



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

Final Report

Client: SECO

Rotterdam, 20 March 2017

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Rotterdam, 20 March 2017



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

PEFA Secretariat,
November 30, 2017

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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 Economic Director, the Head of the Finance Department and the many other officials of Tropoja 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 |
| APP | Public Procurement Agency |
| CA | Contracting authority |
| CEDFB | Committee for Economic Development, Finance and Budget |
| 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 |
| KFW | Kreditanstalt für Wiederaufbau – German Government Development Bank |
| 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 Tropoja 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 Tirana. 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 Tropoja Municipality following the 2015 merger of Bajram Curri Municipality with seven former communes as part of the Territorial Administrative Reform (TAR), but covers for a number of issues the period back to FY2013 inclusive (i.e. the performance of the former Bajram Curri Municipality) where this is required by PEFA methodology. In such cases, scoring of PEFA indicators is done only when information across the years enable firm assessment of performance i.e. is not the result of disruption during the amalgamation. The institutional coverage of the assessment is the central municipal administration, the eleven dependent budget institutions and to a limited extent the one public corporation (water supply company) owned by the Municipality as well as national level institutions forming part of the municipal finance management system. There are no extra-budgetary units and no lower level of government.

Main findings of the assessment

The main findings of the assessment are focused on whether the Municipality has got appropriate systems in place to assist it in achieving the three main fiscal/budgetary outcomes (aggregate fiscal discipline, strategic allocation of resources and efficiency in use of resources for service delivery) as well as the integrity of the fiscal data on the basis of which many of the findings rely. The main findings are summarized below. An overview 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 on page 10.

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.

Aggregate Fiscal Discipline

Overall fiscal discipline is not a primary concern, although a few 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.

The Municipality's discretionary revenue is relatively secure with about 85% received in terms of unconditional transfers from the state budget; most of it block grants transferred with a high degree of predictability of both amounts and in-year timing but not set within a multi-year framework which would enable the municipality to plan their use effectively.

While own revenue collection only contributes some 15% to budgetary revenue, it constitutes an important element in the social contract between citizens and the elected Mayor and Council, and is a vehicle for creating fiscal space for improved service delivery. Until 2015 this revenue collection was seriously underperforming. Preliminary data for 2016 suggests that significant improvements are taking place.

In-year budget reallocations are not well documented. As expenditure commitment controls are not entirely effective, 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 reallocations. While the level of existing, recognized expenditure arrears is high, effective systems of monitoring developments in expenditure arrears are missing and pose a risk to fiscal discipline.

Funding from the state budget through earmarked grants outside the Municipality's originally approved budget – corresponding to more than the Municipality's discretionary budget resources – 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.

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

Due to lack of adequate data it has not been possible to assess the reliability of the Municipality's budget in terms of compositional variance from the originally approved spending allocations.

The in-year allocation of earmarked grants constitutes a major factor in undermining the role of the original, approved budget as a plan for the Municipality's annual activities. Parts of those transfers are quite predictable as they do not fluctuate much from year to year, 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.

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 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.

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

The strategic planning issue mentioned above 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 function reasonably well as does the payment processing 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. Also, the build-up of expenditure arrears, and lack of plans for settlement of the existing stock, may lead vendors to increase prices offered to the Municipality in order to compensate for anticipated late payment.

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

Integrity of Financial Data

Major concerns regarding the quality of financial data were identified by external audit in 2014 and are likely to have multiplied with the transformation into the much larger new Municipality, particular as concerns the inventory of assets (including their ownership, usage and valuation) and liabilities (expenditure arrears). Risks to data integrity stem from poor record keeping, lack of audit trails and use of multiple stand-alone computer systems to generate financial records, 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 basic records of receipts and payments.

Ongoing and planned PFM reform program

While the general responsibility for national PFM reform formulation and implementation oversight rests with Ministry of Finance, the PFM strategy involves the entire government sector i.e. also the municipalities.

Implementation of TAR has caused a disruption of the PFM reform agenda for the Municipality of Tropoja which has had to make major changes to organizational structure and accommodation of the administration. The Municipality has nevertheless moved forward on the reforms. An internal audit unit is being established and a strategic development plan for the new Municipality is in the making to serve as an anchor for sector service plans, investment project selection and medium-term expenditure priorities. There are also ongoing efforts to improve budget formulation and documentation.

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

1 Introduction

1.1 Rationale and purpose

The current report presents the PEFA assessment of the Municipality of Tropoja, 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 Tirana. 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, (Tropoja: Muse Nikoci/ from December 2016 Rexhep Ismajlisufaj);
 - 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 Tropoja assessment:** Irene Frei, SECO
- **Assessment Team for Tropoja:** International PFM consultant Frans Ronsholt (team leader) and local PFM consultant Elona Gjika.

Review of Concept Note for all five municipalities:

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

Review of the Assessment Report for Tropoja:

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

USAID/ PLGP and SECO are the lead agencies responsible for the procurement of the assessment teams and supervision of the work of the assessors.

All five assessments follow the quality control procedures required for obtaining PEFA CHECK. Details of the process are given in Annex 7.

1.3 Assessment methodology

This is the first set of PEFA assessments carried out in 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.

Tropoja was included in the sample as representing a small, remote and mainly rural municipality with low average income and some donor supported activities.

