipality or the former communes now merged with the municipality.

#### **6.1 Expenditure outside financial reports**

The extra-budgetary expenditures from earmarked transfers from the state budget are fully reported in budget execution reports and annual financial statements. No other extra-budgetary expenditure was identified (other than donations in kind and quasi-fiscal operations of public enterprises, none of which are taken into account for rating the dimension).

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<sup>30</sup> Ref. meetings with General Department for Financial Management, the Unit for Donations and Sponsors and the Treasury Branch Office Tirana.

<sup>31</sup> YADSA project funded by the Italian Cooperation.

### 6.2 Revenue outside financial reports

The extra-budgetary revenue in terms of earmarked transfers from the state budget is fully reported in budget execution reports and annual financial statements. No other extra-budgetary revenue was identified (other than donations in kind which are not taken into account for rating the dimension).

### 6.3 Financial reports of extra-budgetary units

No extra-budgetary units were identified under Tirana Municipality.

PI	Dimension	Score	Justification for score
<b>PI-6</b>	<b>Government operations outside financial reports</b>	<b>A</b>	<b>Scoring Method M2.</b>
6.1	Expenditure outside financial reports	A	All of the municipality's expenditure is reported in the municipality's budget execution and annual financial reports.
6.2	Revenue outside financial reports	A	All of the municipality's revenue is reported in the municipality's budget execution and annual financial reports.
6.3	Financial reports of extra-budgetary units	NA	No extra-budgetary units were identified under Tirana Municipality.

### Ongoing reforms

None identified.

### PI-7. Transfers to subnational governments

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

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

As there are no levels of government below the municipalities in Albania, this indicator is Not Applicable (NA).

PI	Dimension	Score	Justification for score
<b>PI-7</b>	<b>Transfers to subnational governments</b>	<b>NA</b>	<b>Scoring Method M2.</b>
7.1	System for allocating transfers	NA	Not applicable as there is no tier of government below municipalities.
7.2	Timeliness of information on transfers	NA	Not applicable as there is no tier of government below municipalities.

### 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 accordingly.

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

Dimension 8.1 Performance plans for service delivery (covering information for FY2016)

Dimension 8.2 Performance achieved for service delivery (covering information for FY2015)

Dimension 8.3 Resources received by service delivery units (covering information for FY2015)

Dimension 8.4 Performance evaluation for service delivery (covering information for FY2013-2015)

### *Background*

According to the current local government legislation<sup>32</sup>, the Municipality is responsible of providing information on service programs and developing and implementing “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.

As a result of the above, the Department of Economic Development has been created in June 2016 with the objective of strengthening the Municipality’s economic policy and planning capacities as well as performance measuring and monitoring function. In the pursuit of this objective, the Department aims to lay out the Municipality’s development plan Vision 2030 along with strategic and institutional objectives and cost it with all major programs and directorates, including those relating to school facilities, urban development, and solid waste management.

#### *8.1 Performance plans for public service delivery*

Only the general mission and objectives of all local service delivery programs are described in the budget documentation but without setting any specific targets and other information on the supporting activities with which to measure the effective and efficient use of resources<sup>33</sup>. Presently, individual performance plans for public service delivery by municipal departments and agencies are lacking and, hence, there is no way to determine the extent to which the provision of education, road infrastructure, city cleaning, parking or water and sewage 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 quality of resources (staff resources, equipment, or infrastructure) and activities (outputs) required for every program 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 the level of resources received by individual service delivery units has been reported only for the Kindergarten schools administered by the Municipality covering the period 01 July 2011

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<sup>32</sup> 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. 139/2015 on Local Self-Governance.

<sup>33</sup> For ease of reference on the 2016 annual and medium-term budget, see <http://www.tirana.al/wp-content/uploads/2016/04/Objektivat-e-politikes-se-cdo-programi-te-PBA-2016-2018dok-2.pdf>.

to 31 December 2015, as part of an Internal Audit conducted by the Internal Audit Department within the first quarter of 2016. The audit aimed at assessing the teaching and food services received by the students, among other aspects. The level of resources in other primary service programs or delivery units is unknown as these had not been subjected to annual surveys, audits or other financial or performance reports in the last three completed fiscal years.

#### 8.4 Performance evaluation for service delivery

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

PI	Dimension	Score	Justification for score
<b>PI-8</b>	<b>Performance information for service delivery</b>	<b>D</b>	<b>Scoring Method M2.</b>
8.1	Performance plans for service delivery	D	Information is published annually only on the mission and objectives by all service delivery programs. Performance plans for the delivery of key municipal services are nonetheless missing 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 public 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 and level of resources received is known only for one large service delivery program.
8.4	Performance evaluation for service delivery	D	Evaluations of the efficiency or effectiveness of public service delivery have not been carried out within the last three years.

#### Ongoing reforms

Starting 2017 major programs (i.e., transport, urban development) will be costed by the Economic Development Department. At present, it is developing a statistical system for the municipality, which will serve to design and implement a system of output and outcome indicators for each directorate, and report periodically.

#### 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.

#### Background

As part of the Municipality's policy of ensuring transparency, consultation and participation to the local citizens, the current local government legislation<sup>34</sup> 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;

<sup>34</sup> 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.

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”.

#### 9.1 Public access to fiscal information

The following is a summary of key fiscal documents to which the citizens have access.

**Table 3.6 Critical Elements of Public Access to Fiscal Information**

Element	Fulfilled? (Yes/No)	Reference / Means of publication
<b>Basic elements:</b>		
1. Annual executive budget proposal documentation. 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.	Partially	The budget proposal is publicized but the evaluation team could not find evidence of the date in which the proposed budget for FY2016 was made available to the public: <a href="http://www.tirana.al/publikime/buxheti/">http://www.tirana.al/publikime/buxheti/</a> .
2. Enacted budget. The annual budget law approved by the Council is publicized within two weeks of passage of the law.	Yes	The 2016 budget was published by means of Municipality of Tirana Decision No. 58 dated 30 December 2015, ten days after the Office of the Mayor tabled it for Council scrutiny and approval: <a href="http://www.tirana.al/wp-content/uploads/2016/01/Vendim-Nr.58-Buxheti-2016-2018.pdf">http://www.tirana.al/wp-content/uploads/2016/01/Vendim-Nr.58-Buxheti-2016-2018.pdf</a> .
3. In-year budget execution reports. 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 administrative units on a monthly basis. They are for internal use only, and not released to the public (ref. PI-28).
4. Annual budget execution report. The report is made available to the public within six months of the fiscal year’s end.	No	The annual financial report for 2015 has not been disclosed to the public (ref. PI-29).
5. Audited annual financial report, incorporating or accompanied by the external auditor’s report. The reports are made available to the public within twelve months of the fiscal year’s end.	NA	The annual financial statements are not audited, ref. PI-30.
<b>Additional elements:</b>		
6. Pre-budget Statement. 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	A preliminary MTBF is prepared at an early stage of the budget cycle. This document is essentially for internal use and not made available to the public.

Element	Fulfilled? (Yes/No)	Reference / Means of publication
7. Other external audit reports. All non-confidential reports on the municipality's consolidated operations are made available to the public within six months of submission.	Yes	The audit reports for the Municipality of Tirana covering the years 2013, 2014 and part of 2015 (ref. PI-30) were made available by the High State Control to the public on its website within twelve months of end of fiscal year; ref.: <a href="http://www.klsh.org.al/web/Auditime_Regullshmerie_1931_1.php">http://www.klsh.org.al/web/Auditime_Regullshmerie_1931_1.php</a> .
8. Summary of the budget proposal. A clear, simple summary of the executive budget proposal or the enacted budget accessible to the non-budget experts, often referred to as a "citizens' budget," and where appropriate translated into the most commonly spoken local language, is publicly available within two weeks of the executive budget proposal's submission to the legislature and within one month of the budget's approval	No	A Citizens' budget has not been developed for the Municipality.
9. Information on fees, charges, and taxes that belong to the subnational government. The information is publicly available and up to date.	Yes	The list is published for 2016 on the Municipality's website: <a href="http://www.tirana.al/wp-content/uploads/2016/01/Vendim-Nr.59-Sistemi-itaksave-dhe-tarifave-vendore.pdf">http://www.tirana.al/wp-content/uploads/2016/01/Vendim-Nr.59-Sistemi-itaksave-dhe-tarifave-vendore.pdf</a> .

PI	Dimension	Score	Justification for score
<b>PI-9</b>	<b>Public access to fiscal information</b>	<b>D</b>	
9.1	Public access to fiscal information	D	The Municipality makes available to the public only one out of five basic elements, as well as two of the four additional elements.

#### *Ongoing reforms*

The 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, which are assessed on the basis of the last 12 months, and uses the M2 (AV) method for aggregating dimension scores:

- Dimension 10.1 Monitoring of public corporations
- Dimension 10.2 Monitoring of lower level governments
- Dimension 10.3 Contingent liabilities and other fiscal risks

### 10.1 Monitoring of municipal corporations

The Municipality holds majority equity shares in six joint stock companies i.e. public corporations (ref. section 2.4). Annual financial statements are received from all of them within six months of end of the fiscal year. Key financial data is consolidated in a report for all of the companies and issued to the municipal council. It contains comparable data for five years to indicate developments in the financial situation<sup>35</sup>. This report is annexed to the Municipality's annual financial statements, available only for internal use of the Municipality. Only the Water and Sewerage Company has been audited recently<sup>36</sup> and financial performance reports are available for internal use of the Municipality, not made available to the public. As noted under PI-6 there is a potential fiscal risk related to the student residence corporations.

### 10.2 Monitoring of lower level governments

This dimension is not applicable as there is no level of government below the municipality.

### 10.3 Contingent liabilities and other fiscal risks

There is no consolidated reporting that identifies contingent liabilities or other fiscal risks within the municipal operations and entities.

PI	Dimension	Score	Justification for score
<b>PI-10</b>	<b>Fiscal risk reporting</b>	<b>D+</b>	<b>Scoring Method M2.</b>
10.1	Monitoring of municipal corporations	C	All companies with municipal ownership submit annual financial statements to the Municipality. Key financial data is consolidated into a report to the Municipal Council. Only the Water & Sewerage Company has recently had its statements audited. None of this information is made publicly available.
10.2	Monitoring of lower levels of government	NA	Not applicable. There is no subnational level below municipalities.
10.3	Contingent liabilities and other fiscal risks	D	There is no financial report that quantifies and consolidates information on contingent liabilities and other fiscal risks inherent to the Municipality's service delivery programs and projects and the associated public corporations.

#### Ongoing reforms:

None identified.

### 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, which are assessed on the last 12 months, and uses the M2 (AV) method for aggregating dimension scores:

Dimension 11.1 Economic analysis of investment projects

Dimension 11.2 Investment project selection

<sup>35</sup> The report availed to the assessment team corresponds to the Table of Key Indicators of Financial Statements, Years 2011 to 2015.

<sup>36</sup> Grant Thornton Audit Report, for the period ending December 31, 2015, dated 17 July 2016. It concluded that, due to the importance of the matters supporting the "Basis for the rejection of opinion", the audit company has not been able to secure the necessary audit evidence to base its opinion on the consolidated financial statements comparing the years ending 31 December of 2014 and 2015.



Dimension 11.3 Investment project costing  
Dimension 11.4 Investment project monitoring

For the purpose of this indicator, “major investment projects” are defined as projects meeting the following criteria:

- The total investment cost of the project amounts to 1 percent or more of total annual budget expenditure; and
- The project is among the largest 10 projects (by total investment cost) for each of the 5 largest municipal government units, measured by the units’ investment project expenditure.

#### *Background*

According to the Municipality’s organizational chart, the Public Investment Management functions are segregated within various individual units. These include the Planning Unit, Project Implementation Unit, Project Monitoring Unit, Procurement Unit, and Support Services Unit. Other separate departmental units operate within the organization for each of the major public services, such as water supply and sewage, solid waste management, transport and road traffic, energy and telecommunications, and civil emergency services. Noticeably, however, there is no public investment management manual with guidelines integrated across the overall project cycle and the entire investment management system. Manuals exist for the Project Implement Unit and some others, but not in all individual Units.

#### *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, all 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.

#### *11.3 Investment project costing*

It is required by the Amended Law No. 9936/2008 on the Budget Management System, Article 29, that projections 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 the capital costs only. Repairs and parts, maintenance and other recurrent costs of projects are not assessed in the total cost.

#### *11.4 Investment project monitoring*

Total cost and physical progress of major investment projects is monitored during project implementation by the Public Works Department’s Project Implementation Unit. Evidence gathered, however, does not provide any records on deviations from initial capital plans, adjustments in procurement plans, fiduciary arrangements and forward estimates of works in progress. There are standard operating procedures for project implementation and monitoring in place by these do not largely convey with modern practice. Information on implementation of major investment projects is reported to the Head of Department on a monthly basis.

PI	Dimension	Score	Justification for score
<b>PI-11</b>	<b>Public investment management</b>	<b>D+</b>	<b>Scoring Method M2.</b>
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 the next 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. The information, however, is not fully costed thus omitting the operating and maintenance expenses.
11.4	Investment project monitoring	C	Total cost and physical progress of major investment projects are monitored and reported by the Public Works Department on an annual basis. Standard procedures are in place and yet, modern rules governing project implementation are lacking.

#### *Ongoing reforms*

None 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, which are assessed on the last 12 months, and uses the M2 (AV) method for aggregating dimension scores:

- Dimension 12.1 Financial asset monitoring
- Dimension 12.2 Nonfinancial asset monitoring
- Dimension 12.3 Transparency of asset disposal

##### *12.1 Financial asset monitoring*

As noted in section 2.4, the Municipality holds an equity participation in seven commercial companies. Information on the performance of financial assets is attached to the Municipality's annual financial reports. 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 as inventory and valuation of financial assets are incomplete and erratic.

##### *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 consolidated and submitted to the local council, as part of the annual financial statements (Formati nr. 6) but the inventory provides only partial information on the assets' usage, value, location and age.

Separate reports with information on 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) thus causing problems with determining the net book 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.

### 12.3 Transparency of asset disposal

Instructions on disposal of financial assets and buildings<sup>37</sup> were strengthened in May 2016, with introduction of methods to account for and write off old, useless, or unrecoverable items. They also address 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 (Formatti nr. 6 - State of assets and changes during the year), as part of the annual financial statements.

PI	Dimension	Score	Justification for score
<b>PI-12</b>	<b>Public asset management</b>	<b>C</b>	<b>Scoring Method M2.</b>
12.1	Financial asset monitoring	C	The Municipality maintains records of balance sheets for public enterprises in which it has an equity share, but the standards for valuation of the enterprises are not clear. The information on financial performance is not published.
12.2	Non-financial asset monitoring	C	The municipality maintains a register of its holdings of fixed assets, and collects partial information on their usage, location and age
12.3	Transparency of asset disposal	C	Procedures for disposal of non-financial assets have recently been strengthened. 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 clean process of assessing fixed assets is underway with assistance from STAR since January 2016. (3) A commission is being set up chaired by the Mayor, with the purpose of: taking stock of the physical conditions of properties as well as the age and location; and deciding on assets to be disposed of. Moreover, some issues addressed by draft law on local government finance, ref. PI-1.

### 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.

<sup>37</sup> A new instruction No. 118 was added on 6 May 2016 to the existing Financial Instructions No. 30 of 27 December 2011.

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 Debt management strategy

### *Background*

The main piece of legislation regulating local government borrowing is Law No. 9869, dated 04 February 2008, on the Borrowing of the Local Government.

Based on the provisions of this Law, local government units may seek short and long term loans, either for investment purposes (long term), or to bridge liquidity shortages (short term). Borrowing is in either case subject to approval by the Minister for Finance.

#### *13.1 Recording and reporting of debt and guarantees*

According to the latest annual financial statements 2015, no medium- and long-term municipal debt was reported for 2013 and 2014. On 20 December 2014 the National Assembly concluded the approval of a Euro 26 million loan agreement reached between the government of Albania and the Abu Dhabi Development Fund for the funding of Tirana Northern Boulevard and Tirana River Rehabilitation Project. As of 31 December, 2015 the Municipality reported a balance of ALL 1,382 million (Euro 10 million) owed to the Abu Dhabi Development Fund and ALL 4.3 million owed to the local bank Banka Kombetare Tregtare (Table 3-9). No issues have been reported as to reconciliation of those debts. However, interviews with the General Directorate for Financial Management revealed that other, older debts exist, but since they were guaranteed by MOF and municipal resources were insufficient to service the debt, MOF has assumed the debt service expenditure. Nevertheless, those debts have to be repaid to MOF.

There have been no issues of municipal bonds or other short-term securities.

**Table 3.7 Municipality of Tirana – Reported outstanding debt obligations (million ALL)**

Code/Description	As of Dec 31, 2013	As of Dec 31, 2014	As of Dec 31, 2015
<b>Long-term liabilities</b>			
16-Domestic (incl. Banka Kompetare Tregtare)	0	0	4.3
17-Foreign (incl. Abu Dhabi Development Bank)	0	0	1,382.4

*Source:* Annual Financial Statement 2015, Municipality of Tirana.

#### *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 for municipal loans on behalf of the central government.

Documented policies and procedures provide guidance for undertaking borrowing and other debt-related transactions and issuing loan guarantees which in all cases must be approved by MOF.

These transactions are reported to the city council and monitored by the Finance Directorate.

Loans, depending on the amount, are also approved by either the Parliament or the local council.

This is done on ad hoc basis as there is no annual borrowing plan.

#### *13.3 Debt management strategy*

This dimension is not applicable to local government. Function undertaken and loan issue controlled by MOF.

PI	Dimension	Score	Justification for score
<b>PI-13</b>	<b>Debt management</b>	<b>C</b>	<b>Scoring Method M2.</b>
13.1	Recording and reporting and debt and guarantees	D	Reporting on external and domestic debt takes place as part of the annual financial statements but is incomplete.
13.2	Approval of debt and guarantees	B	The municipality is allowed to borrow, by all loans must obtain prior approval by MOF. Loans, depending on the amount, are also approved by either the Parliament or the local council. Legislation sets out clearly the authority to borrow and the procedures to be followed.
13.3	Debt management strategy	NA	This dimension is not applicable as such a strategy does not apply to a municipality.

#### *Ongoing reforms*

- (1) The Municipality has decided to divide up the duties and responsibilities of debt management between the Finance Directorate and the newly created Directorate of Strategic Projects' Foreign Investment Management Group (PIU). The latter will be responsible of keeping the records of domestic and foreign debts up to date, reconciling with creditor banks on a regular basis, and keeping the local council informed on at least an annual basis;
- (2) The Municipality is in the process of provisioning the Directorate of Strategic Projects with the necessary technical resources to ensure proper management of long-terms debts with domestic and foreign creditors.

### 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 'Macrofiscal sensitivity analysis' are relevant to the central government only as set out in the concept note.

#### *14.2 Fiscal forecasts*

Revenue forecasting for the municipality of Tirana is a multidimensional exercise, with multiple stakeholders involved in the exercise depending on the source of financing. The budget department with its revenue forecasting sector is in charge of coordinating the forecast of locally derived revenues, based on estimates and coordination with the various municipality departments and other budget institutions that manage revenues from assets (General Directorate of Legal Issues and Asset Management); user charges in the pre-school education facilities (Economic Centre for the Development of Children), and recently established institutions in charge of specific types of revenues (i.e. Tirana Parking, managing the car parking facilities owned by the municipality). The General Department of Taxes and Fees of Tirana (GDTF), a separate budget institution of the municipality in charge of tax revenue enforcement provides initial forecasts on the major sources of

tax revenues. Forecasts of shared taxes and intergovernmental transfers are made by the general Budget Policy Department, through its revenue section and budget execution section, respectively, based on data by the Ministry of Finance<sup>38</sup>. 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). Given the relatively high level of informality and local tax evasion<sup>39</sup>, revenue forecasts are adjusted every year in accordance with the expected performance improvement in revenue collections. There is no accurate way to measure such performance improvements, potentially leading to too optimistic revenue estimates and consequently to an unsustainable, level of expenditure estimates, given the local budget balance requirement.

The MTB 2016-2018 for the new Municipality of Tirana includes forecasts of fiscal indicators for each of the three years FY2016, FY2017 and FY2018. Revenue estimates are presented for each revenue type (as per economic classification) with details of calculation per year included for each type of revenue in an annex, explaining the tax and fee rates as well as taxable volumes/quantities. Estimates of capital investment are similarly presented with a breakdown for each project by year, and a short description is included for each project. An explanation for loan amortization is missing. Recurrent expenditure is shown in aggregate for each year, with a detailed breakdown available only for the first year i.e. FY2016, and no explanation for recurrent expenditure estimates is given, other than a list showing the number of staff positions in each department for the first year. The budget balance is not shown specifically but is very obvious (on a pure cash basis) since the aggregate revenue equals aggregate expenditure in each year. All of this information is included in the budget documentation submitted to the Council.

Whilst comparison to the previous year's plans and outturns is done periodically by the departments internally, the budget documentation does not provide an explanation of differences to the previous year's estimates (original Budget FY2015 and MTB 2015-2017) other than a short description of changes to the nature and rates of taxes and fees introduced towards the end of 2015. The main difference to the previous year's estimates is the merger of the municipality with 12 communes through TAR, which means that a comparison is not particularly useful since every item in the budget has changed for this reason and would have placed further demands on staff during the already drastically reduced time available to prepare the MTB 2016-2018. On the other hand, there is no tradition of comparing estimates with those of the previous year; the original budget for FY2015 and the MTB 2015-2017 (and that of the previous year) followed the same format and content as the one for FY2016. The forecasts refer only to the budgetary municipal government, but this should be sufficient since the only extra-budgetary operations appear to be donations in kind and potential quasi-fiscal operations, ref. PI-6. Reportedly, the situation as regards the FY2014 budget and MTB 2014-2016 was the same.

PI	Dimension	Score	Justification for score
PI-14	Macroeconomic and fiscal forecasting	C	Scoring Method M2.
14.1	Macroeconomic forecasts	NA	Macroeconomic forecasting is not applicable to municipalities

<sup>38</sup> MOF issues annual budget instructions 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 government are shared between October and November of each year, when the draft annual budget law is adopted by the Council of Ministers.

<sup>39</sup> These issues are further discussed under PI-19 and 20.

PI	Dimension	Score	Justification for score
14.2	Fiscal forecasts	C <sup>40</sup>	During each of the last three years, 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). Detailed explanation of estimates and underlying assumptions were included for revenue and capital expenditure but not for recurrent expenditure. All of this information was included in the budget documentation.
14.3	Macrofiscal sensitivity analysis	NA	This dimension is not assessed, it is not apply to a municipality.

### *Ongoing reforms*

The individual budget submissions from municipal departments and spending units included a comparison with actual FY2014 expenditure and estimated FY2015 outturns. It is the intension to include the same kind of comparison (at a more aggregated level) in the next year's budget documentation (for FY2017), which will bring the format of the municipal budget more in line with the central government budget format.

### **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 MTB 2016-2018 shows the expected 3-year development in revenue collection. The estimates are based on a number of changes to municipal revenue policies and related laws decided at the national level<sup>41</sup>. Revenue estimates are presented in the MTB 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, but does not explain the reason for the increase e.g. to what extent it relates to a change in the rate or in the base, and to what extent a change in tax base may be related to the territorial expansion in 2015.

On 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 any change in policy. According to the Budget Department, however, the policy changes were minimal for FY2015 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.

<sup>40</sup> The methodology for this assessment foresees no score for this indicator due to TAR, but there is no reason to believe that TAR significantly influenced the format and nature of content in the budget documentation.

<sup>41</sup> Council Decision on 30.12. 2015, decision 59.

### 15.2 Fiscal strategy adoption

Municipality of Tirana does not have an overall fiscal strategy at present. Ingredients of a fiscal strategy are found in the MTB but have major gaps, in particular as regards municipal borrowing and any financing implications for the municipality of public enterprises it owns (ref. PI-10.1). No dedicated document presents a fiscal strategy.