The assessment is based on the 2016 PEFA Framework Upgrade and covers the central administration of the municipality (nine service units), the seven local administrative units (former communes) and four other dependent /budgetary institutions. There are no extra-budgetary institutions. The municipality controls only one public corporation (Water Supply Company), which is included in the assessment only as regards the municipality's monitoring of the corporation. 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 FY2014, and FY2015 represents a hybrid year of transition. Therefore, an assessment of the municipalities' performance in 2016 cannot be undertaken with complete adherence to the PEFA 2016 Framework.

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

In the case of Tropoja Municipality, the impact of TAR on the overall level of financial operations is highly significant, as 7 communes with combined revenue of 268% of the pre-TAR municipal revenue was 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, only where there are specific reasons to believe that such a data set reflects properly the performance of the relevant PFM system as they continue after the amalgamation.

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

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 2000¹ the decentralization process devolved more administrative and fiscal authority to the first tier local government. Starting from 2015, local government structure underwent a series of structural and institutional reforms. These reforms began at end 2013 with a sweeping reorganization of local first tier I governments in the territory by reducing their number from 373 to only 61.² Since June 2015, the 61 municipalities of Albania have assumed the responsibilities and challenges of managing local public matters. A new organic law on local government was adopted in December 2015, establishing the organization and functioning of local governments, including the divisions of powers and responsibilities between the central and local governments.³

Table 2.1 Overview of subnational government structure in Albania

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

The 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.⁴

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

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

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

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

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

2.2 Municipal economic situation

Tropoja is a predominantly rural municipality in Albania, with a population 28,216 inhabitants (2014) with average density of population at 20 inhabitants/km². By far the largest share of the population lives in rural communities (75%). Population in the municipal territory has been on a declining trend for the past decade, mainly due to migration to larger urban centres.

The mainstay of the economy in Municipality of Tropoja is agriculture and livestock. Recently, mountain tourism has been significantly developed due to the scenic beauty, particularly of the Valbona Valley. Mining is another sector with a great development potential. According to the latest data (2015) the largest number of active businesses belongs to trade, car repair, and domestic products trade (52 % of total number of registered businesses) as well as hostelry and restaurants (19 %) while fewer registered businesses operate in agriculture (5%)⁶.

Tropoja has the lowest level of Gross Domestic Product (GDP) per capita in the country and the economic activity in its territory accounts for just 2.1% of total national GDP⁷. Tropoja is among the most underdeveloped areas in Albania and it 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.

Tropoja Municipality belongs to Kukës Region. As a result of this Territorial and Administrative Reform (TAR), the population of the Municipality almost quadrupled as the territory of 7 former communes was absorbed by the former Bajram Curri Municipality (ref. Annex 4, table A4-8). At the same time, the Municipality changed its name from 'Bajram Curri' to 'Tropoja' Municipality (Tropoja being the name of one of the former communes).

2.3 Fiscal and budgetary trends

Table 2-2 presents aggregate information on the Municipality's fiscal operations for the last three years. The data represents the pre-TAR municipality of Bajram Curri for the years 2013 and 2014, whereas 2015 data covers the amalgamated new Tropoja municipality including the 7 former communes. Prior to the amalgamation, these communes had total revenue corresponding to 2.7 times the revenue of the pre-TAR municipality of Bajram Curri, but own revenue collections of only one third of the level of Bajram Curri Municipality.

The main source of revenue for the Municipality's budget is unconditional grants (accounting for 80% of total discretionary budget revenue in 2015); whereas are own tax and non-tax collections

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

⁶ Tropoja Functional Area, April 2015 prepared by Albanian National Training and Technical Assistance Resource Center.

⁷ Tropoja Functional Area, April 2015 prepared by Albanian National Training and Technical Assistance Resource Center.

contributed just 15% in 2015. The remaining 5% of unconditional revenue was received as shared taxes collected by central government and transferred to the Municipality⁸.

Own revenue collections have decreased during recent 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, which has now improved dramatically (first 8 months of 2016, ref. table 3-9).

Table 2.2 Municipality of Tropoja/Bajram Curri Actual Revenue and Expenditure

| (ALL '000) | B. Curri 2013 | B. Curri 2014 | Tropoja 2015 |
|--|----------------|----------------|----------------|
| TOTAL REVENUE | 247,903 | 142,549 | 342,214 |
| Total revenue and grants (unconditional) | 61,390 | 55,574 | 120,852 |
| - Own revenue | 26,684 | 19,191 | 17,601 |
| -Shared tax | 1,715 | 3,062 | 8,591 |
| -Unconditional Grants | 32,991 | 33,321 | 94,660 |
| -Other (donations) | 0 | 0 | 0 |
| Earmarked grants | 186,513 | 86,975 | 221,362 |
| Delegated functions | 89,271 | 86,975 | 185,596 |
| RDF grants | 97,242 | 0 | 35,766 |
| TOTAL EXPENDITURE | 272,745 | 78,916 | 329,110 |
| Staff compensation | 35,537 | 17,845 | 62,562 |
| Non staff recurrent expenditure | 19,460 | 9,786 | 26,875 |
| Subsidies to individuals | 86,547 | 43,913 | 181,756 |
| Capital expenditure | 131,201 | 5,823 | 57,907 |
| Interest | 0 | 0 | 0 |
| Omissions, errors and carry-overs | -24,842 | 63,633 | 13,104 |

Sources: Data extracted from tables 3-1, 3-2 and 3-3.

The unconditional transfers from the state budget for delegated functions (such as business registry and civil registry; poverty and disability cash benefits, maintenance expenditures for pre-university school dormitories) have remained at steady levels over the years, except for the large increase as a result of TAR. 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. However, the amounts fluctuate substantial from year to year.