On the revenue side, the MTB 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.

Municipalities must operate a balanced annual budget<sup>42</sup>. However, municipalities can take loans for the purpose of financing specific investment projects (with the approval of MOF)<sup>43</sup>. Tirana currently has a number of loans on its books, ref. PI-13. The municipality currently has important arrears on servicing these loans. The amounts included in the FY2016 budget (interest code 6511 and amortization codes 166/255) are reportedly far from sufficient to service the debt. As MOF has guaranteed the loans, MOF has for several years financed overdue debt payments on the municipality's behalf, which the municipality will eventually have to reimburse MOF – or the amounts may be subtracted from future allocations of unconditional grants. The municipality does not yet have a plan on how to become current on debt service and no proposals for new borrowing are being considered in the meantime.

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. The expected 3-year development of recurrent and capital spending (the former increasing and the latter decreasing over the period) is reflected in the MTB, but there is no indication that this is a result of an overall fiscal strategy.

### 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
<b>PI-15</b>	<b>Macroeconomic and fiscal forecasting</b>	<b>D</b>	<b>Scoring Method M2.</b>
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

The General Department for Economic Development is in the process of preparing an economic development plan for the municipality with a planning horizon up to 2030. It is envisaged that the draft plan will be presented to the Mayor and approved during October 2016. This plan may become the basis for preparing the priorities for the MTB 2018-2020 and would also serve as a starting point for development of a fiscal strategy for the medium term.

<sup>42</sup> Law on Local Self-Governance 2015, Article 34.6 and corresponding Article 12 of Law 9936 of 2008.

<sup>43</sup> Law on Local Self-Governance 2015, article 39 and corresponding provision in the preceding Law 8652 of 2000.



## 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 MTB 2016-2018 includes forecasts of expenditure for each of the three years FY2016, FY2017 and FY2018. Estimates of capital investment are presented under each program with details of the responsible spending unit and a breakdown for each project by year. An explanation for loan amortization is missing.

Recurrent expenditure is shown only as an aggregate for each year. A breakdown by program, spending unit and details of economic classification code is provided for the first year only, i.e. for FY2016. All of this information is included in the budget documentation submitted to the Council.

### 16.2 Medium-term expenditure ceilings

No medium-term budget ceilings have been issued by the Municipality's General Directorate for Financial 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

There is neither an overall strategic plan for the development of Tirana, nor any medium term strategic sector plans with costing. The only current municipal plan is the Urban Plan for the former (pre-TAR) municipality which is focused on land use and zoning. Departments prepare costed three-year plans as part of the MTB process but priorities have tended to shift from one year to another, rather than being anchored in an approved strategic plan<sup>44</sup>.

### 16.4 Consistency of budgets with previous year's estimates

The Budget documentation for FY2016 and the related MTB 2016-2018 does not provide any comparison of the MTB 2016-2018 expenditure estimates with the expenditure estimates of the MTB 2015-2017. As the MTB 2015-2017 was prepared for the pre-TAR municipality (and for each of the communes) the main difference to the previous year's MTB estimates is the merger of the municipality with 12 communes through TAR. No merger of the MTB estimates was done at the time of the merger. This means that a comparison would not be useful since it would compare estimates for the pre-TAR municipality with subsequent expenditure estimates for the post-TAR municipality. Every item in the MTB has changed for this reason. On the other hand, it should be noted that there is no tradition of the budget documentation comparing expenditure estimates of subsequent MTBs and explaining the difference; the original budget for FY2015 and the MTB 2015-2017 (and that of the previous year) followed the same format and content as the one for FY2016

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<sup>44</sup> Information obtained through meetings with the General Directorate for Economic Development and the Department of Public Works.

and MTB 2016-2018. However, the MTB 2015-2017 is outside the time period covered for the rating.

PI	Dimension	Score	Justification for score
<b>PI-16</b>	<b>Medium-term perspective in expenditure budgeting</b>	<b>D</b>	<b>Scoring Method M2.</b>
16.1	Medium-term expenditure estimates	D	Three year estimates of expenditure are presented in the budget with breakdown by program, economic and administrative classification, but only for capital expenditure. Recurrent expenditure estimates for the two outer years are presented only in aggregate with no breakdown.
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 MTB 2016-2018 for the new municipality with the estimates of the previous MTB for the pre-TAR municipality.

#### *Ongoing reforms*

An economic development plan based on strategic objectives for the period to 2030 is being elaborated. It is expected to be presented to the Council in October 2016, and if approved, it would form the basis for medium-term sector plans as an input to the formulation of the MTB 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)

#### *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 3-8 below.

**Table 3.8 Budget Calendar 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:

	<ul style="list-style-type: none"> <li>a. unconditional transfers for local government units;</li> <li>b. regulations for sharing or delegating functions between central government units and local government units, and</li> <li>c. methods of calculating unconditional and conditional transfers for local government units.</li> </ul>
July 10	<p>MOF shall Issue medium-term budget programme (approved by Council of Minister) to be accompanied by an annex which includes:</p> <ul style="list-style-type: none"> <li>a. the means of calculating and the amount of unconditional transfers to local government units;</li> <li>b. the amount and purpose of conditional transfers which the state budget provides for local government units; and</li> <li>c. means of calculating shared national taxes in the next three budget years.</li> </ul>
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 3-9 below. It has not been formally updated since then but has been considered in force.

**Table 3.9 Tirana Municipal Budget Calendar**

Period	Action
May	DPS (Strategic Planning Department <sup>45</sup> ) prepares ceilings of budgets for MTB.
May	Mayor presents for approval to the Municipal Council the ceilings of budgets of MTB 2014-2016.
May	DPS designs the calendar for the preparation and the order for the preparation of the medium term budget for spending units.
May	Mayor approves the calendar for the preparation and the order for the preparation of the medium term budget for spending units.
June	DPS sends the order for the budget preparation and ceilings of budgets of the MTB 2014-2016 to the program managers and spending units.
June	DEMP(Program Management Units) and Spending units prepare their budget requests.
30-Jun	DEMP/Spending units present to the authorised officer (Coordinator of the Strategic Management Group - GMS) their budget requests.
June-July	DPS presents to the authorised officer (Coordinator of GMS) the budget requests.
June-July	GMS performs analysis of budget requests.
June-July	DPS prepares the MTB documents and new expenditure ceilings and presents them for deliberation to the GMS.

<sup>45</sup> Now the General Directorate for Financial Management.

July	GMS approves the document of MTB and new ceilings of MTB.
July	Mayor presents to the Council the MTB document 2014-2016.
August-September	DEMP/Spending units prepare the revised budget requests.
September	DEMP/Spending units present to the Authorised officer (Coordinator of GMS) the revised budgets.
September-October	GMS performs analysis of revised budget requests.
October	DPS organises hearings with DEMP and spending units.
October	DPS prepares the revised MTB document and annual draft budget, and presents them to GMS.
November	Mayor approves the annual draft budget and the revised MTB document.
November	Mayor presents to the municipality council for deliberation and approval the annual draft budget and the revised MTB document.
December	Council approves the annual draft budget MTB in 2014-2016.

This municipal calendar provides sufficient time for all stages of the preparation process. The calendar was largely adhered to for preparation of the MTB 2014-2016 and the FY2014 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 13 August 2015). The process that previously took about 8 months to complete, now had to be completed in 4 ½ months. This affected all stages of the preparation process. There were also problems with adherence to the budget calendar in 2014 for the FY2015 budget, due to the late approval and effectiveness of the FY2014 budget, ref. PI-18.3.

### *17.2 Guidance on budget preparation*

Guidance issued for preparation of the last budget submitted to the Council prior to this assessment (budget for FY2016) was limited and did not follow usual standards as the budget preparation process during 2015 was disputed by the transition arrangements of TAR.

Instructions for the preparation of the annual budget have been issued by the Municipality's SPG for the preparation of the FY2017 budget, but they do not include expenditure ceilings. In view of the significant stock of expenditure arrears (ref. PI-22) and the lack of strategy to finance their clearance – including the budgetary allocations needed to do so – it was considered counterproductive to issue budget ceilings for expenditure as such ceilings would very likely be misleading. The instructions explain what should be submitted to SPG 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 – 15 days or less before the start of the budget year, as shown in table 3-10. 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. Selected parts of the budget are discussed by the Council on a piece meal basis at earlier stages of the budget preparation process (revenue measures, investment program) and no comprehensive documentation as a basis for such discussion was identified.

**Table 3.10 Annual submission and approval of the budget**

Budget Year	Budget Proposal submitted to Council	Date of Council approval of the budget
FY2014	23 January 2014	26 February 2014
FY2015	15 December 2014	23 December 2014
FY2016	24 December 2015	30 December 2015

PI	Dimension	Score	Justification for score
<b>PI-17</b>	<b>Budget preparation process</b>	<b>D</b>	<b>Scoring Method M2.</b>
17.1	Budget calendar	NA	A clear budget calendar exists which allows budgetary units sufficient time to complete their estimates. The calendar was generally not adhered to in 2015 (FY2016 budget) but this was due to the amalgamation of municipality and communes in the middle of the year.
17.2	Guidance on budget preparation	NA	Guidance issued for preparation of the last budget submitted to the Council prior to this assessment (budget for FY2016) was limited and did not follow usual standards as the budget preparation process during 2015 was disrupted by the transition arrangements of TAR.
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 Law<sup>46</sup> present an updated and more detailed budget calendar which is effective for preparation of the MTB 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. The scope of scrutiny of the complete budget proposal is very limited, ref. 18.2, but selected elements are discussed by the Council earlier during the budget preparation process, ref. 17.3 above.

<sup>46</sup> Law no. 57 of 2<sup>nd</sup> June 2016.

### 18.2 Legislative procedures for budget scrutiny

The Council has established internal regulations, effective since 2004<sup>47</sup>, which remain in force. The procedures are simple but clear. It includes establishment of 14<sup>48</sup> committees of which the ones relevant to budget scrutiny are the Committee for Economic and Social Affairs, the Finance Committee, the Law Committee and various technical sector committees. The Council is supported by a small secretariat with six staff positions, including the Secretary to the Council, three specialists (e.g. in legal issues and public relations but not finance management) as well as two assistants. Council meetings are open to the public but until December 2015 there were no procedures for contributions from members of the public or civil society organizations. Law 8652/2000 article 35 states that “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 2015<sup>49</sup>. However, there is no indication that such public hearings have taken place.

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 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 3-12. Only 6 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 approved, and though this short notice could be attributed to the compressed budget preparation process during 2015 due to TAR, the situation during the previous year’s budget approval was not much better (8 calendar days). Moreover, no specific technical support in budget formulation and management is available. The Council raised a number of questions which the municipal administration answered but nothing in the proposals was changed as a result.

### 18.3 Timing of budget approval

The municipal budget shall be approved by the Council before the start of the new fiscal year<sup>50</sup>. This requirement has been met for the past two years, namely for the FY2016 budget on 30<sup>th</sup> December 2015 (decision no.58) and the FY2015 budget on 23<sup>rd</sup> December 2014 (decision no.28). However, the FY2014 budget was not approved by the Council until 26<sup>th</sup> February 2014 (decision no.1) and then failed to obtain endorsement by the Prefect due to an issue with a budget line for expropriation. The dispute regarding this budget line continued until the middle of 2014 during which period the monthly expenditures had to be limited to 1/12 of the actual expenditure of the previous year. There is no negative impact on the rating of this dimension due to TAR.

### 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 Council<sup>51</sup>. Reallocations have been frequent since the amalgamation in 2015 (ref. PI-21.4) but the municipality appear to comply with the rules in most cases<sup>52</sup>.

<sup>47</sup> <http://www.tirana.al/keshilli-bashkiak/rregulloria-e-keshillit-bashkiak/>.

<sup>48</sup> There are currently 16 committees.

<sup>49</sup> 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.

<sup>50</sup> Law 9936 on management of budget system Article 32.

<sup>51</sup> Law 9936 Article 44.

<sup>52</sup> Interviewees indicated that adherence to rules was high, but would not guarantee that the rules were always adhered to even if they could not give very specific examples of rules being ignored (and statistics do not exist).

PI	Dimension	Score	Justification for score
<b>PI-18</b>	<b>Legislative scrutiny of budgets</b>	<b>D+</b>	<b>Scoring Method M1.</b>
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 <sup>st</sup> 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 powers to amend the budget in-year without Council approval. They set strict limits for the Mayor's powers and are adhered to in most cases.

#### *Ongoing reforms*

None Identified.

### 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 12 months budget cycle)

Dimension 19.4. Revenue arrears monitoring (assessed on the last 12 months budget cycle)

#### *Background*

As described under PI-3, own revenue collections of the Municipality of Tirana are composed of taxes, fees and user charges, and other non-tax revenue. This excludes revenue from national government such as grants and shared taxes (the latter covering the Simplified Profit Tax, The Vehicle Registration Tax and the Property transaction tax, the latter becoming a shared tax in FY2014).

**Table 3.11 Tirana Municipality's Own Revenue Collections 2016 January - August**

Revenue type	Collections, ALL million and percent of total FY 2015		Collections, ALL million and percent of total FY 2016		Collected by
Taxes on property	795	28%	1 256	28%	GDTF for businesses and most rural areas;
Taxes on property (urban households)	17	1%		0%	Water and Sewerage Company for households.
Infrastructure impact tax	128	4%	303	7%	General Department of Territorial Planning and development
Advertisement tax (billboard tax)	225	8%	268	6%	GDTF.
Other taxes	117	4%	42	1%	GDTF for businesses; Water & Sewerage
Other taxes (education)		0%	401	9%	Water & Sewerage Company (temporary education tax for households) in 2016 only, GDTF for businesses
Solid waste fee (businesses)	478	17%	798	18%	GDTF for businesses;
Solid waste fee (households)	353	12%	532	12%	Water & Sewerage Company.
Parking fee	72	2%	141	3%	Tirana Parking from November 2015, municipality before
Other fees	202	7%	180	4%	Municipality departments for administrative fees.
Other social contributions	173	6%	108	2%	Economic Centre for Children's Development
Property income	30	1%	33	1%	General Department of Legal Issues and Asset Management.
Sales of goods and services	137	5%	388	9%	General Department of Legal Issues and Asset Management.
Fines, penalties and forfeits (GDTF)	85	3%		0%	GDTF
Fines, penalties and forfeits (Other)	66	2%			Construction inspectorate, etc.
<b>TOTAL OWN COLLECTION</b>	<b>2 879</b>	<b>100%</b>	<b>4 450</b>	<b>100%</b>	

Note1: Prior to FY2016, the Water & Sewerage Company collected only the solid waste fee, whereas other taxes until then were collected by GDTF. Note2: About 90% of the property taxes and 60% of the solid waste tax are collected from businesses, which pay much higher rates than households.



The General Department of Local Taxes and Fees (GDTF) of the Municipality of Tirana, a budgetary institution reporting to the Mayor, holds primary responsibility for the administration of the main streams of “local source” revenues from local taxes and fees, from both business and household taxpayers. Other entities with revenue administration authorities include the newly established Tirana Parking budget institution, which manages all parking spaces in the city as from December 2015; the General Department of Legal Issues and Asset Management within the Municipality in charge of asset management; as well as the Economic Centre for Children Development in charge of management of revenues from user charges in the pre-school and pre-university education system. Until 2015 a small share of revenues was administered by Tirana’s administrative units (7%, mainly administrative service charges and the public space tax in force until 2015). Following the reorganisation of the Municipality, the GDTF assumed the revenue administration authority of the administrative units, while preserving the territorial organisation of their tax inspector teams, now accountable to the GDTF.

The GDTF uses an Oracle-based tax management software that was tailor-made for the municipality in 2010, and 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 2012 the municipality of Tirana entered into an agreement with the Water & Sewerage Company to act as its agent for the payment of the solid waste fee, which improved enforcement of this type of revenue among the households. The agreement was expanded in 2016 to include property taxes and the temporary education infrastructure tax, levied as a new tax for households and businesses in 2016.<sup>53</sup>

#### *19.1 Rights and obligations for revenue measures*

The system of local taxes and fees applicable in the territory of the municipality of Tirana 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.

GDTF sends tax notification notices 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; on tax arrears and applicable fines, as well as on timelines and other modalities for the payment of liabilities. The tax notice contains reference to penalties and measures for enforcement of the liabilities in accordance with the tax procedure law<sup>54</sup> 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.

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<sup>53</sup> Decision of the Municipal Council of Tirana No. 59 dated 30.12.2015, “On the system of local taxes and fees”.

<sup>54</sup> The tax notification notice includes reference to the relevant law provision, but it does not elaborate on the specific measures and penalties.

Tax notification notices are not sent to individuals and households, given the unavailability of reliable information on the names and addresses of household taxpayers.<sup>55</sup> As of January 2016 household taxes and fees are collected through the Water & Sewerage Company, which has almost universal coverage in the urban areas of the city of Tirana. Household liabilities for solid waste fee, property tax and education infrastructure tax are collected in monthly instalments with the water bill and are clearly 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 Tirana, with some of the administrative units (former communes) being served by local/rural water supply networks. GDTF continues to be in charge of tax administration also for households in these territories.

The website of the municipality of Tirana<sup>56</sup> contains brief information on the city's services linked with the payment of local taxes and fees, as well as links to all decisions of the local council<sup>57</sup>. The GDTF has its own website<sup>58</sup> which contains comprehensive information on taxes and fees applicable in the municipality by type, timelines for payment as well as category of taxpayers. The information is more condensed than the decision of the local council, but it is still not user-friendly. The website also includes information on appeals, a standard form for the appeal<sup>59</sup> and brief information on redress procedures (reimbursement of the excess liability paid). The GDTF targets mainly non-household taxpayers and it includes a quite brief "frequently asked questions" section under the "businesses" heading.<sup>60</sup>

### 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 Tirana. The register needs to be expanded with entries for non-household taxpayers from the new administrative units. Tax notification notices are sent to non-household taxpayers annually with comprehensive information on liabilities (see dimension 19.1). GDTF concentrated most of its efforts on improving tax compliance among businesses; in particular in identifying and registering informal businesses. 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 enforcement, due to the large number of household, relatively high administrative costs associated with such procedures and perceived low chances of success.

The GDTF prepares annual and monthly workplans for the activity of its tax inspectors and revenue monitoring sections, with programmatic objectives and procedures to improve revenue collection. These workplans address compliance risks for the main revenue streams from businesses by type, season and location.<sup>61</sup>

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<sup>55</sup> Draft operational report on the activity of the General Department of Local Taxes and Fees during 2015, March 2016.

<sup>56</sup> <http://www.tirana.al/tirana-shepbime/taksa-dhe-tarifa-vendore/>.

<sup>57</sup> <http://www.tirana.al/publiikime/vkb/>.

<sup>58</sup> No hyperlinks redirecting to the GDTF website were visible on the Municipality's website.

<sup>59</sup> [http://www.dptv.gov.al/DocumentFile/ankim\\_administrativ\\_tatimor\\_Kryetari.pdf](http://www.dptv.gov.al/DocumentFile/ankim_administrativ_tatimor_Kryetari.pdf).

<sup>60</sup> <http://www.dptv.gov.al/frmHtmlText.aspx?cnid=14&Page=Page>.

<sup>61</sup> Operational manual of the GDTF; Ethics Code; annual and monthly (August 2016) workplans for tax assessment; field inspectors and supervisors; risk management.

Other tax collection entities have not developed risk management systems for revenue management. Entities like Tirana Parking, 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. The revenue management system for property income is also weak.

### *19.3 Revenue audit and investigation*

The GDTF is organised based on a territorial approach, with four Operational Departments, in charge of specific territories in the municipality of Tirana. Each Operational Department has a sector in charge of tax assessment and a field control sector. 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 potential changes in the performance of already registered businesses. GDTF receives data on business turnover from the Regional Tax Department of Tirana, a branch of the General Tax Department, which is in charge of tax administration for the national revenue sources.<sup>62</sup> The municipality receives information from the regional tax department and bases its tax estimates for local taxes and fees on such information exchange.

Revenue audit and investigation focuses mainly on businesses. Despite frequent controls, it is difficult to keep track of all developments especially in the urban area of Tirana, 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, as records that were transferred from the latter were inaccurate and/or incomplete. GDTF develops weekly and monthly work plans for controls of business entities and keeps a track record of identified irregularities and/or imposed penalties, including follow-up. According to periodic reports, most planned audits are carried out.

The household taxpayer segment remains largely untapped for the municipal tax authority. The inclusion of the Water & Sewerage Company as a tax agent for collection of the main revenue items from households has dramatically improved collections from this segment. However, GDTF relies on the Water & Sewerage Company's client data for purposes of taxpayer registration and it does not hold its own records on potential taxpayers outside the coverage area of the Water & Sewerage Company, specifically in some of the new administrative areas.<sup>63</sup> Similarly, the tax assessment for property taxes for households is based on a weighted average of the surface area of property at the municipal level, due to the lack of accurate data on properties and their owners; hence leading to underperformance as compared with the real potential from this tax.

### *19.4 Revenue arrears monitoring*

The municipality does not keep accurate reports on revenue arrears by type of revenue and taxpayer.<sup>64</sup> According to the balance sheet of the GDTF, the total amount of tax arrears in 2015 was 9.6 billion Lek, which is more than twice the actual revenue collected during 2015 from these sources. However, this includes old debt from as early as 1992, which should normally have been written off.<sup>65</sup> According to GDTF records, tax arrears in 2015 amounted to 721.4 million Lek, of which arrears in property taxes accounted for 43% and solid waste 29%. This corresponds to 29%

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<sup>62</sup> Corporate Income Tax for big businesses exceeding 8 million Lek in annual turnover, simplified profit tax for small businesses, VAT and excise duties; social security contributions.

<sup>63</sup> According to the monthly reconciliation acts with the Water Company, GDTF 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.

<sup>64</sup> 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.

<sup>65</sup> According to the interviews with GDTF staff, although the legal framework stipulates that tax liabilities are prescribed within 5 years (and fines and penalties within two years), there is no specific regulatory framework that sets the procedure for writing off liabilities in the public sector.

of the Municipality's own revenue collections for 2015 (excluding grants from the central government). The GDTF does not keep accurate records of tax arrears by age. The balance sheet of the municipality shows revenue arrears in the amount of 336.6 million Lek. This amount includes arrears on revenue that is administered by the municipality of Tirana, such as revenues from assets.

PI	Dimension	Score	Justification for score
<b>PI-19</b>	<b>Revenue administration</b>	<b>C</b>	<b>Scoring Method M2.</b>
19.1	Rights and obligations for revenue measures	C	Information on taxes and fee rates, including rights and redress procedures are easily accessible for businesses but are not actively shared with households.
19.2	Revenue risk management	B	The GDTF 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 implemented on an annual and monthly basis, covering audits mainly for the business taxpayer segment (more than 50% of revenue). The household taxpayer segment is not covered systematically. The majority of planned audits are implemented.
19.4	Revenue arrears monitoring	D	The stock of revenue arrears at the end of 2015 constitutes more than 200% of own revenue collections. No data has been made available on the age of revenue arrears, but indications are that more than 75% of the tax debt is more than a year old.

#### *Ongoing reforms*

None 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 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

#### *Background*

Collection of own revenues in Tirana is overseen by the Department of Budget, which oversees collections from central government grants (Budget Monitoring and Execution Section); as well as collection of revenues from other sources (Revenue Section). The Revenue section is in charge of monitoring performance of revenues from all sources, with the exception of central government grants and it produces periodic reports at least on a monthly basis for the management. The revenue section is engaged in both monitoring revenue performance and planning of revenue. It does not have direct execution or administration authority and it receives information directly from the GDTF (for the majority of taxes) and the other departments in charge of revenue collection.

### 20.1 Information on revenue collections

The municipality receives periodic information from the Treasury Branch office in Tirana on revenue collections, through the GDTF. The GDTF receives information from Treasury on all revenue sources, including revenues it does not administer directly such as household property taxes. Treasury submits to GDTF detailed reports on revenue collections at least monthly, but usually on a daily basis. Reports contain information broken down by type of revenue. GDTF exchanges this information with the Revenue Section which prepares consolidated reports for the Mayor, at least on a monthly basis.

### 20.2 Transfer of revenue collections

The majority of revenues of the municipality are collected through the Treasury system. Payments are made through the bank or post offices to the municipality's subaccounts. A very small percentage of the revenue is collected in cash and paid to the Treasury District Office by GDTF or Tirana Parking staff as a rule during the same or next business day.

Revenue collected by third parties, such as the Water & Sewerage Company is transferred monthly to the municipality's account, based on a reconciliation report prepared by the GDTF and the relevant authority.

### 20.3 Revenue accounts reconciliation

Revenue accounts are officially reconciled at least monthly with the Treasury District office in Tirana on all sources of revenue. However, GDTF typically receives unofficial information on a daily basis on the cash balance at the end of the last business day in order to keep records on collections against tax assessments. The revenue collection reports are reconciled against invoicing data submitted by the GDTF, 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 from user charges in the education system, which are administered by the Economic Centre for Children Development are paid directly to the municipality's subaccounts through the banks or post office and payments are reconciled monthly with Treasury.

PI	Dimension	Score	Justification for score
<b>PI-20</b>	<b>Accounting for revenue</b>	<b>D+</b>	<b>Scoring Method M1.</b>
20.1	Information on revenue collections	A	The Revenue section of the Budget 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 are transferred monthly to the municipality's Treasury account. All other revenue is directly paid to the Treasury account.
20.3	Revenue accounts reconciliation	D*	While reconciliation of payments with the Treasury District Office takes place monthly, it is not clear when reconciliation of payments with liabilities take place in all collecting agencies.

### Ongoing reforms

None identified.

## PI-21. Predictability of in-year resource allocation

This indicator assesses the extent to which the Municipality 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 the following four dimensions and uses the M2 (AV) method for aggregating dimension scores:

- Dimension 21.1. Consolidation of cash balances (as at time of assessment)
- Dimension 21.2. Cash forecasting and monitoring (last 12 months budget cycle)
- Dimension 21.3. Information on commitment ceilings (last 12 months budget cycle)
- Dimension 21.4. Significance of in-year budget adjustments (last 12 months budget cycle)

### 21.1. Consolidation of cash balances

The Municipality conducts all its treasury transactions through its one official bank account (No. 2101001-101), operating under the National Treasury's District Office 3535 which – following the amalgamation with communes under TAR – includes the cash balances of the former communes. Cash balances are generated on daily basis 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 purposes across service delivery programs. In addition, Municipality of Tirana has three other accounts at commercial banks, which are used mainly to manage donors funded projects. Two out of three accounts have not been used since November 2015, while the third is active and the consolidation is done on monthly basis.

### 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 considered the major source of revenue to local government operations<sup>66</sup>. An annual cash inflow forecast is prepared by the Budget Directorate in January or February and agreed on the basis of a quarter-by-quarter schedule with MOF and RDF. It is updated in July or August. The process on the revenue forecast with RDF is uncertain and the predictability is further impaired as granting of these specific funds may be conditional on co-financing from the Municipality. The same issue stands for grants that are allocated on *ad hoc basis* by the Regional Development Committee at the Ministry of Education, where again co-financing needs to be assured by the Municipality as the implementing entity.

### 21.3. Information on commitment ceilings

Ceilings for commitments are based solely on the limits set by the budget appropriation. As per article 50 of the Organic Budget Law: "Authorizing officers of general government units shall maintain information on financial commitments, and shall not allow undertaking of any new commitment if that exceeds the limit of the budget appropriation". However, the team did not find any evidence of reports on commitments during the year. In addition, 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

Art. 44 of the Organic Budget Law specify rules that apply to virements for the local government units:

- reallocations between programs shall be approved by the Council of the local government unit;
- reallocations of capital projects shall be approved by the Chairman of the local government unit;

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<sup>66</sup> Instructions 93 to 104, 132 and 255, from "Standard Procedures of Application for Budget Preparation", Ministry of Finance, dated 6 February, 2012.

- reallocations between current expenditure items of the same program are approved by the Chairman of the local government unit;
- reallocations within the same program, and within current expenditure items between various spending units, shall be approved by the authorizing officer of the local government unit (the Mayor) from which the spending unit is a subordinate body.

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 expense of others.

During the period August 2015 - August 2016 there have been four local council and five Mayor Decisions concerning changes and reallocation within programs, capital projects and operational expenditures. Out of four decisions of the Local Council, only two were concerned with changes/additions to the originally planned budget representing 12% and 3% of the original budget. The budget reallocations are not published.

According to the Budget Department, all the budget re-allocations and amendments are duly communicated to all the relevant parties. No budget allocations were reduced.

PI	Dimension	Score	Justification for score
<b>PI-21</b>	<b>Predictability of in-year resource allocation</b>	<b>D+</b>	<b>Scoring Method M2.</b>
21.1	Consolidation of cash balances	C	Cash balances for the Treasury account are consolidated on a daily basis, whereas consolidation with the project bank account is done monthly.
21.2	Cash forecasting and monitoring	C	A cash flow forecast is prepared for the fiscal year.
21.3	Information on commitment ceilings	D	Departments and Programs are not provided with information on commitment ceilings.
21.4	Significance of in-year budget adjustments	C	Significant in-year adjustments to budget allocations are frequent, and are partially transparent.

#### *Ongoing reforms*

None identified.

#### **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 the following two dimensions and uses the M1 (WL) method for aggregating dimension scores:

Dimension 22.1. Stock of expenditure arrears (last three completed fiscal years)

Dimension 22.2. Expenditure arrears monitoring (as at time of assessment)

#### *Background*

In Albania there is no legal definition of expenditure payment arrears. Treasury executes payments when cash is available but generally within a month. It is considered that all invoices not paid at the end of the year constitute arrears.

Budget institutions receive invoices from suppliers, approve them, and then submit to the local Treasury District Office (TDO) for payment. The dates registered in the Treasury System are: 1) when the invoice is entered into the system, 2) the dates for the different steps in the Treasury approval process, and 3) when the invoice is eventually paid. The Treasury System does technically allow for entering invoice due dates, but this is, presently, not done. It is therefore difficult to know to what extent budget Institutions sit on invoices before submitting them to the TDO for payment. In principle, expenditure is recognized in the financial accounting books of the institutions – which presently are separate from the Treasury System – when the goods or services are delivered and accepted by the institution. This, however, does not mean that the invoice is immediately and automatically submitted to Treasury for payment. Thus arrears, as seen from the perspective of the suppliers, may be considerably greater than what is indicated by the statistics on expenditures approved, but not yet paid (outstanding commitments).

### 22.1. Stock of expenditure arrears

At the Local Government level there is an increased concern regarding the build-up of arrears. Deficiencies in (i) controlling commitment, and handling and clearing of arrears of the old communes, (ii) documentation and professional handover of arrears from the old communes to the new municipalities, and (iii) insufficient funding claimed by some municipalities resulted in the accumulation of arrears over many years.

During the interview with the representatives of the Finance Department, concerns were raised regarding having a full understanding of the arrears situation. This is related to lack of documentation of arrears, particularly in the years prior to the territorial reform; lack of information on court decisions on pending disputes; overspending at local government level; deficiencies in revenue collection and so on. However, the decision at the Municipality of Tirana was to consolidate all the arrears into Tirana accounts and to start reviewing the files for each of the arrears in order to verify the existence, accuracy and completeness of these. A breakdown of the arrears is given in table 3-13 below:

**Table 3.12 Expenditure arrears at 31 December 2015 (in ALL, with age profile in days overdue)**

	0-180	180 - 365	>365	Total
Investments	340,031,231	459,485,178	1,501,306,852	<b>2,300,823,260</b>
Current expenditures	619,378,292	45,174,289	53,055,690	<b>717,608,271</b>
Expropriations	650,368,303	-	1,723,872,319	<b>2,374,240,622</b>
Court cases decisions	-	-	352,301,682	<b>352,301,682</b>
	<b>1,609,777,826</b>	<b>504,659,467</b>	<b>3,630,536,543</b>	<b>5,744,973,836</b>

The stock of expenditure arrears at end of 2015 amounted to 62% of total expenditure in FY2015 (59% in 2014). It should be noted that the figures in table 3-12 include all the payments committed and not paid irrespective of the source of funds, which could mean overestimate of arrears, whereas debt service arrears are missing i.e. a potential underestimate of arrears. Data on the stock of arrears for 2013 was not available.

### 22.2. Expenditure arrears monitoring

There is no systematic and consistent mechanism for monitoring expenditure arrears. The current legal and regulatory framework envisages reporting on commitments at the end of year, but does not require the Municipalities to report on in-year commitments. The in-year reporting therefore does not capture expenditure commitments and consequently does not facilitate monitoring of arrears.



However, payment arrears in the sense of outstanding commitments can, in principle, be monitored in real-time in the Treasury System. Daily reports on invoices approved but not yet paid and invoices sent for approval are produced. What holds for every business day also holds for year's end. The only, but important, caveat is that there is no way of knowing whether there are delays in Budget institutions' submitting invoices to the Treasury District Office (TDO) for approval and payment. The Municipality does not create any provision for payments of arrears during the budget preparation process.

The Ministry of Finance has instructed all the budgetary entities to create a workflow for registering contracts and to control commitments in order to have a full picture of existing arrears. Invoices related to overdue obligations have to be confirmed by the contracting authority and submitted for verification and registration to Payment Section at the Municipality and then sent to TDO where checks for the existence of the contract, the comprehensiveness and consistency of documentation are made. However, there is a high probability that not all arrears are documented yet and this is also expressed by HSC. The bulk of arrears dates back to the former communes and documentation of these arrears seem to be incomplete.

PI	Dimension	Score	Justification for score
<b>PI-22</b>	<b>Expenditure arrears</b>	<b>D</b>	<b>Scoring Method M1.</b>
22.1.	Stock of expenditure arrears	D*	The stock of expenditure arrears is 62% of total expenditure in 2015 (59% in 2014). Data for 2013 not available.
22.2.	Expenditure arrears monitoring	D	Data on the stock and composition of expenditure arrears is generated annually at the end of each fiscal year. There are no set deadlines for such a report and no age profile is presented.

### *Ongoing reforms*

The Government through its Decision No. 50 dated February 2, 2014, has adopted a Strategy for Clearance and Prevention of Arrears Accumulated by the Central Government. In July 2014 started the audit process of the settlement of arrears, which was performed by an international audit company. The audit program has included the MOF as well as all budget institutions dealing with clearance of arrears. The Ministry of Finance intends to do the same exercise for arrears concerning the Local Government.

### **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 nonsalary internal controls, PI-25. This indicator contains the following four dimensions and uses the M1 (WL) method for aggregating dimension scores:

- Dimension 23.1. Integration of payroll and personnel records (as at time of assessment)
- Dimension 23.2. Management of payroll changes (as at time of assessment)
- Dimension 23.3. Internal control of payroll (as at time of assessment)
- Dimension 23.4 Payroll audit (last three completed fiscal years)

#### *23.1. Integration of payroll and personnel records*

There are several components to the payroll management process:

- *Organizational Structure Controls.* According to the Law 139/2015 "On Local government" art. 64, the Mayor is responsible for approval of the organizational structure and the changes to the

- level of salaries of employees. In addition, art.54/ç of the same Law gives the authority to the local council to decide on the salary level for all the types of staff employed at the Municipality;
- *Personnel Records.* These are maintained as physical files for each individual by the Human Resources department. These files contain the general information about the employees – date of birth, gender, civil status, educational and other professional qualifications, etc. Access to these files is strictly regulated. They are accessible only by the HR specialists designated by the HR section. All changes made to the databases require an approval document signed by the Mayor. This document is retained as part of the audit trail;
  - *Attendance List.* It is maintained for each employee and signed by the responsible unit manager on monthly basis and is managed by the HR Department as the basis for the preparation of the payroll;
  - *Position control.* Each position is determined by the Mayor, while the level of salary for each position is defined by the Council. The latest decisions of the Council are dated 11.11.2015 and 23. 05. 2016 which defined the first organization structure after the TAR and changes to the level of salaries. The assessment team did not find adequate audit trails to ensure position control;
  - *Payroll Records.* The payroll records and management of issuing salary payments to employees is the responsibility of the Finance Department of Tirana Municipality and of separate finance departments of each of the 15 dependent budget institutions. The responsible finance staff validates the HR-provided data, confirms the existence of the needed documentation and approvals for any changes in the payroll, confirms the attendance calculations for payroll purposes and updates the payroll. It includes salary amounts, bonus payments (if any) and payroll deductions. Checks are performed on monthly basis. The calculations are done employing EXCEL spreadsheets. Monthly payroll updates are based on changes made to the personnel file during the previous month. Payment of salaries is executed by the Treasury District Office in a similar manner to all other transaction payments. The team did not find adequate audit trails to ensure accuracy of the calculations of the payroll;
  - As the budget is implemented, the Payment Section at the Financial Management Department monitors the staffing levels with respect to a ceiling of authorized positions.

### 23.2. Management of payroll changes

As specified in the art.54/ç of the Law no 13/2015 “On local self-governance”, the local council has the authority to decide on the salary level for all the types of staff employed at the Municipality. While, in the art.64/j the decisions on the organizational structure, categories/classes of salaries for each position of civil servant and any amendments and changes like transfers, hiring and dismissals are approved by the Mayor. The decision is immediately communicated to the HR department and to the Finance Department for actions. In addition, according to the Tax legislation in force, all the changes to employee status such as hiring and dismissals and their respective position, salaries, social contribution and tax on income shall be declared within 24 hours at the Tax Administration System. Therefore, excel data kept by the payroll specialist are reconciled on monthly basis with an online declarations database to verify the correct application of the payroll changes. However, from the discussion with the Finance Director, we understand that only a few mistakes, amounting to less than 1% of the total of payroll expenditures, were identified in the calculation of salaries where changes have occurred, which have been corrected in the following month.

### 23.3. Internal control of payroll

Overall responsibility for the control of all aspects of personnel records and payrolls is vested with the Authorizing Officer under the Law on Budget Systems Management. The assessment team understands adequate separation of functions exists between HR and Finance Department. HR’s responsibility is to keep and update personnel files as well as collect each month from all the units

the time worked for each employee. Finance Department, based on these timesheets, calculates the amounts due as salaries, bonuses and any deductions, and social contribution and personnel Income tax. All the changes to the personnel data are checked against original decisions that are timely distributed to HR and Finance department. The payroll is approved by the Head of the Payment Sector and the payroll specialist at the Finance Department and by the Head of HR. Finally, when the payment is sent for execution at the Treasury Office, the Head of the Economic Department and the Mayor gives the final approval. However, the assessment team did not find an adequate audit trail to ensure accuracy of the calculations of the payroll and internal procedures establishing roles and responsibilities were not up to date to reflect the new organizational structure that was introduced in November 2015.

#### 23.4 Payroll audit

HSC has audited the Municipality administration for the fiscal years 2013 and 2014 while the dependent institutions and former communes have not been audited during this period. The organisational structure, positions and salaries were found to be in compliance with the decisions issued by the Municipal Council and the Mayor. No issues were raised regarding the calculation of salaries, social insurance and personal income tax for the employees. The only issue relates to the compliance with the legal framework in recruiting or dismissing staff and existence of unjustified movement of employees.

Internal audit units regularly include payroll in its audit program. Interviews with the Internal Auditors of the Municipality of Tirana indicated that there are no issues regarding the payroll calculations, while the issue of non-compliance with the legal framework for staff recruitment or dismissal is raised by them as well.

PI	Dimension	Score	Justification for score
<b>PI-23</b>	<b>Payroll controls</b>	<b>C+</b>	<b>Scoring Method M1.</b>
23.1	Integration of payroll and personnel records	B	The payroll is supported by full documentation for <i>all</i> changes made to personnel records each month and checked against the previous month's payroll data. Staff hiring and promotion is controlled by a list of approved staff positions.
23.2	Management of personnel changes	A	Required changes to the personnel records and payroll are updated at least monthly, generally in time for the following month's payments. Retroactive adjustments are few.
23.3	Internal control of payroll	C	Sufficient controls exist to ensure integrity of the payroll data of greatest importance, but audit trails are generally missing.
23.4	Payroll audit	C	Partial payroll audits have been undertaken within the last three completed fiscal years.

#### Ongoing reforms

None identified.

#### 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. The indicator covers municipal procurement operations only, assessed for the last completed fiscal year i.e.FY2015. The indicator contains the following 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

### *Background*

Public procurement legislation in Albania substantially complies with the EC Procurement Directive 2004/18. While there have been improvements in the public procurement review system, public procurement in Albania faces serious challenges regarding significant undervaluation of bids which often lead to poor quality of works. Another challenge is the high number of unpublished negotiated contracts<sup>67</sup>. Notwithstanding the moderately high rate of complaints addressed to the contracting authorities and to the Procurement Review Commission in particular, the perceived lack of trust in the review mechanism is another challenge for public procurement. In this context, on 24 December 2014, Law No. 182/2014 on amendments to the Public Procurement Law was adopted. The main changes were concerned with the necessity to further align the legislation with the newly adopted EU directive. Besides those changes, clarifications to existing provisions of the law were also made to address issues and shortcomings identified during the implementation of the current law. After the Law amendments entered in force, during 2015, several decisions by the Council of Ministers were issued aiming to further clarify and encourage the use of modern procurement techniques, such as framework agreements for central purchasing and joint procurement<sup>68</sup>.

#### *24.1. Procurement monitoring*

According to the Law no.9643, "On Public Procurement" as amended, all procurement entities shall maintain a contracts register which should include information in particular on the volume of the contracts awarded, time the process of procurement is opened, the procurement method used and the name of the supplier. In November 2015, a new structure for producing statistics regarding the procurement activities was established. The main scope was to create a centralised database or mechanism for consolidation of this information and systematic monitoring of the use of competitive procurement methods. In addition, an annual report on procurement activities for 2015 was presented to the Mayor where statistics about the types of procurement used for capital expenditures, operational expenditures and services are reported. According to the Council of Ministers Decision no. 1 dated 10.01.2007, a report on the annual public procurement activities shall be sent also to the Public Procurement Agency (PPA) within 30<sup>th</sup> January of each year.

In addition, the e-procurement system is obligatory, including for low-value procurement. All notices and tender documentation are available on the web portal of the PPA and contractors are obliged to submit bids electronically. However, the lack of a proper search function in the publication system impedes accessibility to relevant information for economic operators. The monitoring done by the PPA is limited in scope and focuses on legal compliance.

The HSC during the audit of 2013, 2014 and half of 2015 at Tirana Municipality raised concerns regarding delays in sending the procurement register to the PPA. While the assessment team noted that the new statistical monitoring unit has sent a report on the 2015 annual public procurement activities 22<sup>nd</sup> January 2016 i.e. within the defined timeframe, 30<sup>th</sup> January 2016.

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<sup>67</sup> Country Partnership Framework for Albania 2015-2019 WBG.

<sup>68</sup> Public Finance Management Reform 2014-2020, 2015 Monitoring Report, <http://www.financa.gov.al/files/userfiles/Raportimet/PFM>.

#### 24.2. Procurement methods

The PPA system is designed to ensure the transparency and integrity of procurement procedures. Table 3-13 shows the percentage of the procurement operations using various procurement methods. About 26% of all procurement (in terms of value) used non-competitive methods.

**Table 3.13 Procurement methods used by Municipality of Tirana 2015**

Type of procurement	No of procurement	Amount in Lek	%
Small purchases (3 offers)	96	44,081,199	3%
Request for proposal	99	107,537,049	7%
Open tender	40	984,685,977	64%
Sole procurement	68	396,255,710	26%
	<b>303</b>	<b>1,532,559,935</b>	<b>100%</b>

Source: PPA and Municipality of Tirana.

The Law, as amended, establishes different procurement methods and defines the circumstances in which restricted and sole source tendering can be applied. In addition, art. 33 of the PPL requires the procurement entities to maintain record of the grounds and circumstances on which the procurement entity relied to justify the selection of the method of procurement used.

#### 24.3. Public access to procurement information

Public access to procurement information is facilitated through the PPA website /www.app.gov.al/. The information provided is comprehensive in many respects as it includes the legal and regulatory framework for procurement, the municipal annual procurement plans, bidding opportunities and contract awards (purpose, contractor and value). The PPA system is designed to ensure the transparency and integrity of the procedures.

The PPA system allows examination of procurement plans, although the electronic publications are not equipped with search functions, which makes them less user friendly. The system enables electronic processing of public procurement including e-noticing, e-tender documentation, e-submission and, to a certain extent, e-evaluation. According to the Law on procurement, all contracting authorities are obliged to use the system when sums exceed ALL 100,000 (Euro 700). The system is fully operational. The annual procurement plans for 2016 and the procurement activities in 2015 were sent to PPA in January 2016 and posted on the PPA website. Announcement for finalization of the tender process and the declaration of the winner as well as the announcement of contract signed are published in the monthly bulletin from PPA which collects information from all contracting authorities.

#### 24.4. Procurement complaints management

The PPA performs the functions of the central administrative body responsible for public procurement in a timely and comprehensive manner. However, some tasks are executed to a limited extent. There is scarce monitoring of procurement procedures both procedural control and the processing of data referring to the procurement market), which prevents full assessment of the practices in the public procurement market.

The Law on Public Procurement defines the procedures for the administrative procurement complaints process. Objection to public procurement and auction procedures shall be filed in the first instance with the concerned Contracting Authority in writing within 7 days from the day complainant became aware of the issue. If the Contracting Authority fails to examine the objection within the time limits specified in the law or rejects the objection, the complainant may file written appeal with the Public Procurement Commission (PPC) within 10 days. The PPC is a quasi-judicial

body responsible for the review of complaints in public procurement procedures. The decisions issued by the PPC can be challenged in the Administrative Court of Tirana. A fee for conducting the appeal is paid by the 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. As an additional fee applies when the economic operator questions the activities of the contracting entity before the opening of the tenders (e.g. the choice of procurement method), the amount of the fee may be perceived as a barrier to accessing procurement complaints.

The Contracting Authority upon receiving the complainant's written appeal shall suspend on-going procurement, unless PPC instructs the contracting authority to do otherwise. 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 cases<sup>69</sup>. 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. Decisions of the PPC are final and enforceable. During 2015, 34 out of 303 procurement procedures for Tirana Municipality have gone through PPC. 50% of the complaints were accepted by the PPC and the procurement procedures were suspended.

**Table 3.14 Procurement Complaints are reviewed by a body which:**

(i)	is not involved in any capacity in procurement transactions or in the process leading to contract award decisions.	√
(ii)	does not charge fees that prohibit access by concerned parties.	x
(iii)	follows processes for submission and resolution of complaints that are clearly defined and publicly available.	√
(iv)	exercises the authority to suspend the procurement process.	√
(v)	issues decisions within the timeframe specified in the rules/regulations.	x
(vi)	issues decisions that are binding on all parties (without precluding subsequent access to an external higher authority).	√

PI	Dimension	Score	Justification for score
PI-24.	Procurement	B+	Scoring Method M2.
24.1	Procurement monitoring	A	Databases or records are maintained for contracts including data on what has been procured, value of procurement and who has been awarded contracts.
24.2	Procurement methods	B	74% of total value of contracts were procured through competitive bidding procedures in 2015.
24.3	Public access to procurement information	B	The legal framework for procurement, procurement plan for 2016, realisation of procurement operations for 2015 as well as bidding opportunities and contract awards are posted on the PPA website in a timely manner.
24.4	Procurement complaints management	B	The procurement complaint system meets criterion (1), and three of the other criteria.

#### *Ongoing reforms*

None identified.

<sup>69</sup> The assessment team could not verify the average processing time of each complaint for 2015.

## PI-25. Internal controls on nonsalary 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 the following three dimensions, assesses the as at time of assessment, 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*

An effective system of internal controls is based on an assessment of the control risk of all financial management systems and processes. Internal controls should be prominent in the design of a cost-effective control system to promote compliance with legal requirements, reduces the opportunity for fraud and corruption, safeguards public assets and ensures the production of timely, accurate and complete financial information. For the system to operate efficiently, it must be widely understood and respected by all participants in the financial management system.