⁸ The calculation is based on "unconditional" sources of revenue, hence it excludes revenues from earmarked grants from the state budget or other donors, given that those are not incorporated in the original approved budget as discussed in PI-3.

2.4 Legal and regulatory arrangements for PFM

The legal and regulatory framework for PFM which is relevant to Tropoja Municipality is common to all municipalities and 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.

Tropoja's Municipal Council comprises 21 members, which are elected every 4 years – last time in connection with TAR in June 2015. It has 7 committees.

The organizational structure of Tropoja Municipality is presented in Annex 5. The Municipality is headed by the Mayor, and there are 3 deputy mayors, with related secretariat. In addition, the municipal administration has 3 general directorates and 4 special offices/services reporting directly to the Mayor. In addition, there are 11 dependent, budgetary institutions, of which 7 are geographical administrative units corresponding to the seven former communes. Total staffing is about 165 of which about 56 belong to the central administration whereas the remaining are working in dependent budget institutions. There are no extra-budgetary units.

Tropoja Municipality has equity shares in only one public enterprise, namely the Water Supply Company which is 100% owned by the municipality⁹. The size of the Company's financial operations could not be obtained, as no financial reports had been issued recently.

^{9 9} In connection with the TAR, the shares of the Water Supply Company will be dissolved and the company transferred to the Municipality of Tropoja. 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.

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 Tropoja receives five types of grants from the national government:

- Unconditional block grants;
- A share of certain taxes, determined, administered and collected by the national government (Small Business Tax, vehicle registration, property transaction tax and mineral rent tax¹⁰) – 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, however, present the expenditure from all sources of financing.

Estimates for earmarked grants for recurrent expenditures linked with delegated functions 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 at the end of the year.

HLG-1.1 Outturn of transfers from higher level government

The overall outturn on transfers from the State Budget has been higher than planned in both 2013 and 2015, whereas they were lower than estimates by 10% in 2014 (ref. table 3-1).

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 known to the Municipality until a month into the fiscal year.

¹⁰ A shared tax on mineral extraction, quarries, etc..

Table 3.1 Estimates against outturns for transfers from the State Budget to Municipality of Tropoja/B. Curri

| ALL '000 | 2013 | | 2014 | | 2015 | |
|--------------------------------|----------------|----------------|----------------|----------------|----------------|----------------|
| | Estimate | Outturn | Estimate | Outturn | Estimate | Outturn |
| Unconditional transfers | | | | | | |
| Unconditional block grant | 32,991 | 32,991 | 33,321 | 33,321 | 94,660 | 94,660 |
| Simplified Profit Tax | 0 | 0 | 7,500 | 1,852 | 7,500 | 8,111 |
| Property transfer tax | | | | | | |
| Vehicle registration tax | 1,530 | 1,715 | 2,100 | 1,210 | 1,400 | 480 |
| Total unconditional | 34,521 | 34,706 | 42,921 | 36,383 | 103,560 | 103,251 |
| Outturn - unconditional | | 100.5% | | 84.8% | | 99.7% |
| Earmarked transfers | | | | | | |
| Education | | | | | | |
| General public services | 3,408 | 3,117 | 3,081 | 3,081 | 6,617 | 5,785 |
| Road Infrastructure (RDF) | 0 | 97,242 | 0 | 0 | 0 | 35,766 |
| Social care | 86,301 | 86,154 | 90,857 | 83,894 | 183,266 | 179,811 |
| Water and sanitation (RDF) | | | | | | |
| Total earmarked | 89,709 | 186,513 | 93,938 | 86,975 | 189,883 | 221,362 |
| Total | 124,229 | 221,219 | 136,859 | 151,460 | 293,443 | 354,401 |
| Outturn – all transfers | | 178.1% | | 90.1% | | 110.6% |
| Composition variance | | 87.9% | | 3.7% | | 22.0% |

Note: Data are for the pre-TAR municipality Bajram Curri for 2013 and 2014, whereas 2015 figures represent the amalgamated Tropoja municipality.

Source: National Treasury; RDF data from Municipality of Tropoja as confirmed from TDO Tropoja.

HLG-1.2 Earmarked grants outturn

Unconditional transfers are far more predictable than earmarked transfers.

The unconditional block grant has been equal to the original estimate during each of the last three years (Table 3-1). 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 2015, while the opposite is the case for 2014. For the last two years' the Vehicle Registration tax has significantly underperformed.

Earmarked transfers for social care (cash benefits for recipients of social assistance and disability benefits) account for a considerable part of total transfers from the State Budget to the municipality and have also remained quite predictable.

Significant differences between estimates and outturn have occurred in the road infrastructure programme. These are linked with the earmarked capital grants from the RDF. 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. In 2014 the municipality of Tropoja did not receive any RDF grants, hence the small variation in transfer outturn in that year. In 2013 and 2015 Tropoja received several RDF grants in the road infrastructure programme. The impact of this type of grants in FY2013 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 MOF on budget implementation. MOF shares their cash management plan with details on periodic

limits for all general government entities to all regional treasury offices. Nevertheless it is difficult to obtain accurate information on the actual times of disbursement over the past three years.

Unconditional transfers are allocated to municipalities on a quarterly basis, with some front-loading (approximately 30%) in the first quarter of the year. The first quarter allocation is made in full; whereas the following quarter allocations are divided evenly each month. The limits are not set in stone; local governments may advance a request to MOF 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.¹¹ The first tranche has been 30% of the unconditional transfer in the three years under consideration¹² and constitutes less than 10% of the total transfers in 2013, 2014 and in 2015.