Articles 6 through 12 of the Law on Financial Management and Control establish the role of the various parties involved in the financial management control system. These include the Authorizing Officer and subordinate authorizing officers, executing officers, and line managers. These responsibilities are clearly defined and form the basis for any communications with budget institutions.

### *25.1. Segregation of duties*

In the Law "On the Financial Management and control", art 22<sup>70</sup>, 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. In addition, the Municipality of Tirana has issued an internal regulation on 23.8.2012 which regulates budget execution process end –to- end. It describes roles and responsibilities across various departments starting from the requisition request until the payment execution. However, the current instruction does not reflect the most recent organizational changes made to the Municipality of Tirana after TAR, therefore the roles and responsibilities are not linked to the new structure.

### *25.2. Effectiveness of expenditure commitment controls*

Commitment controls for salary and non-salary financial transactions are present in the current control system for local government units. According to the article 40 of the Organic Budget Law (OBL), as amended, each general government unit, before starting any procurement procedure for a one or multi-year contract, is obliged to have a confirmation from the Ministry of Finance, that there are available funds to them to continue with the procurement. Once the procurement process is successfully finalized and the contract is signed, the commitment is entered into the system. Having a confirmation from the MOF on the availability of funds before any multiyear procurement starts was newly introduced to the OBL changes made in June 2016. Therefore, the Municipality of Tirana has received instructions by the MOF to enter into the Treasury system all the existing multiyear contracts, thus extending the commitment controls at the level of multiyear appropriation.

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<sup>70</sup> 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.

That is, irrespective of any monthly cash flow forecasts prepared by individual budget institutions, they may enter commitments into the system up to the total uncommitted funds in their appropriation. However, unbilled, old contracts issued before the implementation of the commitment control system are not registered and the bulk of current arrears dates back to the former communes and documentation of these arrears seems to be incomplete. In addition, as companies have to pay value added tax when issuing an invoice they are reluctant to do so unless there is a sufficient probability that the bill will be paid soon.

The municipality's computerization of financial transactions and integration with MOF controlled AGFIS is at a nascent stage (started in May 2016), with manual systems being predominant thus endangering the effectiveness of commitment controls and other payment controls.

### 25.3. Compliance with payment rules and procedures

Treasury instructions on the recording, processing and reporting transactions are clear and are respected by the financial officers involved in the preparation and entry of the transactions. In Albania, TDO are ultimately responsible for payment execution. The Treasury system has built-in, extensive checks that ensure that errors are detected before they enter into the system and are correct when processed. Concretely, every payment order presented by budgetary institutions is controlled by the financial officers at the TDO before are processed. Compliance audits undertaken by IA and HSC found no payment transactions for non-salary expenditure to be non-compliant with established procedures (regular procedures and procedures for exceptions)..

PI	Dimension	Score	Justification for score
<b>PI-25</b>	<b>Internal controls on non-salary expenditure</b>	<b>B</b>	<b>Scoring Method M2.</b>
25.1	Segregation of duties	C	Segregation of duties is prescribed throughout the expenditure process. More precise definition of important responsibilities may be needed.
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	A	All payments are compliant with regular payment procedures. All exceptions are properly authorized in advance and justified.

### Ongoing reforms

Municipality of Tirana is in the process of drafting a new internal regulation to reflect the changes in the Law "On the Financial Management and control" as amended in 2015 and the new organizational structure approved after the TAR.

The gradual integration into the national AGFIS system as from May 2016 has the potential of strengthening internal comment and payment controls in the short to medium term.

### PI-26 Internal audit

This indicator assesses the standards and procedures applied in internal audit function. It covers all entities of the Municipality. It contains the following four dimensions and uses the M1 (WL) method for aggregating dimension scores:

Dimension 26.1. Coverage of internal audit (as at time of assessment)

Dimension 26.2. Nature of audits and standards applied (as at time of assessment)

Dimension 26.3. Implementation of internal audits and reporting (last 12 months budget cycle)



## Dimension 26.4. Response to internal audits (audit reports issued during the last 3 years)

### *Background*

Internal audit (IA), as required by the Law no 114 dated 22.10.2015 “On Internal Auditing on Public Sector” should meet international standards in terms of (a) appropriate structure, particularly with regard to professional independence, (b) sufficient breadth of mandate, access to information and power to report, and (c) use of professional audit methods, including risk assessment techniques. The Law ensures the functional independence of the IA function through its direct subordination and accountability to the Mayor of the Municipality. Internal Audit activity is monitored on yearly basis from the Centre for Harmonization Unit at the Ministry of Finance. The IA function is focused on reporting on significant systemic issues in relation to: reliability and integrity of financial and operational information; effectiveness and efficiency of operations; safeguarding of assets; and compliance with laws, regulations, and contracts.

The Law no. 114 replaced the preceding Law no. 9720 dated 23/4/2007 “On Internal Audit in Public Sector”. The changes in the Law were mainly focused in strengthening the processes of (1) hiring, (2) certification and (3) continuous professional development of internal auditors. In addition, the Law introduces for the first time the establishment of the Audit Committee in public entities as an independent monitoring and advisory body to senior management.

### *26.1. Coverage of internal audit*

As described in the Law on Auditing, the role of the internal audit is to help the public unit in achieving its objectives. In the Annual report “On the functioning of Public Internal Financial Control System (PIFC) in the general government units for the year 2015” prepared by the Centre for Harmonization<sup>71</sup> Unit (CHU) at the Ministry of Finance, it is observed that 73% of the Internal Audit (IA) Units have their objectives in accordance with the objectives of public entities. The Municipality of Tirana’ IA function, according to the Law on Internal Auditing, identifies and assesses the risks of public entities in the planning process. Based on the identification and assessment results, the high risk units are included in the strategic and annual audit plan. The audit scope and coverage period varies from an entity to another and the assessor understanding is that during the audit planning preparation process the percentage coverage in terms of expenditures / revenues subject to audit is not taken into consideration. The 2016-2018 strategic audit plan and 2016 annual plan were approved by the Mayor of the Municipality by the end of 2015. As a result of the TAR, the Municipality absorbed 24 institutions and the number of entities subject of audit increased from 70 to 91. During 2015, the audit plan comprised the audit of 53% of the entities<sup>72</sup>. Generally, the IA function, follows the international standards regarding the preparation of audit plans, audit programs and reporting but the low audit coverage does not seem to be sufficient to achieve the internal audit and management objectives.

### *26.2. Nature of audits and standards applied*

The current regulatory framework of the internal audit activity at the Municipality is in accordance with international standards of internal audit, the Law on Internal Auditing, the Audit Manual, Code of Ethics, the Internal Audit Charter as well as other legal acts. Adherence to this framework is periodically evaluated by the CHU at the MOF, and training on continuous professional development is organized on annual basis where a major part of the internal auditors of the IA unit of Tirana Municipality participated.

<sup>71</sup> <http://www.financa.gov.al/en/the-ministry/departments/general-regulatory-and-controlling-department/joint-reports-for-chu-fmc-and-chu-ia>.

<sup>72</sup> Because the IA Department did not calculate the total expenditures subjected to audit, the assessment team estimated the percentage of number of entities subjected to audit.

According to the IA Manual, there are six types of audits that the IA Unit may undertake in the course of its activities: full audit, financial audit, compliance audit, performance and IT audit or combined audits. During 2015, 65% of the audits conducted by the IA Unit were full audits, whereas 29% and 6% were compliance and financial audit respectively. However, in the PIFC 2015<sup>73</sup> report is mentioned that the IU unit followed the approved structure for the annual report but a more detailed analysis is needed for internal control systems.

### 26.3. Implementation of internal audits and reporting

As reported by the IA Unit during the interviews - and reported in the 2015 Annual Report on PIFC - the number of audit engagements completed during 2015 fell behind the plan (17 out of 39 or 43.6% of the plan). The IAU function does not seem to have necessary resources and structure to fully support its activities. Furthermore, the structure of IA was modified with the order of the Mayor no. 12620, dated 14.09.2015, reducing the number of IA staff from 13 to 8. This structure does not allow proper division of labour, and quality assurance activities could not be properly exercised. Therefore, we believe that the audit plan for 2016, the quality of work and the performance of the function in general are at risk if no urgent intervention in improving the internal structure of this unit is made.

An annual report is produced on the previous year's activities, which is sent to the Mayor and to CHU at the Ministry of Finance. In 2016, the IAU failed to submit within April 2016 the annual report for 2015 to the CHU as reported in the PIFC 2015 report.

### 26.4. Response to internal audits

The responsibility for implementing the recommendations lies with the management of audited entities, but on the other side the responsibility of IA is not limited to giving recommendations but also in monitoring the implementation of recommendations. The results of the audit work depend on a large extent to this factor. From the full audit report prepared by the IA Unit for the Centre for Economic Development of Children during 2015, it appears that findings were discussed with the management of the auditee and changes were made if they were found to be relevant. A summary of the findings is also accompanying the report where a classification based on the priorities is made. However, implementation of recommendations appears not to be monitored in a coordinated way by the Head of the Municipality.

General data analysis of the IA function for 2015 shows that management provided a full response to audit recommendations for all entities audited within twelve months of the report being produced (98% of the findings are accepted by the auditee and the progress in implementing the recommendations is part of the IA audit program,. 77% of the findings were high priority findings whereas, 22% and 1% were medium and low priority respectively). The findings relate to issues concerning the public procurement process, various internal control deficiencies in the area of accounting and inventory management, budget execution and other deficiencies concerning implementation of contracts.

PI	Dimension	Score 2016	Justification for 2016 score
PI-26	Effectiveness of internal audit	D+	Scoring Method M1.
26.1	Coverage of internal audit	D*	The audit scope and coverage period varies from an entity to another and during the audit planning preparation process the % of coverage in terms of

<sup>73</sup> Report on The Functioning of Public Internal Control System in the General Government Units for the year 2015

PI	Dimension	Score 2016	Justification for 2016 score
			expenditures / revenues subject to audit is not taken into consideration.
26.2	Nature of audits and standards applied	B	Internal audit activities are focused on evaluations of the adequacy and effectiveness of internal controls but the reporting is not detailed as per the standards
26.3	Implementation of internal audits and reporting	D	Annual audit programs exist, but the number of audit engagement completed during 2015 fell behind the plan (17 out of 39 or 43.6% of the plan).
26.4	Response to internal audits	A	Management provides a full response to audit recommendations for all entities audited within twelve months of the report being produced.

### *Ongoing reforms*

The Ministry of Finance of Albania adopted a comprehensive Public Finance Management (PFM) reform strategy for 2014-20 and Effective Internal Control is one of the 6 pillars. Strengthening of IA by means of further improving the legislative framework and developing the professional skills are the key activities under this Strategy. The Ministry of Finance is preparing a new manual which will properly reflect new developments in the International Standards for the Professional Practice of Internal Audit (ISPPA).

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

Dimension 27.1. Bank account reconciliation (as at time of assessment and last 12 months)

Dimension 27.2. Suspense accounts (as at time of assessment and last 12 months)

Dimension 27.3. Advance accounts (as at time of assessment and last 12 months)

Dimension 27.4. Financial data integrity processes (as at time of assessment)

#### *27.1. Bank account reconciliation*

The General Directorate of Treasury manages all aspects of the TSA, including all expenditures and revenues of all of the local government. The Municipality of Tirana conducts all its treasury transactions through its one official bank account (No. 2101001-101) (ref. 21.1) and reconciles its account on monthly basis. In addition, Municipality of Tirana has three accounts at the secondary level banks, which are used mainly to manage donors funded projects. Two out of three accounts are not used since 25 of November 2015, while the third is active and the reconciliation is done on monthly basis. The Public Enterprises owned by the Municipality, do not provide any financial data to Treasury; they are outside general government and exclusively utilize commercial banks for their financial operations.

### 27.2. Suspense accounts

Suspense accounts are used temporarily to record revenues or disbursements that have yet to be classified and are cleared at least at the end of each year. As revenues are collected by the Directorate for Local Taxes and Fees, accounts clearance is done on monthly basis and differences or classifications are duly followed up. Generally, the amount sitting at this account is very small and there is a well defined time schedule to follow up of any differences.

### 27.3. Advance accounts

Advance accounts, generally, are applicable to travel advances and operational imprest accounts. At the Municipality of Tirana, advances are not used at all.

### 27.4. Financial data integrity processes

Municipality of Tirana uses locally produced accounting software to assist with the bookkeeping. The assessment team was advised that the current system is not adequate and does not automatically produce the annual financial statements. Moreover, the accounting system is easily accessible and does not provide any kind of audit trail, i.e. no trace of the user name for any kind of transaction made into the system and there is no unit or team in charge of verifying the data integrity.

Budget execution reports are produced by the Treasury System which makes a significant contribution to better data quality in terms of timing, integrity and accuracy. However, since many different stand-alone systems are used to record and process financial data including budget appropriations, reallocations, personnel data, expenditure arrears, fixed assets and borrowings, the team find that there are no inter-linkages to ensure reconciliation and no audit trails to verify accuracy and completeness of financial statements.

PI	Dimension	Score	Justification for score
<b>PI-27</b>	<b>Financial data integrity</b>	<b>B</b>	<b>Scoring Method M2.</b>
27.1	Bank account reconciliation	B	Bank reconciliation for <i>all</i> active municipal bank accounts takes place at least monthly, usually within 4 weeks from the end of each month.
27.2	Suspense accounts	A	Reconciliation of suspense accounts takes place at least monthly, within a month from the end of each month. Suspense accounts are cleared in a timely way, no later than the end of the fiscal year unless duly justified.
27.3	Advance accounts	NA	No advance payments take place.
27.4	Financial data integrity processes	D	Access and changes to records are not restricted. There is no unit or team in charge of verifying the data integrity.

### Ongoing reforms

None 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 the following three dimensions, assessed on the basis of the last 12 months budget cycle, and uses the M1 (WL) method for aggregating dimension scores:

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 under the control of the General Directorate of Financial Management, namely: the Budget Directorate and the Finance Directorate. None of these reports, however, are published, as 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 accrual 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 Mayor'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 and are not useful for analysis of budget execution as they do not provide both commitment and payment stages, thus making the capacity to execute the budget - and the related need for release of cash funds - difficult to monitor. Data issues relating to the revised budget estimates and changes in funding across expenditure programs are not highlighted in the reports. However, the reports are considered final only after they have been reconciled with the automated financial reports produced by the Treasury system. The budget execution reports as produced by the Treasury system makes a significant contribution to better quality data, in terms of timing, integrity and accuracy.

PI	Dimension	Score	Justification for score
<b>PI-28</b>	<b>In-year budget reports</b>	<b>D+</b>	<b>Scoring Method M1.</b>
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.
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 payment stage only. Analysis of changes in initial allocations between administrative headings is lacking.

### *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 not reporting 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.

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

Dimension 29.1 Completeness of annual financial reports (for last completed fiscal year)

Dimension 29.2 Submission of reports for external audit (last annual report submitted for audit)

Dimension 29.3 Accounting standards (last three years' financial reports)

#### *29.1 Completeness of annual financial reports*

Law No. 139 requires that Mayors 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).

The Municipality's annual financial reports consist of the five pieces of official documents required by Law 9228<sup>74</sup>. For the last completed FY 2015, The balance sheet provides information on revenue and expenditure, financial assets and liabilities,

For the last completed FY 2015, the annual financial reports include a balance sheet comparing the stock of financial assets and liabilities, the latter including medium- and long-term debt (domestic and foreign) obligations, after clearance of suspense accounts and advance and bank account reconciliation<sup>75</sup> (Formati no. 1 and Formati no. 2). Liabilities also include short-term debts with suppliers, which refer to unpaid bills and other payables to vendors and contractors. These, however, omit guarantees to WSC loans and other contingent liabilities. The financial reports also comprise a statement of operating expenses (Formati no. 3/1) and a statement of operating revenue (Formati no. 3/2), none of which provide a comparison of expenditure and revenue outturns with the originally approved budget or an analysis of the revised budget. Comparison exists only between actual expenditure and revenue as of December FY 2015 and actuals as of December 2014 and it fails to provide an analysis of the approved to the revised budget and of the approved budget to actual execution of the budget.

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<sup>74</sup>Law No. 9928/2004, Article 12 (Components of Financial statements) require that, “Subject to any exceptions or exemptions specified in national accounting standards, the financial statements of an entity shall include the following documents: (i) balance sheet, (ii) income statement, (iii) statement of changes in equity, (iv) cash flow statement, and (v) Notes to financial statements, containing disclosure of accounting policies, as well as other explanatory material.

<sup>75</sup> This rule forms the basis of Instruction No. 14 dated 28 December 2006 and Instruction 20 dated 27 December 2007, MOF Department of Accounting.

### 29.2 Submission of reports for external audit

Annual financial reports for the Municipality are not submitted for external audit, but only to the Municipal Council for internal reviewing. This is done within three months of the end of the budget year.

### 29.3 Accounting standards

Accounting standards applied to all financial reports are consistent with the current national legal framework and financial instructions<sup>76</sup> and ensure consistency of reporting over time. The standards used in preparing annual financial reports are disclosed, but deviations with international accounting standards (i.e., IPSAS, IFRS) are not explained. Accounting principles and reporting standards are largely obsolete and do not follow the development of IPSAS/EPAS.

PI	Dimension	Score	Justification for score
<b>PI-29</b>	<b>Annual financial reports</b>	<b>D+</b>	<b>Scoring Method M1.</b>
29.1	Completeness of annual financial reports	D	Annual financial reports are prepared annually by the Municipality. They include information on revenue, expenditure, and certain assets and liabilities. Serious gaps exist in regards to fixed assets contingent liabilities. The statements on operating revenues and expenses do not present a comparison between the original budget and actual figures.
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 legal framework and ensure consistency of reporting over time. The national standards used in preparing annual financial reports, however, are distant from international standards and differences are not disclosed.

### 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 2014-2020<sup>77</sup>. 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, covers all municipal government operations, and uses the M1 (WL) method for aggregating dimension scores:

Dimension 30.1 Audit coverage and standards (last three completed fiscal years)

<sup>76</sup> Law No. 9928/2004 on Accounting and Financial Statements, dated 29 April, 2004.

<sup>77</sup> The 2014-2020 PFM reform program consists of six pillars of intervention: (1).

Dimension 30.2 Submission of audit reports to the legislature (last three completed fiscal years)

Dimension 30.3 External audit follow-up (last three completed fiscal years)

Dimension 30.4 Supreme Audit Institution independence (as at time of assessment)

### *Background*

Since 1994 there is a Local Government and Territorial Administration Department 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. The Department is presently staffed with 25 auditors and conduct audits of municipalities every two years. 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.

There is no legal provision in the Law No. 139/2015 on Local Self-Governance Article 43 (*External Financial Control and Audit*), items (i) and (iii) requires that the HSC audits “self-government units” and reports publicly. HSC carries out compliance audits, issues recommendations and follow up on issues identified, in compliance with the Law No. 154/2014 on the Organization and Functioning of the High State Control, dated 27 November 2014 and the related implementation rules and instructions. HSC is not required to and does not offer an opinion on whether the government’s annual financial reports fairly represent the status of the Municipality’s finances.

#### *30.1 Audit coverage and standards*

The latest audit report on the Municipality of Tirana was completed by HSC in July 2015. It examined the performance of financial management and financial internal controls for years 2013, 2014 and the first four months of 2015. The audit report was organized in three main sections, namely, (1) institutional arrangements and compliance of financial internal controls, (2) fraudulent transactions and compensation measures, and (3) administrative and disciplinary actions.

The audit found serious cases of mismanagement, financial irregularity and wasteful expenditure within the organization; and provided recommendations on how to improve the efficacy of financial internal controls within a range of matters, including budgeting, revenue management, asset valuation, monitoring of payables, human resource management, procurement and project monitoring and auditing.

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) Directorate of Support Services, (2) Department of Waste Management and City Clean-up Services, (3) Road Maintenance Services, (4) Property Lease Department, (5) Kindergarten Schools Department, and (6) Urban Development and Planning Department, all combined representing at least 75% of municipal expenditure. The audit report, applied national auditing standards. The audit activities of HSC, however, do not comply with international auditing standards<sup>78</sup>. The core of the HSC audit work is compliance audit, with a focus on defining irregularities. Thus it fails to provide a certified opinion on the annual financial reports described in 29.1.

#### *30.2 Submission of audit reports to the legislature*

Audit reports of the Municipality are not submitted to the local council by the HSC. The audit report for 2013, 2014 and part of 2015 was approved by Decision of the President of HSC No. 91 dated 15 July 2015 and then published (ref. PI-9). The HSC does not issue an opinion on the annual

<sup>78</sup> Ref. Ministry of Finance, March 2016: Public Financial Management Strategy 2014-2020, 2015 Monitoring Report.



financial statements of the Municipality. The Internal Audit Unit benefitted from the audit findings published and informally met with the external auditor responsible to discuss issues identified.

### 30.3 External audit follow-up

Despite the audit reports not being submitted to the Municipal council, the Municipality drew on these reports to pursue and eventually implement actions recommended by HSC over the years. HSC requires that the Municipality prepares an action plan, though there is no specific calendar nor an audit cycle agreed between HSC and the audited entity because it is not required by law.

Usually the Municipality responds internally with an action plan within six months from the completion of the external audit. HSC comes back to follow up during November and December. HSC's audit report starts with a summary on the progress of actions recommended in the previous audit. No official point of communication and coordination takes place between HSC and the Municipality's internal auditor; it happens only through informal conversations.

For the 2015 audit conducted by HSC, fifteen (15) actions were undertaken by the Municipality, in full or partially, out of forty one (41) administrative actions and corrective measures recommended by HSC; all addressing serious weaknesses in the Municipality's ability of collecting outstanding fees and compensations (Table 3-15)<sup>79</sup>.

**Table 3.15 Audit recommendations implemented by Municipality of Tirana, 2015**

Actions satisfied				Actions recommended	Outstanding
Type of action	Fully	In progress	Total		
Collection of debts and other liabilities	1	6	7	17	10
Compensations	2	1	3	13	10
Administrative sanctions	0	5	5	11	6
<b>Total</b>	<b>3</b>	<b>12</b>	<b>15</b>	<b>41</b>	<b>26</b>

Source: HSC.

### 30.4 Supreme Audit Institution Independence

The independence, mandate and organization of the High State Control are established and protected by the Constitution and by primary legislation. The Law No. 154/2014 is in accordance with international standards, apart from a subjective criterion in the dismissal clause for the Chairman, which allows for dismissal if "he or she carries out acts or behaviours that damage seriously his or her position and figure". The HSC has unrestricted and timely access to records, documentation and information for most of the audited entities. However, during 2014 the HSC was restricted in carrying out its audit work and in its access to the premises of one budgetary institution<sup>80</sup>.

PI	Dimension	Score	Justification for score
<b>PI-30</b>	<b>External audit</b>	<b>D+</b>	<b>Scoring Method M1.</b>
30.1	Audit coverage and standards	D	Compliance audits of municipal entities representing most expenditures and revenues have been undertaken using national auditing standards during the last three completed fiscal years. However, a financial audit as required by the newly introduced Law, was never conducted by the HSC at the Municipality's annual financial reports

<sup>79</sup> An action plan was approved and pursued by the Municipality as directed by Mayor's Order No. 8178/61 dated 07 February 2015, "Measures to be taken to implement the recommendations of the High State Control required in the Final Report of the Audit practice in the Municipality of Tirana".

<sup>80</sup> Ref. The principle of Public Administration, Baseline Measurement report, SIGMA/OECD, 2015, Principle 15.

PI	Dimension	Score	Justification for score
30.2	Submission of audit reports to the legislature	NA	Financial audits of the municipality's annual financial reports for any of the last three years have not taken place.
30.3	External audit follow-up	NA	Financial audits of the municipality's annual financial reports for any of the last three years have not taken place.
30.4	Supreme Audit Institution independence	C	A new HSC Law regulates the functional, operational and financial independence, mandate and organization of the High State Control apart from a subjective criterion in the dismissal clause for the HSC Chairman. The HSC has unrestricted and timely access to most of the requested records, documentation and information. HSC has unrestricted access to municipal records, documents and information, but its mandate is heavily dependent on the MOF for the planning of its budget.

### *Ongoing reforms*

A new Law no154 dated 21 November 2014<sup>81</sup> "On the Organization and functioning of the High State Control" was approved in Parliament. The Law regulates the functional, operational and financial independence, mandate and organization of the High State Control and introduces some new International Standards for State Audit Institutions based requirements such as the use of financial and performance audit. In order to perform all its responsibilities and tasks in compliance with ISSAI, HSC has adopted new audit approaches and appropriate methodologies and guidelines are developed and updated. Such developments aim to lay down the foundations for ensuring the full implementation of ISSAI-s in auditing practices.

Also, HSC is in the process of publishing all audit reports over the years of the many municipalities and municipal entities audited through website starting 2017. 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 the following four dimensions, which are assessed on the last three completed fiscal years, 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

<sup>81</sup> [http://www.klsh.org.al/web/pub/ligji\\_klsh\\_al\\_1622\\_1.pdf](http://www.klsh.org.al/web/pub/ligji_klsh_al_1622_1.pdf).

### 31.1 Timing of audit report scrutiny

There is no legal requirement for the municipal council to scrutinize the HSC's audit reports on the Municipality. The practice established by law<sup>82</sup> is that the Finance Committee convenes only on an ad-hoc basis to review the un-audited financial report submitted by the Municipality's Office of the Mayor. For individual units of the Municipality, in turn, the existing local government legislation is clear that these are subject to an audit by the HSC<sup>83</sup>--a policy and a practice that are in adherence to the budget management system too<sup>84</sup>.

### 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 Mayor 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 executive council but based on findings to the un-audited annual financial reports.

### 31.4 Transparency of legislative scrutiny of audit reports

As prescribed by the current Municipal policies on transparency, consultation and participation<sup>85</sup>, debates and hearings take place with open participation by the public except in cases in which the Municipal 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
<b>PI-31</b>	<b>Legislative scrutiny of audit reports</b>	<b>NA</b>	<b>Scoring Method M2.</b>
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

None identified.

<sup>82</sup> 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 Mayor "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".

<sup>83</sup> Article 13 (*Supervision and Control*), item 5, Law No. 139/2015 on Local Self-Governance.

<sup>84</sup> Article 70 (*External Audit*), Law No. 9936/2008 on the Budget Management System of the Public of Albania.

<sup>85</sup> 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

Findings from the indicator assessments in section 3 are summarized across the seven pillars of PFM performance framework as follows:

#### Reliability of the Budget

- The Municipality's approved annual budget is not realistic and not implemented as planned. Aggregate expenditure outturn was more than 25% below the approved amount in each of the last three years 2013, 2014 and 2015 (PI-1). Variance in expenditure composition by function was high - in the order of 15% each year – whereas variance in expenditure composition by economic classification was even higher – ranging from 30% to 43% (PI-2);
- On the positive side, actual expenditure charged to the contingency votes was nil in each of the last three years 2013 – 2015 which means that reporting on budget execution is clear on the functional distribution of all expenditure (PI-2.3);
- The poor reliability of aggregate expenditure – and to some extent the compositional variance – was mainly caused by the Municipality's inability to collect own revenue in line with revenue estimates, given the limited ability to contract debt. Aggregate revenue outturns were in the order of only 48% to 64% of estimates during the three years. Compositional variance of revenue was also high ranging from 12 to 51% during the three years (PI-3);
- Aggregate transfers from the national government were quite reliable – above 93% of estimates in all three years. Compositional variance of the transfers was moderate at 5 -15% during those years. Predictability of the transfers for financing the Municipality's approved budget was not significantly different from predictability of the earmarked transfers financing off-budget expenditure, once earmarked transfers have been allocated. However, unconditional grants are allocated across municipalities on a formula basis, whereas this is not the case for earmarked grants (HLG-1);
- Transfer disbursements from the state budget are timely and regular, in accordance with a pre-defined schedule. Delays occur only in the transfer of the first tranche of the unconditional block grants (HLG-1.3);
- 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 above conclusions are considered a proper reflection of the reliability of the Municipality's budget.

#### Transparency of public finances

- The budget system is based on a budget classification being governed centrally and broadly compatible with GFS 2014 and COFOG standards. Recurrent and capital expenditures are itemized in a single budget framework (PI-4);
- The majority of revenues and expenditures outside the approved budget - almost entirely comprising earmarked transfers from the state budget - are reported as part of the standard budget execution reports and end-year financial statements. Minor off-budget expenditures include sponsorships and in-kind donations which are reported in separate 4-monthly reports (PI-6);
- Service performance plans and targets have not been developed, and service delivery outputs or outcomes and resource use are not monitored systematically across services. Performance evaluations are not being undertaken to evaluate the efficiency and effectiveness of key services provided (PI-8);

- Transparency of the municipal operations is very low. The budget documentation is rudimentary, missing most of the important ingredients for overview and analysis (PI-5), whereas key information available to the public in a substantially complete and timely manner is lacking. Of nine key fiscal documents, there is appropriate public access to only the enacted budget, municipal tax and fee rates and (through HSC website) the external audit report (PI-9).

#### **Management and assets and liabilities**

- The Municipality prepares a consolidated report and monitors the financial risks on the majority of joint stock companies in which the Municipality holds equity, but most of the financial data included has not been audited. Information on contingent liabilities emerging from those entities is reported only partially and other fiscal risks and contingent liabilities are not consistently reported (PI-10). Public investment management constitutes an area of concern, with segregation of duties and roles often seen as duplicating and overlapping within the Department of Public Works, lacking an integrated PIM function and proper guidelines for appraisal and selection of projects for funding (PI-11);
- Debt management is not an area of major concern, since contracting of debt is strictly controlled by MOF and only a few loans are on the Municipality's books. Nevertheless, reporting on stock and servicing of the loans is in need of improvement. A risk of fragmentation should be considered, as the Municipality has decided to divide the management responsibility of existing debts between two separate internal units (PI-13). Deficiencies are noted in the recording of most financial and non-financial assets, resulting in incomplete and out of date information of inventories, ownership, use, maintenance and valuation. The establishment of proper records of assets taken over from the former communes poses a major problem (PI-12).

#### **Policy-based fiscal strategy and budgeting**

- There is no active role by the Municipality in performing fiscal policy research and measuring the impact of potential revenue and spending measures, thus leading to an absence of a substantiated fiscal plan or strategy supporting the budget process (PI-14 and PI-15);
- A medium-term budget is established and begins with the introduction of medium term fiscal forecasts to support the formulation of the budget proposal for the budget year and the two subsequent years, (PI-16) but fiscal plans and expenditure decisions are severely hampered by the lack of a strategic development plan for the Municipality, absence of expenditure ceilings to support control of overall expenditure and the intended allocation of budgetary resources within the municipal organization as well as limited information on service performance plans and service evaluation reports (as noted in PI-8). It should be noted that the medium-term planning process was not followed for the FY2016 budget due to disruption of budget preparation in connection with the TAR amalgamation of local government units during 2015;
- Most major investment projects with identified funding are prioritized internally, but no economic analysis of projects is undertaken and selection is not based on standard or clearly defined criteria. Weak alignment between service plans and capital expenditure decisions causes problematic coordination between budgeting officials and project managers (PI-11 and PI-16);
- Detailed budget preparation guidelines exist and a clear and detailed budget calendar used to be issued by the General Directorate of Financial Management to line departments, However, the budget guidelines failed to include expenditure ceilings and the calendar was neither adhered to for preparation of the FY2015 nor the FY2016 budget. The executive failed to submit the budget proposal to the local council according to the calendar in each of the past three years, i.e. 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 budget scrutiny but these are only partially adhered to and do not provide sufficient time for proper scrutiny. The Council approved

the budget before start of the budget year in two of the last three years. Clear rules exist for budget adjustment by the executive without Council approval (PI-18).

### Predictability and control in budget execution

- Predictability in the release of funds to municipal directorates and agencies is hampered by inability to collect the budgeted revenues from own sources. Information on local taxes and fee rates and other taxpayer rights and obligations are targeting mainly city businesses. Issuing of tax/fee notifications and updates aimed at deterring households from non-compliance with their obligations is rather problematic but is improving due to organizing collections of some major taxes/fees from households through the Water & Sewerage Company (PI-19);
- The stock of revenue arrears as of end-2015 amounted to an equivalent of more than 200% of own revenue collections. A deficiency in monitoring is the failure to report on the age of revenue arrears and inability to write off old, non-collectible arrears (PI-19). The Revenue Department receives and consolidates monthly information on all collections. While daily transfers to the Municipality's main account with TDO takes place for most revenue, major revenue streams from household payers get transferred only monthly (PI-20);
- The Finance Officer is monitoring the availability of cash resources on a weekly basis, using information provided through the central TSA system; thus, determining its balances and evaluating 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 can in principle commit funds within the annual budget allocation but are provided reliable information on available funds for only one month at a time (PI-21);
- There is no clear definition of expenditure arrears in the financial regulatory system of Albania and hence there is no process of recording and monitoring the stock of unpaid invoiced obligations. Using the carry-forward obligations at year-end as a proxy, expenditure payment arrears showed nonetheless an increasing trend over the period reviewed. Moreover, since 2015 there has been a strict instruction by MOF for consolidating overdue bills from communes as well as controlling commitments and authorizing of purchases within the Tirana territory. A payment plan with suppliers is in effect as part of the strategy for clearing arrears (PI-22);
- Systems for control of the wage bill are quite well developed. An Establishment list is approved by Mayor and the Council as part of the annual budget. The payroll is supported by full documentation for changes made to personnel records each month and checked against the previous month's payroll data. Monthly retroactive changes are few. On the other hand, lacking control of access to the processing systems means that unauthorized changes to records are hard to track and audit coverage of payroll data is limited (PI-23);
- Municipal expenditures concentrate mainly in the procurement of public works and purchases of goods and services - averaging almost two thirds of the budget over the past three years. Notably, the procurement framework has evolved positively in terms of institutional setup, segregation of roles and responsibilities, and functioning of the procurement appeals mechanism. Another salient feature is reporting of tender opportunities and contract awards through local media and PPA website (PI-24);
- The internal control framework is comprehensive but commitment control is weak. Tirana was the first municipality to which the national AGFIS was rolled out, but the so far limited integration with AGFIS commitment and payment processing facility within the 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 (PI-25);
- Effectiveness of the internal audit function within the municipality has gained momentum in recent years, in terms of improvement to the nature and standards of audit as well as responses to findings by municipal management. However, audit coverage is still quite low (PI-26).

### Accounting and reporting

- Strong performance has been recorded in the process of monitoring and controlling cash balances. This is attributed to the effectiveness of reconciliation of the Municipality's single bank account with TDO, and very few other (project) bank accounts as well as no use of advance accounts. Bank accounts are reconciled monthly and suspense accounts cleared regularly. However, integrity of fiscal data is at risk due to lacking control of access and changes to records with no unit or team in charge of verifying the data integrity (PI-27);
- The in-year budget information is issued on a monthly basis, intended for internal use only, but not presented with the content required according to good practice (PI-28). The Municipality produces consolidated financial statements in adherence to national standards, yet to be upgraded to IPSAS reporting standards. Annual financial statements have been prepared by the Municipality, and include information on revenue, expenditure, and certain assets and liabilities. The statements on operating revenues and expenses, however, do not present an analysis of budget outturns, with the basis being the original estimates (PI-29).

### External Scrutiny and audit

- External compliance audits have been undertaken by HSC, but financial audit of the Municipality's annual financial statements has not taken place. HSC's reports are not submitted to the local council, and is not required according to the legislation (PI-30). Consequently, scrutiny of audited annual financial statements does not take place within the local council (PI-31).

## 4.2 Effectiveness of the internal control framework

Despite a well-developed PIFC legal framework the Municipality has many problems with implementation of internal controls, as noted in the indicator assessments and the related overview in sub-section 4.1 as well as in Annex 2, which is organized along the five components of internal control as defined by COSO, and summarized below:

Budget control at the aggregate level is exercised through the obligation to present and execute a balanced municipal budget, with loans for investment project funding controlled through mandatory approval by MOF.

Payroll management in the Municipality is weak in the 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. The pension system suffers acute problems, which make its reformation crucial.

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. Whilst the Public Procurement Agency's website contributes to transparency of many aspects of procurement operations (by publishing plans, tenders and contract awards), HSC audits have highlighted major issues concerning management of bid evaluation, such as unclear criteria for evaluation and selection of bids and weak oversight within the procurement function. Introduction of E-procurement has improved the situation, but the e-evaluation module is yet to be rolled out.

Investment projects are not selected on the basis of clear criteria which may lead to ad hoc decisions. Project funding from external development partners are not managed and controlled using national procedures and are not recorded in the Treasury system. While there are very few such projects, they are of significant value.

Public accounting 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 MOF controlled AGFIS is at a nascent stage, with manual systems being predominant thus 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.

A key problem of the present PFM system in the Municipality of Albania is that internal controls are insufficiently complied with and that non-compliance is insufficiently reported and sanctioned.

The High State Control has developed a capacity development strategy and a twinning arrangement is planned. The HSC has performed an audit to the Municipality of Tirana in 2014 and found serious problems with effectiveness of internal controls in financial management thus resulting in financial malpractice and fraudulent and irregular expenditure.

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 entities<sup>86</sup>. 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.

### 4.3 PFM strengths and weaknesses

The analysis in this subsection draws on the findings in subsections 4.1 and 4.2 as well as the features of the Municipality as described in section 2. It is focused on the 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) as well as the Integrity of the fiscal data on the basis of which many of the findings rely.

#### Aggregate Fiscal Discipline

Overall fiscal discipline is not a primary concern, although a number of issues need to be addressed. The Municipality is bound to balance its budget as it has very limited means of borrowing and in other ways run a fiscal deficit. Almost 40% of municipal budget revenue is received in terms of unconditional transfers from the state budget; with a high degree of predictability of both amounts and in-year timing.

A major concern is the poor performance in the Municipality's own revenue collections, which accounts for a good 60% of budgetary revenue and has seen actual revenue outturns consistently more than 40-50% below estimates. Consequently, annual aggregate budgetary expenditure has had to be curtailed and has consistently been more than 25% below the original budget estimates during 2013-2015. Whilst there is scope for improvement in many aspects of revenue administration – and several measures have been taken to improve collection systems - the main issue in low revenue outturn appears to have been poor revenue forecasting.

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<sup>86</sup> Instruction No. 28, dated 15 December 2011, on the Presentation of the Quality Statement and Annual Report on Internal Control System in Public Sector.



Underperforming revenue collection forces the Municipality to cut the expenditure allocations during the year. As there are no effective expenditure commitment controls in place, budget institutions may eventually generate expenditure arrears on contracts which have already been entered but for which funds will no longer be available after the budget cuts. Effective systems of monitoring the existence and developments in expenditure arrears are missing and pose a risk to fiscal discipline.

A second concern is the lack of a fiscal strategy. Whilst, the pre-TAR expenditure arrears of the Municipality itself have largely been settled, a significant stock of arrears has been taken over from the former communes. The Municipality is also indebted to the MOF due the latter having assumed debt servicing on old municipal loans. Insufficient provisions, if any, have been made in the annual budget estimates for those liabilities and a multi-year approach to paying them off is needed. Similarly an approach to creating fiscal space for new expenditure initiatives – particularly for infrastructure investments – would typically be part of such a strategy.

It should be noted that the funding from the state budget through earmarked grants outside the Municipality's originally approved budget – at about 40% of budget expenditure – seriously undermines the value of the approved budget as a plan for the Municipality's annual operations. On the other hand, it hardly poses a threat to aggregate fiscal discipline, because the related expenditure is equal to the earmarked transfers received, and the management of fiscal discipline of these funds at the aggregate level is the responsibility of the national government.

### **Strategic Allocation of Resources**

A strategic development plan for the Municipality has so far been missing as a basis for deciding medium- to long term priorities for resource allocation. Lack of proper economic analysis and selection criteria for major investment projects further highlight the ad hoc nature of strategic resource allocation so far.

At the annual level, the approved budget of the Municipality is clearly not a useful reflection of the likely operations of the Municipality for the coming year. If the budget is intended to represent the political priorities of municipal government – as it is supposed to be - it has at least been highly unrealistic. Apart from the changes to aggregate expenditure discussed above, the expenditure outturn composition by both functions and economic breakdown is significantly different from the original budget. Major in-year cuts in expenditure allocations necessitated by poor outturn on own revenue collections affect different expenditure categories and service functions to very different degrees.

The addition of almost 40% to the financial operations of the budget through off-budget earmarked grants is another major factor in undermining the role of the approved budget as a plan for the Municipality's annual activities. Part of those transfers are quite predictable as they do not fluctuate much from year to year (grants for social care, civic registration services etc.), whereas others are difficult to foresee and may require co-financing from the approved budget. The latter concerns in particular RDF grants which are allocated mid-year, but it may also affect the functions that have been decentralized to the Municipality from 2016.

Transparency of the budget and the overall financial operations shows a number of important weaknesses. The ability of the Municipal Council to scrutinize and challenge the budget estimates prior to budget approval is very limited due to the extremely short period allowed in practice for this process and the lack of technical support. Whilst the approved budget is publicized, in-year budget execution reports and annual financial statements are not made public. This hinders any meaningful contributions from civil society to discussion of the Municipality's activity and

expenditure priorities both at the annual budget approval process and during the (significant) in-year reallocations.

In this context it is a minor concern that several deficiencies have been identified in the management systems for budget preparation, such as lack of a detailed and current budget calendar, lack of expenditure ceilings for estimates preparation by budget institutions, lack of indicators of output and outcome for service delivery, and lack of a medium-term approach to budget strategy.

### **Efficiency in Use of Resources for Service Delivery**

A medium- to long term anchor for planning efficient service delivery is missing due to lack of costed sector strategic plans with disclosure of output and outcome indicators, though it is noted that a strategic development plan for the Municipality is in the making.

This planning issue is exacerbated at the annual operational planning for the Municipality's service delivery institutions due to unreliable resource allocations - whether this is because original budget allocations are cut or resources for additional activities are allocated during the year. It is further complicated because there are links between approved budget allocations and earmarked/specific transfers such as investment co-financing or staffing for functions funded off-budget.

At the operational level, control of employment and payroll appears to operate reasonably well as does the payment function for non-salary expenditure. Also, recent gains in transparency and monitoring of procurement bode well for improvements in value for money of expenditure. However, problems with clarity of bid selection criteria and procedures mean that more has to be done to ensure such value-for-money.

External audit by HSC is thorough and include many important recommendations for improving expenditure efficiency, but the compliance approach – rather than systems approach – to the audit and the lack of a formal structure for responding to audit findings and rectifying problems limit the impact of the audits.

### **Integrity of Financial Data**

There are major concerns regarding the quality of financial data. The audit undertaken by HSC has revealed a range of issues concerning the completeness and quality of financial data maintained by Municipality of Tirana. HSC's report for 2013, 2014 and part of 2015 has in particular highlighted the deficiencies in the inventory of assets - including their ownership, usage and valuation. The indicator assessments 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.

### **Impact of the Territorial and Administrative Reform on PFM Performance**

Overall the performance of the Municipality's financial management systems during the period September 2015 to September 2016 has been affected only marginally by the amalgamation of the former municipality and the thirteen former communes. Whilst some disruptions were noted, most of the systems weaknesses identified also existed before the amalgamation. However, the TAR has put additional pressure on the municipal administration due to the significantly increased territory and population which the new municipality shall serve. Uncertainties regarding the service objectives, targets and related financing of the new functions delegated to municipalities as part of TAR constitute major additional challenges.

## 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 desirable. In addition, as MOF 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 approved the "Public Finance Management Strategy 2014-2020".

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 in 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 reform implementation oversight rests with MOF, the PFM strategy involves the entire government sector, High Supreme 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 25.8.2014. The PFM Reform Steering Committee is the oversight committee with responsibility for directing and monitoring PFM reform activities.

## 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.

At the national level - as mentioned in the first annual monitoring report of the PFM Reform Strategy - MOF has made a good progress in the implementation of the Strategy. In particular, the following areas have benefited:

- 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 were adopted by the Parliament on 2 June 2016 aimed among others (1) to introduce fiscal rules to reduce the debt/GDP ratio creating conditions for long-term sustainability of public finances (2) to introduce controls over multi-year commitments; (3) to ensure a better harmonisation of public investments with budget preparation; (4) to empower the Parliament to vote on and approve the MTBP ceilings at program level and to make the ceilings for the three years of the MTBP binding;
- 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;
- Improved 2016 annual budget by including 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;
- MOF prepared and published on its website for the first time the Government Finance Statistics Annual Report for 2014 in accordance with the GFS Manual 2014;
- MOF finalized the registration in AGFIS of all the foreign-funded projects for the period 2010-2014;
- MOF completed the local government financial statements, which will be reported under the Government Consolidated Financial Statements;
- 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;

- An IMF's Extended Fund Facility arrangement was approved in February 2014 that has supported a bold arrears clearance programme that aims to repay obligations. There were also some conditions attached to this facility concerning improvements in public finance management to avoid the re-emergence of arrears.

At the local government level, several instruments have been adopted such as: legislation, culture changes and process reengineering, capacity building and IT-development. A summary of adoption of these instruments at the local government level and specifically at the Municipality of Tirana is given below:

#### *Legislative changes*

- A new Law no 139/2015 "On Local Self-Government" was approved by the Parliament in December 2015. The main scope of the Law was to specify the functions and competences of the newly created (merged) Municipalities;
- In addition, the MOF in cooperation with some international development partners is has drafted a new "Law On Local Self-Government Finances" – expected to be finalized and approved during 2017 – for which the main purposes are (1) establishment of a fiscal and budgetary discipline in all units by having unified budgeting procedures and calendar and financial management and control; (2) definition of the unconditional grant transfer formula; (3) regulation of intergovernmental fiscal relations: defining the relationship between central and local government as well as the roles and responsibilities of the parties; (4) criteria for managing current and capital expenditure, transparency, accountability, fiscal discipline and efficiency in the management and use of public funds; and (5) the role and responsibility of the Ministry of Finance.

#### *Changes in processes and management culture*

- Since 2011, MOF has been implementing a 5-year plan for Financial Management and Control (FMC) in both central and local government entities. However, the main role of FMC to lead to better performance, more transparency, more efficiency and effectiveness, in terms of spending public money is not yet fully understood by all public units especially at the local government level. The modernization of the internal audit function has been slow. Therefore a revitalization of the function was needed, focusing on strengthening IA units by means of developing the professional skills of IA staff. As reported in the 2015 annual report "On the functioning of Public Internal Control System in the General Government Units" the internal auditors at the Municipality of Tirana are now certified and all of them have attended continuous professional training;
- During the last year, and following TAR amalgamation, the Municipality of Tirana finalized its review of the existing institutional arrangements and internal organizational restructuring.

#### *Deployment of AGFIS*

- In order to integrate revenues and local expenditures, at the national level, the speed and availability of information exchange between the national and municipal governments needs to be improved. For that purpose the Albanian Government Financial Information System (AGFIS) is being rolled out, initially to the Municipality of Tirana in May 2016 (along with roll out to seven national ministries). The system usage is still limited to few users at the Municipality; hence MOF has been organising training aiming to increase the adoption rate of the system.

### 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** – for example as soon as financial and planning capacities at municipalities are built, the MTB programme budgeting process could commence or prevention of creation of new arrears could not start without some new IT features being introduced into AGFIS or some amendments to the OBL are adopted by the Parliament. 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. Capacity constraints for reform implementation at the municipal level are even more pronounced and has been further exacerbated by the TAR;
- The development of manuals and procedures, delivery of targeted training and capacity building are not included in the strategy where significant changes are envisaged. Inclusion of an assessment of the supporting activities would provide a more robust basis for costing the strategy.
- Additional functions are delegated to local governments, following territorial reorganization, but detailed plans for devolution sequencing have not yet been drawn up by the MoF who should take a lead in the fiscal aspects of this process.