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.

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

No changes were reported in the timeliness and schedule during the TAR transition in FY2015. The transfers were delivered to the municipalities and communes according to the usual schedule as from the beginning of that year. Following the amalgamation the net balances on the accounts of the communes were transferred to the account of the new municipality. This was a horizontal transfer, not one from the national government.

| PI | Dimension | Score | Justification for score |
|--------------|--|-----------|---|
| HLG-1 | Transfers from a higher level of government | D+ | Scoring Method M1. |
| HLG-1.1 | Outturn of transfers from higher level government | A | Aggregate transfers from the national government were higher than 95% of the original estimates in both 2013 and 2015, but they were lower in 2014. 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 88% in 2013 and 22% in 2015, and just below 4% in 2014. As for HLG-1.1 these outturns are considered a proper reflection of the predictability of transfers. |

¹¹ Interview with Head of Finance and Budget, Municipality of Tropoja. It was not possible to obtain reliable data on the exact time of disbursement of the tranches from the Ministry of Finance/Treasury.

¹² Budget implementation instruction; interview with Fran Brahimi and Mariel Froku, Ministry of Finance.

| PI | Dimension | Score | Justification for score |
|---------|--|-------|---|
| 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 RDF and aligning its operations with the public financial management systems in the country. This is expected to imply anchoring of the RDF to one budgetary institution (a line ministry or national agency); including it in the medium term budget programme. Discussions are going on with regard to the possibility to complete the competition and evaluation process for municipal projects in advance of the new budget year, in order to improve predictability of municipal resources. The law on regional development is expected to be adopted within 2016.

PI-1 Aggregate expenditure outturn

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

The budget for Tropoja Municipality (and former Bajram Curri Municipality) is initially prepared and approved on the basis of estimates of own revenue and the information from national government on unconditional transfers to the municipality (block grants and shared taxes). Subsequently, the Council is notified of cash balances carried over from the previous year, earmarked grants for shared and delegated functions (particularly in the area of social protection) and finally earmarked investment grants from the RDF. Allocation of RDF grants may take place more than once during a year. While these amendments are taken note of by the Council, a complete updated budget is usually¹³ not produced for the Council's approval (or for the public). However, budget execution reports include all expenditure i.e. also the expenditures financed from the state budget in the form of earmarked grants. Since the earmarked grants (including RDF) typically have been very significant, major deviations emerge between the original approved budget and the actual expenditure outturn.

In Tropoja, it has not been possible to obtain presentations of expenditure in a format that allows confident comparison of the original approved budget to the actual expenditure outturn for the last three completed fiscal years i.e. FY2013, FY2014 and FY2015¹⁴:

- For FY2013, the original approved budget for Bajram Curri Municipality (approved by the Council on 30th January 2013) was obtained with breakdown by program, but no comparable budget execution information could be obtained;
- For FY2014, the original approved budget for Bajram Curri Municipality (approved by the Council on 28th February 2014) was obtained with breakdown by program, and a corresponding budget execution report was also obtained, but it is incomplete;
- For FY2015, a budget execution report was obtained for the amalgamated municipality of Tropoja, but the corresponding original budgets for Bajram Municipality and the seven

¹³ FY2015 was an exception in that a revised budget including all sources of revenue was prepared and approved (in August 2015) by the Council following the amalgamation of Bajram Curri municipality with the seven communes.

¹⁴ A report to the Council for retroactive approval of budget execution for 2012, 2013 and 2014 shows that overall actual expenditure in the pre-TAR municipality of Bajram Curri was on a steeply declining trend from ALL 370 million in 2012, to 286 million in 2014 and 109 million in 2015.

communes could not be obtained. The budget execution reports shows the planned/budgeted amounts but they represent the amalgamated and revised budget of August 2015 as approved by the newly elected council and not an addition of the original budget estimates.

The resulting deviations are shown in the table 3-2 below. Overall, the data available does not allow outturn ratios for 2013, 2014 and 2015 to be calculated.

| PI | Dimension | Score | Justification for score |
|------|-------------------------------|-------|---|
| PI-1 | Aggregate expenditure outturn | D* | Data available for 2013, 2014 and 2015 does not enable calculation of outturn ratios. |

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

The data used for this indicator is described under PI-1 and the calculations presented in table 3-2 below. Overall, the original approved budget is not a good reflection of the municipality's financial scope of operations, strategic allocation of resources and nature of expenditure for the budget year.

2.1 Expenditure composition outturn by function

The outturn variance in composition by program is high. Even in FY2015 where the variance calculation is based on the amalgamated August budget¹⁵, it comes to 14% for the last 5 months of the year. For 2013 and 2014 the information obtained is too incomplete to attempt any estimate of compositional variance.

Table 3.2 Expenditure outturns by Program Classification, Tropoja/B. Curri Municipality

| (in ALL '000) | 2013 | | 2014 | | 2015 | |
|-------------------------------|----------|-----------------|----------|---------|----------|---------|
| | Estimate | Outturn | Estimate | Outturn | Estimate | Outturn |
| Admin, management, monitoring | 10,468 | 27,592. | 25,168 | 21,497 | 73,732 | 43,731 |
| Public services | 23,604 | 28,479 | 31,406 | 23,306 | 24,466 | 24,450 |
| Culture | 3120 | 4721 | 5,791 | 5,230 | 7,144 | 6,734 |
| Sports Clubs | 870 | Incl in culture | 1,448 | 828 | 933 | 904 |
| Gjendje civile | | | 0 | 3,438 | 5,128 | 4,679 |

¹⁵ In which the first 7 months of the year represent actuals and all earmarked grants are included.

| | | | | | | |
|--------------------------------------|--------------------------|----------------|--------------------------|---------------|----------------|----------------|
| QKR - National Registration Centre | 0 | 1,419 | 0 | 1,489 | 1,489 | 1,106 |
| Infrastructure investment | 0 | 48,918 | | | 39,183 | 36,607 |
| Civic services | | | | | 461 | 461 |
| Pre-kindergartens | 2,700 | n.a. | 3,088 | 2,903 | 3,198 | 2,726 |
| Civil emergencies | | | | | 3,660 | 3,660 |
| Social assistance | 0 | 89,267 | | | 183,266 | 179,811 |
| Pre-university education | 950 | 41,455 | 7,134 | 5,711 | 13,857 | 13,445 |
| Elections | | | | | 2,294 | 2,294 |
| Water supply investment | | | | | 1,495 | 1,495 |
| Council | 1400 | Incl in admin | 1,646 | 1,604 | 3,206 | 3,188 |
| Water supply in communes | | | | | 3,390 | 3,346 |
| Not specified | | 845 | | 12,910 | | |
| Allocated primary expenditure | | | 75,683 | 78,916 | 366,902 | 328,637 |
| interests | | | 0 | 0 | 0 | 0 |
| contingency/reserve/emergency | | | 693 | 0 | 508 | 473 |
| Total expenditure | 43,112 | 272,745 | 76,376 | 78,916 | 367,410 | 329,110 |
| Outturn – total expenditure | Incompatible data | | Insufficient data | | 89.6% | |
| Composition variance | Incompatible data | | Insufficient data | | 13.8% | |

Note: Data are for the pre-TAR municipality of Bajram Curri for 2013 and 2014, whereas 2015 figures represent the amalgamated Tropoja municipality including the 7 former communes. Sources: As for table 3-3, except for breakdown of actuals for 2013, which is based on PLGP data extracted from the National Treasury.

2.2 Expenditure composition outturn by economic type

There is a huge outturn variance in composition by economic type (ref. table 3-3) which is largely extent by the social protection expenditure (subsidies to individuals) and investments (RDF) financed from the state budget by means of earmarked grants, as such expenditure is not budgeted for in the original approved budget. For this reason, the variance calculations only serve to show that the original budget approved by the Municipal Council has little relation to the actual financial operations of the Municipality as presented in the end-year execution reports.

Table 3.3 Expenditure outturns by Economic Classification for Municipality of Tropoja/B. Curri

| | 2013 | | 2014 | | 2015 | |
|-----------------------------------|----------|---------|----------|---------|----------------------|---------|
| | Estimate | Outturn | Estimate | Outturn | Amalgamated Estimate | Outturn |
| Salaries code 600 | 22,053 | 30,856 | 31,434 | 15,304 | 54,808 | 54,061 |
| Social contributions code 601 | 3,594 | 4,681 | 5,382 | 2,541 | 8,660 | 8,501 |
| Operational expenses code 602 | 4,521 | 16,460 | 19,440 | 9,244 | 24,299 | 23,225 |
| Other grants code 604 | - | - | - | - | 3,660 | 3,660 |
| Subsidies to individuals code 606 | - | 86,547 | - | 43,913 | 185,241 | 181,756 |
| Project studies code 230 | - | 3,000 | 542 | 542 | | |
| Capital Investment code 231 | 12,944 | 131,201 | 17,439 | 5,823 | 90,736 | 57,907 |
| Other expenses | | | 1,446 | 1,549 | 5 | - |

| | | | | | | |
|------------------------------------|--------------------------|----------------|--------------------------|----------------------------|----------------|----------------|
| Total expenditure | 43,112 | 272,745 | 75,683 | 78,916¹⁶ | 367,409 | 329,110 |
| Composition variance by Econ Class | Incompatible data | | Insufficient data | | 14.2% | |

Note: Data are for the pre-TAR municipality of Bajram Curri for 2013 and 2014, whereas 2015 figures represent the amalgamated Tropoja municipality including the 7 former communes.

Sources: 2013 budget – as approved by Mayor 20 Feb 2013; 2014 budget – as submitted to Council; 2013 and 2014 actuals – budget execution report for 2012, 2013 and 2014 (unknown status) including earmarked transfers; 2015 data – budget execution report for 2015 as prepared by Municipality and approved by the Prefect – covering amalgamated budget adopted by the Municipal Council in August 2015.

2.3 Expenditure from contingency reserves

The decision on the approval of the local budget includes three budget line items that are unallocated: the reserve fund and the contingency fund; which essentially almost identically in nature, as well as the “emergency fund” which is used to cover unexpected expenditure needs in case of natural or human disasters. For the purpose of calculating the amount of expenditure actually charged to the contingency vote, only the reserve and contingency funds are considered as “contingency vote”. Actual expenditure charged to the contingency and reserve budget lines is minimal. In general, when funds from contingency or reserve budget lines are being used they are first reallocated to the appropriate program and the actual payments recorded there.

| PI | Dimension | Score | Justification for score |
|-------------|--|-----------|---|
| PI-2 | Expenditure composition outturn | D+ | Scoring Method M1. |
| 2.1 | Expenditure composition outturn by function | D* | No scoring is applied; as outturn results for the three years are not comparable and the data incomplete. |
| 2.2 | Expenditure composition outturn by economic type | D* | No scoring is applied; as outturn results for the three years are not comparable and the data incomplete. |
| 2.3 | Expenditure from contingency reserves | A | Actual expenditure charged to the contingency/reserve budget lines is close to zero in all three years i.e. far below an average of 3% of the original approved budget total. |

Ongoing reforms

Some issues addressed by draft law on local government finance, ref. PI-1.