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. As many of the reforms are initiated from and coordinated by MOF, municipalities will need to follow the strategy set out by MOF.

## Annex 1. Performance Indicator Summary

PEFA INDICATOR/Dimension	Score	Description of requirements met
<b>HLG-1. Predictability of Transfers from a Higher Level of Government</b>	<b>D+</b>	<b>Scoring Method M1.</b>
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 were higher than 95% of the original estimates in 2013 and 2014, but lower in 2015 (suggesting score A). 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 Annual variance between actual and estimated transfers of earmarked grants	D	Compositional variance was higher than 10% in each of 2013 and 2015, and just over 5% in 2014. As for HLG-1.1 these outturns are considered a proper reflection of the predictability of transfers.
HLG-1.3 In-year timeliness of transfers from HLG	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 block grants but its weight is lower than 25% of actual disbursements.
<b>PI-1. Aggregate expenditure outturn</b>	<b>D</b>	Aggregate expenditure outturn was below 85% in each of the last three years. Actual expenditure outturn was 71.2%; 71.0% and 53.1% respectively, in years 2013, 2014 and 2015. Although data for 2015 are not completely in line with indicator requirements and not directly comparable to the previous year before TAR, the deviations are considered sufficient significant to score the indicator with confidence.
<b>PI-2. Expenditure composition outturn</b>	<b>D+</b>	<b>Scoring Method M1.</b>
2.1 Expenditure composition outturn by function	D*	Variance in expenditure composition by function is 14% in 2013 and it exceeds 15% in 2014 at 19%. A reliable estimate cannot be given for FY2015, given the data availability on 2015 budget estimates.
2.2 Expenditure composition outturn by economic type	D	Variance in expenditure composition by economic classification is was higher than 15% in all of the three last years, at 31.5%, 37.5% and 32.0% respectively in 2013, 2014 and 2015. 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 variances are so significant that a score can be assigned with confidence.
2.3 Expenditure for contingency reserves	A	Actual expenditure charged to a contingency vote was nil in each of the last three years 2013 – 2015.
<b>PI-3. Revenue outturn</b>	<b>D</b>	<b>Scoring Method M2.</b>
3.1. Aggregate revenue outturn	D	Revenue collection was 55% of budget estimates in 2013, 64% in 2014 and 48% in 2015; i.e. it actual revenue was far below 92% of the budgeted revenues in all years. Even though

PEFA INDICATOR/Dimension Title	Score	Description of requirements met
		2013 and 2014 represent the pre-TAR municipality and 2015 data is not comparable to data from earlier years due to TAR, the variances are so significant that a score can be assigned with confidence.
3.2. Revenue composition outturn	D	Variance in revenue composition exceeded 15% in two of the three years: it was 24.5% in 2013, 12.1% in 2014 and 51.3% in 2015. As with dimension 3.1 the findings are sufficiently robust to assign a score.
<b>PI-4. Budget classification</b>	<b>A</b>	The budget classification and Chart of Accounts are based on economic, administrative and functional (and sub-functional) classification and can produce information compatible with the GFS 2014 standards.
<b>PI-5. Budget documentation</b>	<b>D</b>	Only the requirements for one of the four basic elements are fulfilled. Two additional requirements are also fulfilled.
<b>PI-6. Central government operations outside financial reports</b>	<b>A</b>	<b>Scoring Method M2.</b>
6.1. Expenditure outside financial reports	A	All of the municipality's expenditure is reported in the municipality's budget execution and annual financial reports.
6.2. Revenue outside financial reports	A	All of the municipality's revenue is reported in the municipality's budget execution and annual financial reports.
6.3. Financial reports of extra-budgetary units	NA	No extra-budgetary units were identified under Tirana Municipality.
<b>PI-7. Transfers to subnational governments</b>	<b>NA</b>	<b>Not applicable.</b>
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.
<b>PI-8. Performance information for service delivery</b>	<b>D</b>	<b>Scoring Method M2.</b>
8.1. Performance plans for service delivery	D	Information is published annually only on the mission and objectives by all service delivery programs. Performance plans for the delivery of key municipal services are nonetheless missing 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 public 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 and level of resources received is known only for one large service delivery program.
8.4. Performance evaluation for service delivery	D	Evaluations of the efficiency or effectiveness of public service delivery have not been carried out within the last three years.
<b>PI-9. Public access to information</b>	<b>D</b>	The Municipality makes available to the public only one out of five basic elements, as well as two of the four additional elements.
<b>PI-10. Fiscal risk reporting</b>	<b>D+</b>	<b>Scoring Method M2.</b>



PEFA INDICATOR/Dimension Title	Score	Description of requirements met
10.1. Monitoring of public corporations	C	All companies with municipal ownership submit annual financial statements to the Municipality. Key financial data is consolidated into a report to the Municipal Council. Only the Water & Sewerage Company has recently had its statements audited. None of this information is made publicly available.
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	D	There is no financial report that quantifies and consolidates information on contingent liabilities and other fiscal risks inherent to the Municipality's service delivery programs and projects and the associated public corporations.
<b>PI-11. Public investment management</b>	<b>D+</b>	<b>Scoring Method M2.</b>
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 the next 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. The information, however, is not fully costed thus omitting the operating and maintenance expenses.
11.4. Investment project monitoring	C	Total cost and physical progress of major investment projects are monitored and reported by the Public Works Department on an annual basis. Standard procedures are in place and yet, modern rules governing project implementation are lacking.
<b>PI-12. Public asset management</b>	<b>C</b>	<b>Scoring Method M2.</b>
12.1. Financial asset monitoring	C	The Municipality maintains records of balance sheets for public enterprises in which it has an equity share, but the standards for valuation of the enterprises are not clear. The information on financial performance is not published.
12.2. Nonfinancial asset monitoring	C	The municipality maintains a register of its holdings of fixed assets, and collects partial information on their usage, location and age
12.3. Transparency of asset disposal	C	Procedures for disposal of non-financial assets have recently been strengthened. Partial information included in annual financial reports and submitted to the local council, not disclosed to the public.
<b>PI-13. Debt management</b>	<b>C</b>	<b>Scoring Method M2.</b>
13.1. Recording and reporting of debt and guarantees	D	Reporting on external and domestic debt takes place as part of the annual financial statements but is incomplete.

PEFA INDICATOR/Dimension Title	Score	Description of requirements met
13.2. Approval of debt and guarantees	B	The municipality is allowed to borrow, by all loans must obtain prior approval by MOF. Loans, depending on the amount, are also approved by either the Parliament or the local council. Legislation sets out clearly the authority to borrow and the procedures to be followed.
13.3. Debt management strategy	NA	This dimension is not applicable as such a strategy does not apply to a municipality.
<b>PI-14. Macroeconomic and fiscal forecasting</b>	<b>C</b>	<b>Scoring Method M2.</b>
14.1. Macroeconomic forecasts	NA	Macroeconomic forecasting is not applicable to municipalities
14.2. Fiscal forecasts	C <sup>87</sup>	During each of the last three years, 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). Detailed explanation of estimates and underlying assumptions were included for revenue and capital expenditure but not for recurrent expenditure. All of this information was included in the budget documentation.
14.3. Macrofiscal sensitivity analysis	NA	This dimension is not –assessed as it is not apply to a municipality.
<b>PI-15. Fiscal strategy</b>	<b>D</b>	<b>Scoring Method M2.</b>
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.
<b>PI-16. Medium-term perspective in expenditure budgeting</b>	<b>D</b>	<b>Scoring Method M2.</b>
16.1. Medium-term expenditure estimates	D	Three year estimates of expenditure are presented in the budget with breakdown by program, economic and administrative classification, but only for capital expenditure. Recurrent expenditure estimates for the two outer years are presented only in aggregate with no breakdown.
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 MTB 2016-2018 for the new municipality with the estimates of the previous MTB for the pre-TAR municipality..
<b>PI-17. Budget preparation process</b>	<b>D</b>	<b>Scoring Method M2.</b>
17.1. Budget calendar	NA	A clear budget calendar exists which allows budgetary units sufficient time to complete their estimates., The calendar was

<sup>87</sup> The methodology for this assessment foresees no score for this indicator due to TAR, but there is no reason to believe that TAR significantly influenced the format and nature of content in the budget documentation.

PEFA INDICATOR/Dimension Title	Score	Description of requirements met
		generally not adhered to in 2015 (FY2016 budget) but this was due to the amalgamation of municipality and communes in the middle of the year.
17.2. Guidance on budget preparation	NA	Guidance issued for preparation of the last budget submitted to the Council prior to this assessment (budget for FY2016) was limited and did not follow usual standards as the budget preparation process during 2015 was disputed by the transition arrangements of TAR
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.
<b>PI-18. Legislative scrutiny of budgets</b>	<b>D+</b>	<b>Scoring Method M1.</b>
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 <sup>st</sup> 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 powers to amend the budget in-year without Council approval. They set strict limits for the Mayor's powers and are adhered to in most cases.
<b>PI-19. Revenue administration</b>	<b>C</b>	<b>Scoring Method M2.</b>
19.1. Rights and obligations for revenue measures	C	Information on taxes and fee rates, including rights and redress procedures are easily accessible for businesses but are not actively shared with households.
19.2. Revenue risk management	B	The GDTF 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 implemented on an annual and monthly basis, covering audits mainly for the business taxpayer segment (more than 50% of revenue). The household taxpayer segment is not covered systematically. The majority of planned audits are implemented.
19.4. Revenue arrears monitoring	D	The stock of revenue arrears at the end of 2015 constitutes more than 200% of own revenue collections. No data has been made available on the age of revenue arrears, but indications are that more than 75% of the tax debt is more than a year old.
<b>PI-20. Accounting for revenues</b>	<b>D+</b>	<b>Scoring Method M1.</b>

PEFA INDICATOR/Dimension Title	Score	Description of requirements met
20.1. Information on revenue collections	A	The Revenue section of the Budget 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 are transferred monthly to the municipality's Treasury account. All other revenue is directly paid to the Treasury account.
20.3. Revenue accounts reconciliation	D*	While reconciliation of payments with the Treasury District Office takes place monthly, it is not clear when reconciliation of payments with liabilities take place in all collecting agencies.
<b>PI-21. Predictability of in-year resource allocation</b>	<b>D+</b>	<b>Scoring Method M2.</b>
21.1. Consolidation of cash balances	C	Cash balances for the Treasury account are consolidated on a daily basis, whereas consolidation with the project bank account is done monthly.
21.2. Cash forecasting and monitoring	C	A cash flow forecast is prepared for the fiscal year.
21.3. Information on commitment ceilings	D	Departments and Programs are not provided with information on commitment ceilings.
21.4. Significance of in-year budget adjustments	C	Significant in-year adjustments to budget allocations are frequent, and are partially transparent.
<b>PI-22. Expenditure arrears</b>	<b>D</b>	<b>Scoring Method M1.</b>
22.1. Stock of expenditure arrears	D*	The stock of expenditure arrears is 62% of total expenditure in 2015 (59% in 2014). Data for 2013 not available.
22.2. Expenditure arrears monitoring	D	Data on the stock and composition of expenditure arrears is generated annually at the end of each fiscal year. There are no set deadlines for such a report and no age profile is presented.
<b>PI-23. Payroll controls</b>	<b>C+</b>	<b>Scoring Method M1.</b>
23.1. Integration of payroll and personnel records	B	The payroll is supported by full documentation for <i>all</i> changes made to personnel records each month and checked against the previous month's payroll data. Staff hiring and promotion is controlled by a list of approved staff positions.
23.2. Management of payroll changes	A	Required changes to the personnel records and payroll are updated at least monthly, generally in time for the following month's payments. Retroactive adjustments are few.
23.3. Internal control of payroll	C	Sufficient controls exist to ensure integrity of the payroll data of greatest importance, but audit trails are generally missing.
23.4. Payroll audit	C	Partial payroll audits have been undertaken within the last three completed fiscal years.
<b>PI-24. Procurement</b>	<b>B+</b>	<b>Scoring Method M2.</b>
24.1. Procurement monitoring	A	Databases or records are maintained for contracts including data on what has been procured, value of procurement and who has been awarded contracts.
24.2. Procurement methods	B	74% of total value of contracts were procured through competitive bidding procedures in 2015.

PEFA INDICATOR/Dimension Title	Score	Description of requirements met
24.3. Public access to procurement information	B	The legal framework for procurement, procurement plan for 2016, realisation of procurement operations for 2015 as well as bidding opportunities and contract awards are posted on the PPA website in a timely manner.
24.4. Procurement complaints management	B	The procurement complaint system meets criterion (1), and three of the other criteria.
<b>PI-25. Internal controls on non-salary expenditure</b>	<b>B</b>	<b>Scoring Method M2.</b>
25.1. Segregation of duties	C	Segregation of duties is prescribed throughout the expenditure process. More precise definition of important responsibilities may be needed.
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	A	All payments are compliant with regular payment procedures. All exceptions are properly authorized in advance and justified.
<b>PI-26. Internal audit effectiveness</b>	<b>D+</b>	<b>Scoring Method M1.</b>
26.1. Coverage of internal audit	D*	The audit scope and coverage period varies from an entity to another and during the audit planning preparation process the % of coverage in terms of expenditures / revenues subject to audit is not taken into consideration
26.2. Nature of audits and standards applied	B	Internal audit activities are focused on evaluations of the adequacy and effectiveness of internal controls but the quality assurance process is inadequate.
26.3. Internal audit activity and reporting	D	Annual audit programs exist, but the number of audit engagement completed during 2015 fell behind the plan (17 out of 39 or 43.6% of the plan).
26.4. Response to internal audits	A	Management provides a full response to audit recommendations for all entities audited within twelve months of the report being produced.
<b>PI-27. Financial data integrity</b>	<b>B</b>	<b>Scoring Method M2.</b>
27.1. Bank account reconciliation	B	Bank reconciliation for <b>all</b> active municipal bank accounts takes place at least monthly, usually within 4 weeks from the end of each month.
27.2. Suspense accounts	A	Reconciliation of suspense accounts takes place at least monthly, within a month from the end of each month. Suspense accounts are cleared in a timely way, no later than the end of the fiscal year unless duly justified.
27.3. Advance accounts	NA	No advance payments take place.
27.4. Financial data integrity processes	D	Access and changes to records are not restricted. There is no unit or team in charge of verifying the data integrity.
<b>PI-28. In-year budget reports</b>	<b>D+</b>	<b>Scoring Method M1.</b>
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.

PEFA INDICATOR/Dimension Title	Score	Description of requirements met
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 payment stage only. Analysis of changes in initial allocations between administrative headings is lacking.
<b>PI-29. Annual financial reports</b>	<b>D+</b>	<b>Scoring Method M1.</b>
29.1. Completeness of annual financial reports	D	Annual financial reports are prepared annually by the Municipality. They include information on revenue, expenditure, and certain assets and liabilities. Serious gaps exist in regards to fixed assets contingent liabilities. The statements on operating revenues and expenses do not present a comparison between the original budget and actual figures.
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 legal framework and ensure consistency of reporting over time. The national standards used in preparing annual financial reports, however, are distant from international standards and differences are not disclosed.
<b>PI-30. External audit</b>	<b>D+</b>	<b>Scoring Method M1.</b>
30.1. Audit coverage and standards	D	Compliance audits of municipal entities representing most expenditures and revenues have been undertaken using national auditing standards during the last three completed fiscal years. However, a financial audit as required by the newly introduced Law, was never conducted by the HSC at the Municipality's annual financial reports
30.2. Submission of audit reports to the legislature	NA	Financial audits of the municipality's annual financial reports for any of the last three years have not taken place.
30.3. External audit follow-up	NA	Financial audits of the municipality's annual financial reports for any of the last three years have not taken place.
30.4. Supreme Audit Institution (SAI) independence	C	A new HSC Law regulates the functional, operational and financial independence, mandate and organization of the High State Control apart from a subjective criterion in the dismissal clause for the HSC Chairman. The HSC has unrestricted and timely access to most of the requested records, documentation and information. HSC has unrestricted access to municipal records, documents and information, but its mandate is heavily dependent on the MOF for the planning of its budget.
<b>PI-31. Legislative scrutiny of audit reports</b>	<b>NA</b>	<b>Scoring Method M2.</b>
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
<p><b>1. Control environment</b></p>	<p>As noted in preceding sections, the Municipality of Tirana’s financial internal control system is ruled under Law No. 10295 on Financial Management and Control, Article 20. Accordingly, the control environment includes the following:</p> <ul style="list-style-type: none"> <li>a) personal integrity and professional ethics of the management and other employees of the public entity;</li> <li>b) management policies and work style;</li> <li>c) organizational structure, ensuring segregation of duties, hierarchy and clear rules, rights, responsibilities and reporting lines;</li> <li>d) the policies and practices of human resource management; and</li> <li>e) the professional skills of employees.</li> </ul> <p>Article 21 states that risk management includes the identification, assessment and control over those possible events or situations that have detrimental effect to the objectives of public unit, and is designed to give reasonable assurance that these targets will realized. The risk is measured by its effect and the degree of probability of the event. To implement the activities set out in the preceding paragraph, the Mayor is required to adopt a strategy, which is updated every three years or whenever there are significant changes to the risk environment. The Mayor is required to analyse and update the controls aimed at minimizing the risk at least once a year. To minimize the risk of fraud and irregularities, the Mayor shall record and report the measures taken to prevent fraud and irregularities. Control activities</p>
<p>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>	<p>Law 10296 on Financial Management and Control, Article 9 (<i>Managerial accountability of the authorizing officer</i>) requires that:</p> <p>“4. Authorizing officers at all levels of the public entity in the field of financial management and control have these responsibilities:</p> <ul style="list-style-type: none"> <li>g) To create the conditions for lawful management, effective and appropriate and ethical behaviour of employees of the entity”.</li> </ul> <p>Also, in Article 16, the Law on FMC established the obligation to prepare and document the audit trail, namely:</p> <ul style="list-style-type: none"> <li>“1. The Minister of Finance is responsible for the approval of the standard audit trail, related to unified procedures for all public sector units;</li> <li>2. Heads of public approve the audit trail, detailed the main procedures and ensure that all public entity operations documented in a form that enables internal auditors, external and supervisory authorities to understand the control environment;</li> <li>3. Audit trails are archived according to legal provisions in force.”</li> </ul> <p>As part of the latest external audit performed (November 2015), the HSC followed up on its recurring recommendations to the Municipality of Tirana, that it “take the necessary measures for the reorganization of the Strategic</p>

Internal control components and elements	Summary of observations
	<p>Management Group and its functioning“ in accordance with the requirements of Law no. 10296 above. HSC found that, since the Internal Rules approved by the City Council decision no. 14, dated 2 May 2012, the measures recommended “are not fully implemented” and that the Office of the Mayor was “not provided with detailed tasks for the operation of control, monitoring, reporting and audit trail”. HSC further recommended the Municipality of Tirana “to take measures to review the functioning of the Internal Rules, with the aim to improve the implementation of all the requirements arising from the implementation of Law No. 10296, in accordance with the current organizational scheme and its operation”.</p>
1.2 Commitment to competence	Internal auditing is being built to meet the highest standards of competence for the planning and programming of annual audit within the organization (PI-25.1).
1.3 The “tone at the top” (i.e. management’s philosophy and operating style)	<p>Law No. 10296 on Financial Management and Control, Article 4, establishes “managerial accountability” as one fundamental principle governing the actions of local managers which are responsible of, and the results emanating from them, to the Mayor to whom he/she delegated responsibility. Accountability covers issues related to segregation of duties, the development of financial management and control of all financial transactions, coordinating with the central harmonization as well as assessing and reporting on the financial management and control. Managerial accountability also includes responsibility for the actions committed.</p> <p>In pursuance of the above, together with Article 58 of Law No. 152/2013 On “Civil Service”, the HSC has asked the Mayor of Tirana to assess the various violations highlighted in the latest financial audit and decide on disciplinary measures for violators found. These include the Director of Office Vehicles Enterprise, Director of Enterprise I.K. Tirana, Head of INUV, the Chairman of the Tender Evaluation Board, and Procurement Unit staff, among others, for the “poor job of implementing the provisions on control of the territory and not seeking towards the placement of certain legal procedures”. Recommended actions to be undertaken by the Mayor are yet to be seen.</p>
1.4 Organizational structure	No data was provided to HSC on the organizational structure and operation of the internal audit function within the Municipality’s Strategic Management Group, according to the latest audit report.
1.5 Human resource policies and practices	<p>Law No. 10296 on Financial Management and Control, Article 20 (<i>Control environment</i>) establishes that:</p> <p>“1. The control environment’s Heads of public sector units are responsible for the establishment, the status and improving the control environment.</p> <p>2. The control environment includes:</p> <ol style="list-style-type: none"> <li>a) personal integrity and professional ethics of the management and other employees of the public entity;</li> <li>b) management policies and work style;</li> <li>c) organizational structure, ensuring segregation of duties, hierarchy and clear rules, rights, responsibilities and reporting lines;</li> <li>d) the policies and practices of human resource management; and</li> <li>e) the professional skills of employees.” </li></ol>
2. Risk assessment	Law No. 10296 on Financial Management and Control, establishes in Article 10, the risk assessment structure for every public unit, under the responsibility

Internal control components and elements	Summary of observations
	<p>of a Risk Management Coordinator. Accordingly, the Risk Coordinator is the Mayor, responsible for:</p> <ul style="list-style-type: none"> <li>a) coordinating the activities related to the identification and assessment of risks that endanger the achievement of the objectives of the units and the establishment of risk management system, in proportion to its size;</li> <li>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</li> <li>c) the presentation of a general report on public entity risks to the head of the public entity and strategic management of public entity.</li> </ul>
2.1 Risk identification	<p>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 operational and internal control objectives, the identification of risk and its management strategy (PI-8, PI-10, and PI-16).</p>
2.2 Risk assessment (significance and likelihood)	<p>Procurement controls are assessed as those with the highest risk of non-compliance and misconduct. Followed in order of risk is the Municipality's ability to collect local fees and overdue payments owed to the Municipality of Tirana, and asset registry and valuation (PI-24).</p>
2.3 Risk evaluation	N/A.
2.4 Risk appetite assessment	N/A.
2.5 Responses to risk (transfer, tolerance, treatment or termination)	<p>Partial response by the Mayor in sanctioning of misconduct and violating personnel.</p>
3. Control activities	<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.</p> <p>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"> <li>a) the procedures and delegating authority, authorizing the transfer and registration of standard and special cases;</li> <li>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;</li> <li>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 the signature of the authorizing officer and the executive officer of the unit or officials delegated by them;</li> <li>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,</li> </ul>

Internal control components and elements	Summary of observations
	<p>regular and timely to all transactions, in accordance with the instructions of the Ministry of Finance;</p> <ul style="list-style-type: none"> <li>e) procedures for reporting, monitoring and evaluation of efficiency and effectiveness of operations;</li> <li>f) monitoring procedures;</li> <li>g) rules for the management of human resources;</li> <li>h) rules for documentation of all transactions and activities related to the operation of the unit;</li> <li>i) rules to ensure the safeguarding of information and assets of the unit.</li> </ul> <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.</p>
3.1 Authorization and approval procedures	<p>Control activities are concentrated mainly within procurement, which is considered the financial management competence with the highest risk, according to HSC (PI-24). In its latest audit report to the Municipality of Tirana, the HSC found that the controls under the responsibility of the Directorate of Procurement are in line with the mission and duties and the laws in force and are implemented effectively. Furthermore, the drafting and adoption records forecasting and execution of procuring and delivering them to the Public Procurement Agency (APP), collaborating with other structures of the Municipality of Tirana to requests for procurement and estimating the fund limit, development of procurement procedures, documentation and so their inventory written and electronic form all operate well (PI-30). But HSC urges the improvement of internal controls in terms of:</p> <ul style="list-style-type: none"> <li>a) Development and approval of detailed traces of high-value procurement. Reporting the realization of procurement and delivery in APP drafting the registry implementation;</li> <li>b) Unification of form and content of the documents accompanying applications for procurement of goods, works or services;</li> <li>c) Completion of procurement files with complete documentation of the approved budget for any goods, services or works procured;</li> <li>d) Closure of electronic filing of contracts for procurement procedures completed and archiving contracts awarded continuously within one (1) business day from the closing phase of the notification on the contract.</li> </ul>
3.2 Segregation of duties (authorizing, processing, recording, reviewing)	<p>Segregation of duties is specified in Law No. 10295, including those by the Ministry of Finance, national authority responsible for the design of guidelines and manuals for financial management and control, and Mayors and other authorizing officers in public entities responsible for authorizing, processing, recording and reviewing of financial internal controls.</p>