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. 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.

¹⁶ Figures provided by PLGP as extracted from the National Treasury suggest a total of 151,047. It was not possible to reconcile the economic or functional breakdown of that total with the budget execution report supplied by the Municipality.

Budget estimates data on own revenue was obtained for FY2013, FY2014 and FY2015 for the pre-TAR municipality of Bajram Curri. Reporting on actual revenue collection for the year is provided in a separate report from the Revenue Department which is comparable to the budget estimates. This report covers only own revenue including the Municipality's share of nationally collected taxes such as vehicle registration tax, small business profit tax and mineral extraction license. Grants from central government and donors are not included. The annual revenue collection reports for FY2013 and FY2014 were obtained in this format, but could not be obtained for FY2015. Instead, a report on actual revenue collection was received in a Treasury Branch format which is not readily comparable to the estimates.

The original budget estimates for the former communes were not available for any year, whereas actual outturn data is available for each commune in aggregate for each year. For FY2015 total own revenue collection amounted to ALL 41.1 million for the new municipality of Tropoja, of which 26.2 million from the former municipality and 14.9 million from the seven former communes. On the basis of available data outturn, performance can only be calculated for the former municipality of Bajram Curri and is presented in table 3-4 below.

3.1 Aggregate revenue outturn

Aggregate revenue outturn for the pre-TAR municipality of Bajram Curri was close to the original budget estimates in FY2013 only. The deviation was very substantial in FY2014 and diminished somewhat in FY2015. Budget estimates for the communes, and thus the amalgamated municipality of Tropoja, for FY2015 were not provided.

3.2 Revenue composition outturn

Compositional variance in revenue outturn for the pre-TAR municipality of Bajram Curri was very high in both FY2013 and FY2014. This points to very significant weaknesses in revenue forecasting and/or in collection systems. Reliable data for FY2015 could not be obtained and points to weaknesses in reporting. Budget estimates for the communes, and thus the amalgamated municipality of Tropoja, for FY2015 were not provided.

Table 3.4 Municipality of B.Curri/Tropoja - Budgeted versus Actual Own Revenue Collections

| (ALL '000) | 2013 Budget | 2013 Actual | 2014 Budget | 2014 Actual | 2015 Budget | 2015 Actual |
|---------------------------|----------------|----------------|----------------|----------------|----------------|----------------|
| Taxes | | | | | | |
| Small Business Tax | 8,530 | 4,668 | 0 | 0 | 0 | 0 |
| Taxes on property | 1,750 | 1,422 | 3,200 | 2,702 | 3,250 | |
| Infrastructure impact tax | 2,800 | 8,318 | 8,000 | 1,933 | 2,500 | 854 |
| Hotel tax | 400 | 245 | 500 | 85 | 300 | |
| Tariffs | | | | | | |
| Solid waste fee | 5,070 | 3,749 | 5,500 | 5,796 | 6,015 | 4,380 |
| Parking fee | 250 | 275 | 500 | 354 | 500 | - |
| Lighting fee | 950 | 758 | 900 | 1,107 | 900 | |
| Environmental fee | 950 | 748 | 900 | 1,096 | 900 | 2,512 |
| Network maintenance fee | 1,110 | 748 | 1,100 | 1,262 | 1,200 | |
| Advertisement fee | 1,050 | 926 | 1,000 | 857 | 900 | |
| Foreign grants | | | | | | |
| from foreign governments | 0 | 0 | 0 | 0 | 0 | 0 |

| | | | | | | |
|-------------------------------------|---------------|---------------|---------------|---------------|--------------------------|---------------|
| from international organizations | 0 | 0 | 0 | 0 | 0 | 0 |
| Other revenue | | | | | | |
| Property income (rent) | 800 | 1,289 | 1,000 | 763 | 1,000 | 1,492 |
| Sales of goods and services | 1,000 | 1,327 | 1,500 | 1,282 | 1,500 | 3,798 |
| Certificates/document copy | 400 | 545 | 600 | 356 | 600 | |
| Licenses and authorizations | 650 | 246 | 750 | 512 | 650 | |
| Sum of rest | 760 | 1420 | 950 | 1,086 | 885 | 4,565 |
| Total Own Revenue Collection | 26,470 | 26,684 | 26,400 | 19,191 | 21,100 | 17,601 |
| Aggregate Outturn | 100.8% | | 72.7% | | 83.4% | |
| Compositional variance | 56.3% | | 43.1% | | Insufficient data | |

Source: Municipality of Tropoja, Revenue Section reports and Annual Budgets for 2013, 2014, 2015 for Bajram Curri only.

| PI | Dimension | Score | Justification for score |
|-------------|-----------------------------|----------|---|
| PI-3 | Revenue outturn | D | Scoring Method M2. |
| 3.1 | Aggregate revenue outturn | D* | None of the data for the three fiscal years represents the new municipality. Without complete data for 2015 this dimension cannot be rated. |
| 3.2 | Revenue composition outturn | D | Data for the three fiscal years do not represent the new municipality, and data for FY2015 is incomplete. However, an assessment for the pre-TAR municipality only would clearly lead to a D score, irrespective of the findings for FY2015, as two years are well above 15%. |

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”.¹⁷

3.2 Transparency of public finances

PI-4 Budget classification

This indicator assesses the extent to which the government budget and accounts classification is consistent with international standards. There is one dimension for this indicator - dimension 4.1 budget classification.