Internal control components and elements	Summary of observations
3.3 Controls over access to resources and records	Records management is a weakness, files kept in shelves, scanning facilities, and electronic filing and data warehousing through safe and secure means and IT policies lacking within the Municipality.
3.4 Verifications	Inspection the most accepted practice in the receipt of goods and services rendered, in the project monitoring.
3.5 Reconciliations	Bank account reconciliations take place on a regular basis, not a weakness in local financial management (PI-27). Problems in reconciliation of asset valuation (PI-12,2) and expenditure arrears (PI-22) appear to be acute across the Territory.
3.6 Reviews of operating performance	<p>An internal control review was performed by the Internal Audit Unit within the Economic Development Centre and Education (PI-26), which is an institution under the Municipality of Tirana, which administers and cares for financial and economic activity of 30 nests + one in 2015 and 36 kindergartens operating since September 2013.</p> <p>Objectives:</p> <ul style="list-style-type: none"> <li>• Cooperation with the Municipality of Tirana structures for improving the infrastructure of buildings nests are aligned with contemporary standards;</li> <li>• Continuous increase of the requirements for improving the eligibility of accommodation, heating and sanitation for growth and development in order cultured children attending these facilities;</li> <li>• Continuous increase of the requirements for improving the quality of food in order to increase and healthy development of children attending nurseries and kindergartens of the capital city;</li> <li>• Increase The level of staff training to child custody, strengthening the role of psychologists and social workers in child care.</li> </ul>
3.7 Reviews of operations, processes and activities	<p>Reviews of the operation of kindergarten facilities found (PI-25) that internal controls have not been effective in processes and systems and deficiencies included the following:</p> <ol style="list-style-type: none"> <li>a) human resources management, which resulted in deficiencies in respect of Civil Code procedures for dismissal of employees; inconsistency of appointing employees with names of "position" as defined in the current structure; appointment is in position "responsible nursery" on the number of functional nests; payroll being signed by authorized personnel; they possessed a copy of payroll for net wages sent to the bank; planning and implementation of expenditure has not been effective, resulting in unused funds at the end of the budget year;</li> <li>b) public procurement lack the procedures for small purchases in 2013; register implementation of procurement is not reported every 4 months in the selection of procurement procedures, complaints on disappearances in the minutes of the evaluation of real events, no report for DST backlogs and contracts submitted by the awarded contractor are not inventoried;</li> <li>c) management and valuing of fixed assets;</li> <li>d) failure to comply with accounting rules and principles and deliver complete transactions without the documentation.</li> </ol>

Internal control components and elements	Summary of observations
	HSC found that some of the deficiencies have improved in 2015, but work remains to be done, which have been corresponding recommendations under each system and their priority.
3.8 Supervision (assigning, reviewing and approving, guidance and training)	N/A.
4. Information and communication	Audit reports by HSC and the Internal Audit Unit informed the weaknesses in the internal control framework of the Municipality of Tirana in 2014 and 2015 (PI-30).
5. Monitoring	The Mayor is responsible for setting up a system to monitor the financial management and control, in order to assess the functioning of the right 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. The internal audit function is regulated by the law on internal auditing in the public sector.
5.1 Ongoing monitoring	The Municipality's Strategic Management Group not being able to monitor the audit recommendations proposed and actions taken within the organization.
5.2 Evaluations	Evaluation of the Procurement Department of the Municipality of Tirana in the process of achieving the objectives. The object 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.
5.3 Management responses	Response by the Municipality on the audit recommendations is quite limited, not based on an action plan, not addressing properly the weaknesses identified in audit reports by HSC and the Internal Audit Unit (PI-30.4).

## Annex 3A. List of documentation consulted

Performance Indicators	Information sources Documents, websites
HLG1	<ul style="list-style-type: none"> <li>National Treasury Office at the MOF data on transfers;</li> <li>RDF data for Municipality of Tirana;</li> <li>Budget implementation instruction.</li> </ul>
PI-1	<ul style="list-style-type: none"> <li>Summary expenditure and detailed expenditure data for FY2013, FY2014 and FY2015 obtained by the municipality and MOF; Communal council decision on budget for FY 2015 for 13 consolidated communes;</li> <li>Municipality budget execution reports as submitted to Treasury for FY 2013, FY 2014, FY2015;</li> <li>Ministry of Finance, budget instruction on "Standard procedures for budget implementation", dated 06.02.2012, paragraph 100;</li> <li>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;</li> <li>Municipality Council decisions for FY2013, FY2014 and FY2015;</li> <li>Expenditure outturn reconciliation act between the TDO and the Municipality of Tirana for years 2013, 2014 and 2015;</li> <li>Draft-Law On Local Self-Government Finances (Open Discussion Draft), prepared for the Working Group for the Fiscal Decentralization Reform, 26 September 2016.</li> </ul>
PI-2	<ul style="list-style-type: none"> <li>Summary expenditure and detailed expenditure data for FY2013, FY2014 and FY2015 obtained by the municipality and MOF;</li> <li>Municipality Council decisions for FY2013, FY2014 and FY2015;</li> <li>Law 9936 "On the management of the budgetary system in the Republic of Albania" for exact definitions;</li> <li>Municipality budget execution reports as submitted to Treasury for FY 2013, FY 2014, FY2015.</li> </ul>
PI-3	<ul style="list-style-type: none"> <li>Actual revenues as reported by the Municipality of Tirana and Annual Budgets for 2013, 2014, 2015 for Tirana only;</li> <li>Law on Tax Procedures (2008);</li> <li>Law on the System of Local Taxes and Fees (2006).</li> </ul>
PI-4	<ul style="list-style-type: none"> <li>Law no.9936 dated 26.06.2008, "On the Management of the Budgetary System in the Republic of Albania" (as amended July 2016);</li> <li>Code of budget classification;</li> <li>Budget document for FY 2015 and FY 2016 of the municipality of Tirana;</li> <li>Cash flow management tables as submitted to Treasury for FY 2015, FY 2016.</li> </ul>
PI-5	<ul style="list-style-type: none"> <li>Budget documentation for FY 2016;</li> <li>"Medium Term Program Budget for the Period 2016-2018 with budget details for the Municipality of Tirana for the year 2016, approved by the Council by decision no. 58 of 30<sup>th</sup> December 2015".</li> </ul>
PI-6	<ul style="list-style-type: none"> <li>Budget execution reports and Financial Statements for FY 2015;</li> <li>Internal reports of the Treasury Branch;</li> <li>HSC Audit report.</li> </ul>
PI-8	<ul style="list-style-type: none"> <li>Law No. 139/2015 on Local Self-Governance;</li> <li>Law no 8652/2000, on Organization and Functioning of Local Governments;</li> </ul>

Performance Indicators	Information sources Documents, websites
	<ul style="list-style-type: none"> <li>Budget documentation FY2016 annual and medium-term budget, see <a href="http://www.tirana.al/wp-content/uploads/2016/04/Objektivat-e-politikes-se-cdo-programi-te-PBA-2016-2018dok-2.pdf">http://www.tirana.al/wp-content/uploads/2016/04/Objektivat-e-politikes-se-cdo-programi-te-PBA-2016-2018dok-2.pdf</a>.</li> </ul>
PI-9	<ul style="list-style-type: none"> <li>Law No. 139/2015 on Local Self-Governance.</li> </ul>
PI-10	<ul style="list-style-type: none"> <li>Grant Thornton Audit Report, for the period ending December 31, 2015, dated 17 July 2016. It concluded that, due to the importance of the matters supporting the "Basis for the rejection of opinion", the audit company has not been able to secure the necessary audit evidence to base its opinion on the consolidated financial statements comparing the years ending 31 December of 2014 and 2015 Budget execution reports for 2015.</li> </ul>
PI-11	<ul style="list-style-type: none"> <li>Budget documentation for FY 016;</li> <li>Budget execution reports FY2015;</li> <li>Public Works Department's Project Planning Unit reports for FY2015;</li> <li>Law no.9936 dated 26.06.2008, "On the Management of the Budgetary System in the Republic of Albania" (as amended June 2016).</li> </ul>
PI-12	<ul style="list-style-type: none"> <li>Instruction no 30 dated 27.12.2011 of the MoF On Asset Management at Public Sector Units;</li> <li>Instruction no 11 dated 6.5.2016 of the MoF On Asset Management at Public Sector Units;</li> <li>Instruction no. 118 dated 6.05.2016 of the MoF On disposal of financial assets and buildings;</li> <li>Financial Statement of Tirana Municipality FY2015.</li> </ul>
PI-13	<ul style="list-style-type: none"> <li>Law No. 9869, dated 04 February 2008, on the Borrowing of the Local Government;</li> <li>Law on State Debt, and State Guarantees in the Republic of Albania (2006);</li> <li>Annual Financial Statement 2015.</li> </ul>
PI-14	<ul style="list-style-type: none"> <li>Budget documentation for FY2013, 2014 and 2015;</li> <li>MOF issues annual budget instructions on the preparation of the medium term budgets to local governments in July of each year.</li> </ul>
PI-15	<ul style="list-style-type: none"> <li>Law No. 139/2015 on Local Self-Governance;</li> <li>Municipality Council decision no 50 dated 30.12. 2015.</li> </ul>
PI-16	<ul style="list-style-type: none"> <li>Budget documentation for FY2014, 2015 and 2016;</li> <li>MTB 2016-2018;</li> <li>Guidelines for preparation of the medium term budget program 2017-2019 (dated 5<sup>th</sup> August 2016);</li> <li>MOF (2012) – Standard Instruction on the Medium Term Budget Preparation; and Standard Instruction on Budget Execution.</li> </ul>
PI-17	<ul style="list-style-type: none"> <li>Law no.9936 dated 26.06.2008, "On the Management of the Budgetary System in the Republic of Albania" (as amended June 2016);</li> <li>Approval acts of the budget by the Council for FY2015, 2014 and 2013.</li> </ul>
PI-18	<ul style="list-style-type: none"> <li>Law No. 139/2015 on Local Self-Governance;</li> <li>Law No. 8652/2000, 'On Organization and Functioning of Local self-governance';</li> <li>Approval acts of the budget by the Council for FY2015,2014 and 2013;</li> <li><a href="http://www.tirana.al/keshilli-bashkiak/rregullorja-e-keshillit-bashkiak/">http://www.tirana.al/keshilli-bashkiak/rregullorja-e-keshillit-bashkiak/</a>.</li> </ul>
PI-19	<ul style="list-style-type: none"> <li>Revenue section reports on collections;</li> <li>Monthly, progressive and annual revenue reconciliation reports with Treasury;</li> <li>Reconciliation reports of GDTF with Water and Sanitation Company;</li> <li>GDTF internal manuals of procedure;</li> <li>Work plans of GDTF departments;</li> <li>Annual report of GDTF activity for 2015;</li> </ul>



Performance Indicators	Information sources Documents, websites
	<ul style="list-style-type: none"> <li>Website of the municipality of Tirana, website of GDTF;</li> <li>Invoices issued by GDTF and invoices issues by GDTF;</li> <li>Law on Tax Procedures (2008);</li> <li>Law On National Taxes (2008);</li> <li>Law on Income Tax (1998);</li> <li>Law on Value Added Tax (2014);</li> <li>Law on excise duties (2002);</li> <li>Law on the System of Local Taxes and Fees (2006);</li> <li>Due Diligence report prepared by STAR in July 2015;</li> <li>Financial Statements for FY2015;</li> <li>Decision of the Municipal Council of Tirana No. 59 dated 30.12.2015, "On the system of local taxes and fees";</li> <li>Operational manual of the GDTF; Ethics Code; annual and monthly (August 2016) work plans for tax assessment; field inspectors and supervisors; risk management;</li> <li><a href="http://www.dpttv.gov.al/DocumentFile/ankim_administrativ_tatimor_Kryetari.pdf">http://www.dpttv.gov.al/DocumentFile/ankim_administrativ_tatimor_Kryetari.pdf</a>;</li> <li><a href="http://www.dpttv.gov.al/frmHtmlText.aspx?cnId=14&amp;Page=Page">http://www.dpttv.gov.al/frmHtmlText.aspx?cnId=14&amp;Page=Page</a>;</li> <li><a href="http://www.tirana.al/publikime/vkb/">http://www.tirana.al/publikime/vkb/</a>;</li> <li><a href="http://www.tirana.al/tirana-sherbime/taksa-dhe-tarifa-vendore/">http://www.tirana.al/tirana-sherbime/taksa-dhe-tarifa-vendore/</a>.</li> </ul>
PI-20	<ul style="list-style-type: none"> <li>Treasury District Offices reports;</li> <li>Monthly, progressive and annual revenue reconciliation reports with Treasury;</li> <li>Reconciliation reports of GDTF with Water and Sanitation Company;</li> <li>GDTF internal manuals of procedure;</li> <li>Work plans of GDTF departments;</li> <li>Annual report of GDTF activity for 2015.</li> </ul>
PI-21	<ul style="list-style-type: none"> <li>Law no.9936 dated 26.06.2008, "On the Management of the Budgetary System in the Republic of Albania" (as amended June 2016);</li> <li>Treasury District Offices reports;</li> <li>Budget Directorate reports;</li> <li>Instructions 93 to 104, 132 and 255, from "Standard Procedures of Application for Budget Preparation", Ministry of Finance, dated 6 February, 2012.</li> </ul>
PI-22	<ul style="list-style-type: none"> <li>Finance Department reports for expenditure arrears FY2015 and 2014;</li> <li>Strategy for Clearance and Prevention of Arrears Accumulated by the Central Government Decision No. 50 dated February 2, 2014.</li> </ul>
PI-23	<ul style="list-style-type: none"> <li>Law No. 139/2015 on Local Self-Governance;</li> <li>Municipality Council decision dated 11.11.2015 and 23.05.2016;</li> <li>Council of Minister Decision no 165, dated 2.3.2016 Determination of the salary levels for local government employee;</li> <li>HSC audit for former Municipality of Tirana for the period January 2013 – April 2015.</li> </ul>
PI-24	<ul style="list-style-type: none"> <li>Law No. 182/2014 on amendments to the Public Procurement Law;</li> <li>Country Partnership Framework for Albania 2015-2019 WBG;</li> <li>Public Finance Management Reform 2014-2020, 2015 Monitoring Report;</li> <li>Annual Contract Registers;</li> <li>Council of Ministers Decision no. 1 dated 10.01.2007;</li> <li>2015 Baseline Measurement report of SIGMA "The principles of Public Administration"</li> <li>HSC audit for former Municipality of Tirana for the period January 2013 – April 2015;</li> <li>PPC website, Annual report 2015;</li> <li>Annual procurement plans for FY2016.</li> </ul>
PI-25	<ul style="list-style-type: none"> <li>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;</li> </ul>

Performance Indicators	Information sources Documents, websites
	<ul style="list-style-type: none"> <li>• Law no.9936 dated 26.06.2008, "On the Management of the Budgetary System in the Republic of Albania" (as amended June 2016);</li> <li>• HSC audit for former Municipality of Tirana for the period January 2013 – April 2015.</li> </ul>
PI-26	<ul style="list-style-type: none"> <li>• Law no 114 dated 22.10.2015 "On Internal Auditing on Public Sector";</li> <li>• "On the functioning of Public Internal Financial Control System (PIFC) in the general government units for the year 2015" Albania Public Finance Management Strategy 2014 – 2020, Government of Albania, 2014;</li> <li>• <a href="http://www.financa.gov.al/en/the-ministry/departments/general-regulatory-and-controlling-department/joint-reports-for-chu-fmc-and-chu-ia">http://www.financa.gov.al/en/the-ministry/departments/general-regulatory-and-controlling-department/joint-reports-for-chu-fmc-and-chu-ia</a>;</li> <li>• Albania Public Finance Management Strategy 2014 – 2020, Government of Albania, 2014.</li> </ul>
PI-27	<ul style="list-style-type: none"> <li>• Financial Statements for FY2015.</li> </ul>
PI-28	<ul style="list-style-type: none"> <li>• TDO reports for FY2015;</li> <li>• Finance Department reports for 2015.</li> </ul>
PI-29	<ul style="list-style-type: none"> <li>• Financial Statements for FY2015, 2014 and 2013;</li> <li>• Law no.9936 dated 26.06.2008, "On the Management of the Budgetary System in the Republic of Albania" (as amended June 2016);</li> <li>• Law No. 9928/2004 on Accounting and Financial Statements, dated 29 April, 2004;</li> <li>• Albania Public Finance Management Strategy 2014 – 2020, Government of Albania, 2014;</li> <li>• Instruction No. 14 dated 28 December 2006 MOF Department of Accounting;</li> <li>• Instruction 20 dated 27 December 2007, MOF Department of Accounting.</li> </ul>
PI-30	<ul style="list-style-type: none"> <li>• Law No. 139/2015 on Local Self-Governance;</li> <li>• Law No. 154/2014 on the Organization and Functioning of the High State Control, dated 27 November 2014;</li> <li>• HSC audit for former Municipality of Tirana for the period January 2013 – April 2015;</li> <li>• Baseline Measurement report, SIGMA/OECD, 2015, Principle 15.</li> </ul>
PI-31	<ul style="list-style-type: none"> <li>• Law No. 139/2015 on Local Self-Governance</li> <li>• Law no.9936 dated 26.06.2008, "On the Management of the Budgetary System in the Republic of Albania" (as amended June 2016);</li> <li>• Mayor's Order No. 8178/61 dated 07 February 2015, "Measures to be taken to implement the recommendations of the High State Control required in the Final Report of the Audit practice in the Municipality of Tirana".</li> </ul>

## Annex 3B. List of Persons Interviewed

	Name	Position	Institution
1	Erjon Luci	Deputy Minister	Ministry of Finance
2	Fran Brahimi	Director of Local Government Finance	Ministry of Finance
3	Bajram Lamaj	Head of Local Government Audit	Supreme Audit Institution
4	Reinald Muca	Head of Performance Audit Department	Supreme Audit Institution
5	Enea Hoti	Advisor to the Minister	Ministry of Local Issues
6	Erjola Muka	Director, Directorate of Local and Regional Develop	Prime Minister's Office
7	Gentian Keri	Head of Public Procurement Commission	Public Procurement Commission
8	Xhoana Ristani	Head of European Integration, Human Resources and Finance	Public Procurement Agency
9	Jonida Halili	General Director of Financial Management	Municipality of Tirane
10	Arba Isai	Head of Budget Execution Sector (Budget Department)	Municipality of Tirane
11	Loreta Shehu	Head of Budget Sector	Municipality of Tirane
12	Migen Dobruna	Head of Finance Department	Municipality of Tirane
13	Berta Piro	Head of Payment section (Finance Department)	Municipality of Tirane
14	Valentina Caushi	Head of Section of Control and Accounting (Finance Department)	Municipality of Tirane
15	Marsela Celo	Head of Section of procurement statistics	Municipality of Tirane
16	Valentina Caushi	Head of Accounting	Municipality of Tirane
17	Skender Haderaj	Revenue Department	Municipality of Tirane
18	Alketa Dalipaj	Economic Director at General Directorate of Taxes	General Directorate of Taxes and Fees, Tirane
19	Vjollca Cangu	Internal Auditor/Acting Director	Municipality of Tirane
20	Sabina Sako	Budget specialist (Budget Department)	Municipality of Tirane
21	Anjeza Callpan	Head of Urban Planning section	Municipality of Tirane
22	Evis Londo	Revenue Department	Municipality of Tirane
23	Kujtim Nanaj	Director Op Unit GDTF Tirana	General Directorate of Taxes and Fees, Tirane
24	Silvana Malaj	Director Op Unit GDTF Tirana	General Directorate of Taxes and Fees, Tirane
25	Erka Mato	Director Public Relations and Communication	Municipality of Tirane

	Name	Position	Institution
26	Enkelejd Musabelliu	General Director Economic Development	Municipality of Tirane
27	Klajd Shuka	Director of Statistics	Municipality of Tirane
28	Raif Halidini	Asset management	Municipality of Tirane
29	Manjola Metani	Finance Specialist	Economic Centre of Child Development and Education Tirana
30	Philipp Keller	Deputy Head of Mission	Embassy of Switzerland
31	Sigita Stafa	National Programme Officer for Economic Development	Embassy of Switzerland
32	Elton Stafa	Program Officer	PLGP/USAID
33	Robert Çeço	Researcher	Albanian Socio-Economic Think- Tank (ASET)

## 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.<sup>88</sup> 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
<b>Population:</b>	2.821.977 inhabitants (-8.0% compared to 2001 census) (estimated 500.000 emigrants living abroad)
<b>Total surface</b>	28,748 km <sup>2</sup> (land: 27,398 km <sup>2</sup> , water: 1,350 km <sup>2</sup> )
<b>Land boundaries:</b>	717 km border; Greece 282 km, Macedonia 151 km, Montenegro 172 km, Kosovo 112 km
<b>Coastline:</b>	362 km on Adriatic and Ionian Sea (strategic location along Strait of Otranto)
<b>Average age of inhabitants:</b>	35.3 years (from 30.6 years in 2001);
<b>Natural resources</b>	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
<b>Inflation (y-o-y, average, in %)</b>								
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
<b>Economic Growth</b>								
Real GDP growth rate (in %) <sup>1</sup>	7.5	3.3	3.7	2.5	1.4	1.1	2.0	2.7

<sup>88</sup> 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*
<b>Labour Market</b>								
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 %) <sup>3</sup>	12.7	13.7	14.2	14.3	13.8	16.4	17.9	17.4
<b>Fiscal Sector (General Government)</b>								
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
<b>External Sector</b>								
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
<b>Monetary and Financial Sector</b>								
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.

<sup>1</sup> Last update on 2015 Q3.

<sup>2</sup> Labour Force Survey Results, referring to 15-65 years old range.