It covers budgetary municipal government and is assessed on the last completed fiscal year – 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:

¹⁷ This is not really elaborated further however, no sure that it can be referred to as reform.

According to Law 9936 of 2008, the budgetary classification system shall include at least:

- a. an administrative classification which represents a classification of the general government units up to a spending unit level;
- b. an economic classification which represents the classification based on the nature of economic transaction;
- c. a functional classification which represents a detailed classification according to the functions or socio-economic objectives that the general government units aim to achieve;
- d. a program based classification which represents programs, subprograms and projects according to the objectives of the general government units;
- e. a classification by source of financing.

The classification system and its codes are the same for central and local government and issued by MOF.

Tropoja Municipality operates a budget classification system based on programs, administrative classification and economic classification. The chart of accounts is based on the same three classifications and uses the national accounts coding system. However, the classification system used for the budget is not consistently applied. The budget presentation is primarily based on programs, but aggregate budget amounts for the 10 programs include a program called investment (an economic class) which after Council approval is reallocated to the respective other programs under which the investment is planned to take place. The budget presents the programs by name – without classification code. The budget execution report (for FY2015) uses 16 program headings and shows some program investments as separate programs (despite having the same program code) but not in all cases. It was not possible to obtain a full list. The situation is further complicated by the fact that the annual budget is approved in several stages, ref. PI-17. A full list of program names with corresponding account codes could not be obtained. It reportedly does not exist.

| PI | Dimension | Score | Justification for score |
|------|-----------------------|-------|---|
| PI-4 | Budget classification | D | Budget formulation, execution and reporting use a combination of program, administrative and economic classification, but the program classification appears in different versions in different documents that cannot easily be reconciled or bridged to GFS sub-functional classification. |

Ongoing reforms

DLDP is assisting the Municipality with preparation of a complete MTB 2017-2019 and budget for FY2017 which is likely to address the budget classification system. The assessment team was shown an example of a FY2016 budget for another municipality which had been produced with DLDP support.

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.

Annual budget documentation refers to the executive's budget proposals for the coming fiscal year with supporting documents, as submitted to the Council for scrutiny and approval. The set of documents provided by the executive should allow a complete picture of the municipal

government's fiscal forecasts, budget proposals, and outturn of the current and previous fiscal years.

The assessment of performance on this indicator is based on the contents of Tropoja municipality's budget document for FY2016¹⁸.

Table 3.5 Content of Tropoja Municipality's Budget Documentation for FY2016

| Full description of PEFA 2016 requirements | Requirement fulfilled? (Yes/No) | Information included in 2016 budget |
|---|------------------------------------|---|
| BASIC ELEMENTS | | |
| 1. Forecast of the fiscal deficit or surplus or accrual operating result. | No | The proposed budget is balanced on cash basis, which can be deducted, but is not clearly presented. |
| 2. Previous year's budget outturn , presented in the same format as the budget proposal. | No | Some information on grants and part of own revenue for 2014 included in analysis but not in same format as the budget proposal. |
| 3. Current fiscal year's budget presented in the same format as the budget proposal. This can be either the revised budget or the estimated outturn. | No | Some information on grants and part of own revenue for 2015 included in analysis but not in same format as the budget proposal. |
| 4. Aggregated budget data for both revenue and expenditure according to the main heads of the classifications used, including data for the current and previous year with a detailed breakdown of revenue and expenditure estimates. | No | Aggregated budget data for revenue and expenditure (program classification) for 2016 is shown. No data for 2015 and 2014 shown for comparison. Details of expenditure shown in attached tables for recurrent and investment respectively, but no details on revenue beyond two main headings (unconditional grant and own revenue). |
| ADDITIONAL ELEMENTS | | |
| 5. Deficit financing , describing its anticipated composition. | NA | Tropoja has no loans and does not plan to take any in 2016. |
| 6. Macroeconomic assumptions , including at least estimates of GDP growth, inflation, interest rates, and the exchange rate. | NA | No estimates of economic growth, inflation and interest rates are shown. Such information is covered by the national budget instructions issued by MOF. Though an estimate of local growth would be useful. |
| 7. Debt stock , including details at least for the beginning of the current fiscal year presented in accordance with GFS or other comparable standard. | NA | Tropoja has no loans on its books. |
| 8. Financial assets , including details at least for the beginning of the current fiscal year presented in accordance with GFS or other comparable standard. | No | No information included. |

¹⁸ Source: "Budget for Municipality of Tropoja, Year 2016" and related Council Decision No. 49 of 23.12.2015 approving the budget.