<sup>3</sup> 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"> <li>• 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;</li> <li>• Law on Financial Management and Control (2010), defining management responsibilities for execution and control of budgets.</li> </ul>
Debt	<ul style="list-style-type: none"> <li>• Law on State Debt, and State Guarantees in the Republic of Albania (2006) defines the authorities and procedures for debt administration;</li> <li>• Law on local government borrowing (2008) defines local borrowing limitations as well as authorities and procedures for local debt.</li> </ul>
Tax administration	<ul style="list-style-type: none"> <li>• General laws governing tax administration: Law on Tax Procedures (2008);</li> <li>• <i>General laws for direct and indirect taxes:</i> <ul style="list-style-type: none"> <li>- Law On National Taxes (2008);</li> <li>- Law on Income Tax (1998);</li> <li>- Law on Value Added Tax (2014);</li> <li>- Law on excise duties (2002);</li> <li>- Law on the System of Local Taxes and Fees (2006).</li> </ul> </li> </ul>
Public sector entities	<ul style="list-style-type: none"> <li>• Law “On Concessions and Public Private Partnerships” (2013);</li> <li>• Law “On commercial companies” (2008);</li> <li>• Law “On State Companies” (1992) repealed – state companies should have been incorporated or dissolved within a few years from this law.</li> </ul>
Expenditure control and internal audit	<ul style="list-style-type: none"> <li>• Law on Public Procurement (2006);</li> <li>• Law on Internal Auditing in the Public Sector (2015).</li> </ul>
External Audit	<ul style="list-style-type: none"> <li>• The Constitution (1999) Articles 162-165</li> <li>• Law on the Organisation and Functioning of the High State Control (2014).</li> </ul>
Legislative oversight	<ul style="list-style-type: none"> <li>• The Constitution (1999) Articles 155-160.</li> <li>• Law on Organisation and Functioning of the Council of Ministers.</li> </ul>

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

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 functions<sup>89</sup> 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

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<sup>89</sup> 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
<b>TOTAL REVENUE</b>	<b>323.7</b>	<b>366.7</b>	<b>377.5</b>
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
<b>TOTAL EXPENDITURE</b>	<b>394.1</b>	<b>448.6</b>	<b>443.0</b>
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
<b>AGGREGATE DEFICIT</b>	<b>-70.4</b>	<b>-82.1</b>	<b>-65.5</b>
As % of GDP	-5.2	-5.9	-4.5
<b>General Government Debt as % of GDP</b>	<b>70.4</b>	<b>72.0</b>	<b>73.0</b>

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
<b>I. Current expenditures</b>	<b>38,742</b>	<b>36,703</b>	<b>37,843</b>	<b>40,594</b>	<b>44,778</b>	<b>42,688</b>
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
<b>II. Capital expenditures</b>	<b>16,564</b>	<b>13,581</b>	<b>10,825</b>	<b>13,035</b>	<b>15,473</b>	<b>16,531</b>
<b>Total Expenditures</b>	<b>55,305</b>	<b>50,284</b>	<b>48,668</b>	<b>53,629</b>	<b>60,251</b>	<b>59,218</b>

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
<b>Total Expenditures</b>	<b>55,305</b>	<b>50,284</b>	<b>48,805</b>	<b>53,629</b>	<b>60,251</b>	<b>59,218</b>
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
<b>Revenues from taxes</b>	<b>9,171</b>	<b>9,111</b>	<b>7,787</b>	<b>7,713</b>	<b>8,993</b>	<b>8,339</b>
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
<b>Revenues from fees and charges</b>	<b>3,572</b>	<b>3,558</b>	<b>4,320</b>	<b>3,972</b>	<b>4,538</b>	<b>4,661</b>
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
<b>Unconditional grant</b>	<b>10,215</b>	<b>10,110</b>	<b>10,476</b>	<b>10,942</b>	<b>12,014</b>	<b>11,252</b>
<b>Shared taxes</b>	<b>1,171</b>	<b>1,309</b>	<b>877</b>	<b>1,509</b>	<b>1,065</b>	<b>1,016</b>
<b>Conditional grant</b>	<b>25,807</b>	<b>23,412</b>	<b>22,726</b>	<b>25,178</b>	<b>28,582</b>	<b>26,356</b>
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
<b>Net Annual Local Borrowing</b>	<b>148</b>	<b>86</b>	<b>69</b>	<b>468</b>	<b>654</b>	<b>-</b>
<b>Carryovers (incl. RDF)</b>	<b>5,537</b>	<b>3,557</b>	<b>3,108</b>	<b>4,234</b>	<b>4,931</b>	<b>8,364</b>
<b>Total revenues</b>	<b>55,621</b>	<b>51,144</b>	<b>49,364</b>	<b>54,016</b>	<b>60,778</b>	<b>59,988</b>

Source: Ministry of Finance.

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

Municipality Name	No. communes absorbed	No. population <sup>90</sup>			Total Revenues <sup>91</sup> ALL million			Own source revenues <sup>4</sup> 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.

<sup>90</sup> Source: Census 2011, Institute of Statistics.

<sup>91</sup> Source: End-of year budget execution data for 2014 fiscal year, Ministry of Finance & PLGP/USAID.



## Annex 5. Organisation of Tirana Municipality

<b>MAYOR OF TIRANA</b>	
<b>TIRANA ADMINISTRATIVE HEADQUARTERS</b>	
<b>1</b>	<b>Vice-Mayors</b>
<b>2</b>	<b>Cabinet Office</b>
<b>3</b>	<b>Internal Audit Department</b>
<b>4</b>	<b>Director of Information Systems and IT</b>
<b>5</b>	<b>Director of Joint Propriety Buildings and Public Relations</b>
<b>6</b>	<b>General Directorate of Press and Public Relations</b>
6.1	Information department
6.2	Communication with Citizens department
6.3	Protocol and Foreign Relations department
<b>7</b>	<b>General Directorate of Human Resources</b>
7.1	HR Planning and Recruitment procedures department
7.2	Evaluation of the performance and relationships department
7.3	Training and Development department
7.4	Central archive and protocol department
<b>8</b>	<b>General Directorate of Legal and Licensing</b>
8.1	Legal Department
8.2	Complaints department
8.3	Immovable Property Registration department
8.4	Licensing and Civil Status department
<b>9</b>	<b>General Directorate of Financial Management</b>
9.1	Budget department
9.2	Revenue department
9.3	Finances department
<b>10</b>	<b>General Directorate of Social Services</b>
10.1	Local Policy Education and Health department
10.2	Social Protection and Inclusion department
10.3	Social housing department
10.4	Employment promotion department
<b>11</b>	<b>General Directorate of Public Works</b>
11.1	Public Works and Planning department
11.2	Investment of Public Works department
11.3	Network department
11.4	Support Services department
11.5	Civil Emergencies department
11.6	Transport Road Traffic department
11.7	Waste Cleanup department
11.8	Public Works Monitoring department
11.9	Procurement department
<b>12</b>	<b>General Directorate of Planning and Development of Territory</b>
12.1	Territorial Planning department
12.2	Control of Territory Development department

<b>MAYOR OF TIRANA</b>	
<b>TIRANA ADMINISTRATIVE HEADQUARTERS</b>	
12.3	Cadastral department
<b>13</b>	<b>General Directorate of Promotion of the City</b>
13.1	Cultural Heritage and Tourism department
13.2	Art and culture department
13.3	Youth department
13.4	Professional and Community Sports department
13.5	Policy and environmental education department
<b>14</b>	<b>General Directorate of Strategic Projects</b>
14.1	Strategic Projects department
14.2	Investment management department
14.3	Foreign investment Coordination department
<b>15</b>	<b>General Directorate of Economic Development</b>
15.1	Economic and Urban Development department
15.2	Rural economic development department
15.3	Strategic Planning department
15.4	Statistics department
15.5	JSC Monitoring department

<b>Dependent budget institutions</b>	
<b>1</b>	Consumer Protection Agency
<b>2</b>	Parks and Recreation Agency
<b>3</b>	General Directorate of Local Taxes and Fees
<b>4</b>	General Directorate Zone no 1
<b>5</b>	General Directorate Zone no 2
<b>6</b>	General Directorate Zone no 3
<b>7</b>	Directorate of Dormitories
<b>8</b>	Economic Centre of Child Development and Education Tirana
<b>9</b>	Shkoze Community Centre
<b>10</b>	Cultural Centre Tirana
<b>11</b>	Multidisciplinary Social Centre
<b>12</b>	Common House Social Centre
<b>13</b>	Social centre Stay together
<b>14</b>	Luigj Gurakuqi School
<b>15</b>	Tirana Parking
<b>16</b>	Municipality Police
<b>17</b>	Construction Inspectorate
<b>18</b>	Tirana art gallery

## Annex 6A Data and Calculations for HLG-1

Data for year = 2013						
Type of transfer	budget	actual	adjusted budget	deviation	absolute deviation	percent
Unearmarked transfers	1.585.521	1.676.794	1.751.115,2	-74.321,1	74.321,1	4,2%
Education	14.188	84.351	15.669,8	68.680,7	68.680,7	438,3%
Culture	-	-	0,0	0,0	0,0	
General public services	89.080	84.780	98.384,0	-13.603,8	13.603,8	13,8%
Local community services	-	-	0,0	0,0	0,0	
Roads and transport	-	203.251	0,0	203.251,2	203.251,2	
Social care	1.656.572	1.645.580	1.829.587,1	-184.007,0	184.007,0	10,1%
Sports	-	-	0,0	0,0	0,0	
Housing	-	-	0,0	0,0	0,0	
Water and sanitation			0,0	0,0	0,0	
<b>Total expenditure</b>	3.345.362	3.694.756	3.694.756	0,0	543.863,9	
overall variance						110,44%
composition variance						14,72%
Data for year = 2014						
Type of transfer	budget	actual	adjusted budget	deviation	absolute deviation	percent
Unearmarked transfers	2.462.822	2.291.644	2.350.573,2	-58.928,8	58.928,8	2,5%
Education	11.995	102.028	11.448,5	90.579,1	90.579,1	791,2%
Culture	-	-	0,0	0,0	0,0	
General public services	67.930	65.407	64.833,6	573,8	573,8	0,9%
Local community services	-	-	0,0	0,0	0,0	
Roads and transport	-	21.515	0,0	21.514,6	21.514,6	

Social care	2.069.821	1.921.746	1.975.484,3	-53.738,6	53.738,6	2,7%
Sports	-	-	0,0	0,0	0,0	
Housing	-	-				
Water and sanitation	-	-				
<b>Total expenditure</b>	4.612.568	4.402.340	4.402.339,5	0,0	225.334,9	
overall variance						95,4%
composition variance						5,1%
<b>Data for year = 2015</b>						
Type of transfer	<b>budget</b>	<b>actual</b>	adjusted budget	deviation	absolute deviation	percent
Unearmarked transfers	2.670.447	2.642.410	2.597.103,0	45.307,0	45.307,0	1,7%
Education	11.955	149.974	11.626,8	138.347,3	138.347,3	1189,9%
Culture	-	-	0,0	0,0	0,0	
General public services	259.083	192.612	251.967,2	-59.355,5	59.355,5	23,6%
Local community services	-	-	0,0	0,0	0,0	
Roads and transport	-	125.533	0,0	125.533,4	125.533,4	
Social care	2.313.760	1.993.203	2.250.212,8	-257.009,6	257.009,6	11,4%
Sports	-	-	0,0	0,0	0,0	
Housing	-	-				
Water and sanitation		7.177				
<b>Total expenditure</b>	5.255.246	5.110.910	5.110.909,9	-7.177,4	625.552,7	
overall variance		2.468.500				97,3%
composition variance						12,24%





## Annex 6B Data and Calculations PI-1, PI-2.1 & 2.3

Data for year = 2013						
administrative or functional head	budget	actual	adjusted budget	deviation	absolute deviation	percent
Pre-university education	1.581.115	936.867	1.141.392	-204.525	204.525	17,9%
Culture and tourism	164.195	129.372	118.531	10.841	10.841	9,1%
Youth and Sports	110.753	95.565	79.952	15.614	15.614	19,5%
General Public Services	919.405	895.618	663.710	231.908	231.908	34,9%
Roads and public transport	1.571.479	1.252.101	1.134.436	117.665	117.665	10,4%
Local Community services	2.524.607	1.892.501	1.822.490	70.011	70.011	3,8%
Social care	193.272	127.953	139.521	-11.568	11.568	8,3%
Housing and territorial planning	450.436	154.449	325.166	-170.717	170.717	52,5%
Public order & civil protection	251.116	188.884	181.278	7.606	7.606	4,2%
Economic Development and employment	191.374	71.317	138.151	-66.834	66.834	48,4%
allocated expenditure	7.957.752	5.744.627	5.744.627	0	907.287	
interests		5.000				
contingency	122.000	0				
total expenditure	8.079.752	5.749.627				
overall (PI-1) variance						71,2%
composition (PI-2) variance						15,8%
contingency share of budget						0,0%
Data for year = 2014						

administrative or functional head	<b>budget</b>	<b>actual</b>	adjusted budget	deviation	absolute deviation	percent
Pre-university education	1.507.447	1.165.841	1.086.398	79.443	79.443	7%
Culture and tourism	180.332	115.353	129.963	-14.610	14.610	11%
Youth and Sports	96.470	77.525	69.525	8.001	8.001	12%
General Public Services	992.045	912.835	714.954	197.881	197.881	28%
Roads and public transport	1.427.305	1.041.361	1.028.641	12.720	12.720	1%
Local Community services	2.534.011	2.046.651	1.826.230	220.422	220.422	12%
Social care	248.182	119.494	178.862	-59.368	59.368	33%
Housing and territorial planning	764.085	246.295	550.666	-304.371	304.371	55%
Public order & civil protection	264.681	211.623	190.752	20.871	20.871	11%
Economic Development and employment	277.214	38.796	199.784	-160.988	160.988	81%
allocated expenditure	8.291.772	5.975.774	5.975.774	0	1.078.674	
interests	40.500	0				
contingency	87.000					
total expenditure	8.419.272	5.975.774				
overall (PI-1) variance						71,0%
composition (PI-2) variance						18,1%
contingency share of budget						0,0%
<b>Data for year = 2015</b>						
administrative or functional head	<b>budget</b>	<b>actual</b>	adjusted budget	deviation	absolute deviation	percent
Pre-university education	1.771.912	1.150.852	954.182	196.670	196.670	21%
Culture and tourism	167.819	127.898	90.371	37.527	37.527	42%
Youth and Sports	103.234	59.944	55.592	4.352	4.352	8%
General Public Services	1.922.353	1.326.491	1.035.195	291.297	291.297	28%
Roads and public transport	2.013.313	1.064.350	1.084.177	-19.827	19.827	2%
Local Community services	2.763.770	2.242.870	1.488.301	754.569	754.569	51%



Social care	218.821	106.079	117.836	-11.756	11.756	10%
Housing and territorial planning	547.547	60.239	294.856	-234.618	234.618	80%
Public order & civil protection	263.410	189.085	141.847	47.237	47.237	33%
Economic Development and employment	106.661	45.051	57.437	-12.386	12.386	22%
Water and sanitation	43.600	14.990	23.479	-8.488	8.488	36%
Other (unallocated expenditure)	1.939.774		1.044.576	-1.044.576	1.044.576	1
allocated expenditure	11.862.214	6.387.849	6.387.849	0	2.663.304	
interests	20.300	117				
contingency	152.314	0				
total expenditure	12.034.829	6.387.966				
overall (PI-1) variance						53,1%
composition (PI-2) variance						41,7%
contingency share of budget						0,0%



## Annex 6C Data and Calculations for PI-2.2

Data for year = 2013						
Economic head	budget	actual	adjusted budget	deviation	absolute deviation	percent
Compensation of employees	2.133.886	1.932.230	1.518.493	413.737	413.737	27,2%
Use of goods and services	2.343.800	2.160.692	1.667.870	492.822	492.822	29,5%
Consumption of fixed capital	2.801.082	1.607.862	1.993.276	-385.414	385.414	19,3%
Interest	32700	5000	23.270	-18.270	18.270	78,5%
Subsidies			0	0	0	
Grants	445.000	12.768	316.666	-303.898	303.898	96,0%
Social benefits	203.284	31.074	144.659	-113.585	113.585	78,5%
Other expenses	120.000	0	85.393	-85.393	85.393	100,0%
<b>Total expenditure</b>	<b>8.079.752</b>	<b>5.749.627</b>	<b>5.749.627</b>	<b>0</b>	<b>1.813.119</b>	
overall variance						71,2%
composition variance						31,5%
Data for year = 2014						
Economic head	budget	actual	adjusted budget	deviation	absolute deviation	percent
Compensation of employees	2.154.747	2.062.613	1.533.338	529.274	529.274	34,5%
Use of goods and services	2.427.926	2.313.201	1.727.735	585.466	585.466	33,9%
Consumption of fixed capital	2.837.665	1.554.246	2.019.309	-465.063	465.063	23,0%
Interest	40.500	-	28.820	-28.820	28.820	100,0%
Subsidies			0	0	0	
Grants	475.000	3.191	338.014	-334.824	334.824	99,1%
Social benefits	396.434	42.523	282.106	-239.583	239.583	84,9%

Other expenses	87.000		61.910	-61.910	61.910	100,0%
<b>Total expenditure</b>	8.419.271,8	5.975.774	5.991.233	-15.459	2.244.940	
overall variance						71,0%
composition variance						37,5%
<b>Data for year = 2015</b>						
Economic head	<b>budget</b>	<b>actual</b>	adjusted budget	deviation	absolute deviation	percent
Compensation of employees	2.786.924	2.190.673	1.983.201	207.472	207.472	10,5%
Use of goods and services	3.523.067	2.583.899	2.507.047	76.851	76.851	3,1%
Consumption of fixed capital	5.104.555	1.556.693	3.632.449	-2.075.757	2.075.757	57,1%
Interest	20.804	117	14.804	-14.687	14.687	99,2%
Subsidies			0	0	0	
Grants	303.144	5.277	215.720	-210.444	210.444	97,6%
Social benefits	144.020	51.307	102.486	-51.179	51.179	49,9%
Other expenses	152314,256		108.388	-108.388	108.388	100,0%
<b>Total expenditure</b>	12.034.829	6.387.966	8.564.097	-2.176.131	2.744.778	
overall variance						53,1%
composition variance						32,0%

## Annex 6D Data and Calculations PI-3

Data for year = 2013						
Economic head	budget	actual	adjusted budget	deviation	absolute deviation	percent
Tax revenues						
Taxes on income, profit and capital gains (SBT)	1.496.500.000	843.098.519	833.876.131	9.222.388	9.222.388	1,1%
Taxes on payroll and workforce			0	0	0	
Taxes on property	598.850.000	454.888.646	333.689.757	121.198.889	121.198.889	36,3%
Property sale tax			0	0	0	
Taxes on goods and services (Vehicles)			0	0	0	
Infrastructure impact tax	1.375.000.000,0	624.719.373	766.174.193	-141.454.820	141.454.820	18,5%
Advertisement tax (billboard tax)	450.200.000,0	241.190.949	250.859.361	-9.668.412	9.668.412	3,9%
Other taxes	795.000.000	150.501.894	442.987.988	-292.486.094	292.486.094	66,0%
User charges and fees						
Solid waste fee	1.123.000.000	755.099.878	625.755.359	129.344.519	129.344.519	20,7%
Other	504.581.000	335.881.981	281.161.411	54.720.570	54.720.570	19,5%
Grants						
Grants from foreign governments			0	0	0	
Grants from international organizations	-	18.548.834	0	18.548.834	18.548.834	
Grants from other government units			0	0	0	
Other revenue						
Property income	51.100.000	95.596.968	28.473.819	67.123.149	67.123.149	235,7%
Sales of goods and services			0	0	0	
Fines, penalties and forfeits	100.000.000	99.172.737	55.721.759	43.450.978	43.450.978	78,0%
Carry over revenue from previous year			0	0	0	

Premiums, fees, and claims related to nonlife insurance and standardized guarantee schemes			0	0	0	
Sum of rest			0	0	0	
<b>Total revenue</b>	6.494.231.000	3.618.699.779	3.618.699.779	0	887.218.652	
overall variance						55,7%
composition variance						24,5%
<b>Data for year = 2014</b>						
Economic head	<b>budget</b>	<b>actual</b>	adjusted budget	deviation	absolute deviation	percent
Tax revenues						
Taxes on income, profit and capital gains (SBT)			0	0	0	
Taxes on payroll and workforce			0	0	0	
Taxes on property	1.146.397.000	756.756.097	732.014.851	24.741.246	24.741.246	3,4%
Property sale tax			0	0	0	
Taxes on goods and services (Vehicles)			0	0	0	
Infrastructure impact tax	1.700.400.000	1.004.842.547	1.085.765.274	-80.922.727	80.922.727	7,5%
Advertisement tax (billboard tax)	491.000.000	227.080.832	313.520.789	-86.439.957	86.439.957	27,6%
Other taxes	242.150.000	104.843.267	154.621.302	-49.778.035	49.778.035	32,2%
User charges and fees						
Solid waste fee	1.250.000.000	809.739.138	798.169.015	11.570.124	11.570.124	1,4%
Other	630.083.000	476.167.042	402.330.182	73.836.860	73.836.860	18,4%
Grants						
Grants from foreign governments	0	0	0	0	0	
Grants from international organizations	0	0	0	0	0	
Grants from other government units			0	0	0	
Other revenue						
Property income	54.000.000	84.145.385	34.480.901	49.664.484	49.664.484	144,0%
Sales of goods and services			0	0	0	

Fines, penalties and forfeits	103.500.000	123.416.400	66.088.394	57.328.006	57.328.006	86,7%
Carry over revenue from previous year			0	0	0	
Premiums, fees, and claims related to nonlife insurance and standardized guarantee schemes			0	0	0	
Sum of rest			0	0	0	
<b>Total revenue</b>	<b>5.617.530.000</b>	<b>3.586.990.708</b>	<b>3.586.990.708</b>	<b>0</b>	<b>434.281.437</b>	
overall variance						63,9%
composition variance						12,1%
<b>Data for year = 2015</b>						
Economic head	<b>budget</b>	<b>actual</b>	adjusted budget	deviation	absolute deviation	percent
Tax revenues						
Taxes on income, profit and capital gains (SBT)			0	0	0	
Taxes on payroll and workforce			0	0	0	
Taxes on property	1.255.707.824	812.156.476	599.048.331	213.108.145	213.108.145	35,6%
Property sale tax			0	0	0	
Taxes on goods and services (Vehicles)			0	0	0	
Infrastructure impact tax	1.750.750.000	128.325.090	835.213.292	-706.888.202	706.888.202	84,6%
Advertisement tax (billboard tax)	517.465.226	225.377.938	246.862.108	-21.484.170	21.484.170	8,7%
Other taxes	267.838.500	117.017.837,00	127.775.111	-10.757.274	10.757.274	8,4%
Social contributions						
Solid waste fee	1.295.265.910	831.665.045	617.919.923	213.745.122	213.745.122	34,6%
Other	742.667.020	446.195.224	354.296.939	91.898.284	91.898.284	25,9%
Grants						

Grants from foreign governments			0	0	0	
Grants from international organizations			0	0	0	
Grants from other government units			0	0	0	
Other revenue						
Property income	73.721.398	166.534.894	35.169.551	131.365.343	131.365.343	373,5%
Sales of goods and services			0	0	0	
Fines, penalties and forfeits	131.410.000	151.703.243	62.690.492	89.012.751	89.012.751	142,0%
Carry over revenue from previous year			0	0	0	
Premiums, fees, and claims related to nonlife insurance and standardized guarantee schemes			0	0	0	
Sum of rest			0	0	0	
<b>Total revenue</b>	<b>6.034.825.878</b>	<b>2.878.975.747</b>	<b>2.878.975.747</b>	<b>0</b>	<b>1.478.259.291</b>	
overall variance						47,7%
composition variance						51,3%



## Annex 7. Disclosure of quality assurance arrangements

Composition of the Oversight team	
Ministry of Finance	Fran Brahimi (co-chair)
Ministry of Local Issues	Enea Hoti
High State Control	Bajram Lamaj
Tirana Municipality	Jonida Halili
SECO/Swiss Embassy	Philipp Keller (co-chair)
USAID/PLGP	Kevin McLaughlin (co-chair)
World Bank	Hilda Shijaku
EU Delegation	Edina Halapi
UNDP	Vladimir Malkaj
SDC/DLDP	Elda Bagaviki / Valbona Karakaçi

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

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

Review of Draft Report		
Draft report v1 distributed 28 <sup>th</sup> November, 2016		
Reviewer	Comments received	Date of ECORYS response
Tirana Municipality	16 <sup>th</sup> January 2017	27 <sup>th</sup> January 2017
WB	15 <sup>th</sup> December 2016	27 <sup>th</sup> January 2017
SECO	29 <sup>th</sup> December 2016	27 <sup>th</sup> January 2017
PLGP	20 <sup>th</sup> January 2017	27 <sup>th</sup> January 2017
PEFA Secretariat	15 <sup>th</sup> December 2016	27 <sup>th</sup> January 2017
Final Draft Report issued 27 <sup>th</sup> January 2017		
PEFA Secretariat	2 <sup>nd</sup> March	20 <sup>th</sup> March 2017
Final Report issued 20 <sup>th</sup> March 2017		



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