| Full description of PEFA 2016 requirements | Requirement fulfilled? (Yes/No) | Information included in 2016 budget |
|--|------------------------------------|--|
| 9. Summary information of fiscal risks, including contingent liabilities such as guarantees, and contingent obligations embedded in structure financing instruments such as public-private partnership (PPP) contracts, and so on. | No | No information included. In particular, the stock of expenditure arrears and the financial situation of the Water Supply Company are not shown. |
| 10. Explanation of budget implications of new policy initiatives and major new public investments, with estimates of the budgetary impact of all major revenue policy changes and/or major changes to expenditure programs. | No | Comparison of actual own tax collection 2015 (10 months) with proposed 2016 budget is presented in narrative of the budget proposal. Detailed breakdown of expenditure budget presented by program, administrative unit and type, but no detailed revenue breakdown. |
| 11. Documentation on the medium-term fiscal forecasts. In this element, the content of the documentation on the medium term forecast should include as a minimum medium term projections of expenditure, revenue, and fiscal balance. | No | No MTB has been prepared to date. |
| 12. Quantification of tax expenditures. In this element, tax expenditure refer to revenue foregone due to preferential tax treatments such as exemptions, deductions, credits, tax breaks, etc. | No | Tax expenditures are limited to tax exemptions for vulnerable families or individuals. However, no estimate of the value is shown in budget documentation. |

| PI | Dimension | Score | Justification for score |
|------|----------------------|-------|--|
| PI-5 | Budget documentation | D | None of the requirements for the four basic elements are fulfilled. And none of the requirements for the relevant additional elements are fulfilled. |

Ongoing reforms

No ongoing reforms have been identified.

PI-6 Government operations outside financial reports

This indicator measures the extent to which government revenue and expenditure are reported outside the government's core financial reports. It covers then entire municipal government sector and the last completed fiscal 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 Tropoja, five potential sources of extra-budgetary operations were identified¹⁹, namely:

¹⁹ Through meetings with HSC, General Directorate of Economic Development, Budget Department and Revenue Department.

- 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 – in each of the last three years by far exceeding the size of the Municipality’s entire budgetary operations (ref. table 2-1) – but are fully reported in the in-year and end-year budget execution reports and financial statements.

Semi-autonomous institutions - Municipality of Tropoja is responsible for the operation of a range of service delivery units such as schools, kindergartens etc. Users pay nominal user fees e.g. parents pay for the food provided to their children in such institutions. These payments are made directly to the municipal cashier at the Municipality of Tropoja administrative building and are lodged in the Treasury District Office (TDO) account. No payments are made directly to the service delivery institutions. These payments are provided for in the budget estimates and reported in budget execution reports.

Quasi-fiscal operations municipal owned public enterprises – The Municipality owns only one public enterprise, the Water Supply Company, which reportedly is operating with substantial losses. As the Company operates under pricing determined by the state regulator (ref. PI-10.1) these losses potentially represent a quasi-fiscal expenditure. The magnitude of such costs is uncertain, however, due to lack of recent financial reporting on the Company’s operations.

Donations and sponsored projects provide revenue to the municipality in kind only. The assessors identified several projects financed by grants from SDC through DLDP and benefiting Municipality of Tropoja. No records were identified at the Municipality of Tropoja administration that could disclose the nature and value of these grants²⁰.

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

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 Tropoja Municipal territory, there was no evidence to suggest that such extra-budgetary funds had been collected under Tropoja 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. Project donations in kind (from DLDP) and quasi-fiscal operations (Water Supply Company losses) are likely extra-budgetary operations which are not included in the Municipality’s key fiscal reports. The value of those operations is not

²⁰ Information from DLDP is pending.

known. However, such expenditure is not considered for the rating of the indicator (covered in PI-10) and no other unreported expenditure could be identified.

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. Revenue outside financial reports refers only to project donations in kind. The value of the donations is not known. However, such revenue is not considered for the rating of the indicator and no other unreported expenditure could be identified.

6.3 Financial reports of extra-budgetary units

No extra-budgetary units were identified under Tropoja Municipality.

| PI | Dimension | Score | Justification for score |
|-------------|--|----------|---|
| PI-6 | Government operations outside financial reports | A | Scoring Method M2. |
| 6.1 | Expenditure outside financial reports | A | No expenditure was identified which was unreported in the municipality's budget execution and annual financial reports. |
| 6.2 | Revenue outside financial reports | A | No revenue was identified which was unreported 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 Tropoja 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 |
|-------------|---|-----------|--|
| PI-7 | Transfers to subnational governments | NA | Scoring Method M2. |
| 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 Law No. 139/2015 on Local Self-Governance²¹, effective from 1st January 2016, the Municipality is responsible of providing information on service programs and develop and implement "an indicator system to measure (service) performance. It also requires that a special unit within Municipalities is created for presenting, overseeing and monitoring the performance of public services in compliance with the regional and national policies. The preceding legislation also required that the Municipality reported on service delivery levels but was less specific on how this would be done²².

8.1. Performance plans for public service delivery

The general objectives and activities of public services and other programs are described as part of the budget documentation but without following the same program budget classification as the budget estimates. Only very few elements of the statements include quantitative output targets. This is part of the budget documentation published on the municipality's bulletin board.

A quantitative framework, in which the policy objectives and targets are specified, does not exist²³. Hence, there is presently no information that is published annually on key performance indicators, outputs to be produced, and the outcomes planned for major departments or public service programs.

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 in a systematic way. At present, there is no information that is published annually on the quantity of outputs produced and outcomes achieved for the major programs or service delivery departments and units.

8.3. Resources received by public service delivery units

Information on resources received by major frontline service delivery units or departments - such as pre-school and pre-university education, rural road maintenance, solid waste collection and

²¹ 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*).

²² Law No. 8652/2000 Article 44 ç) says that the Mayor "reports to the Council on the service levels achieved every six months and more often if required by the Local Council".

²³ Ref. Buxheti I Bashkise Tropoje Viti 2016, Declaration of Program Policies.

disposal - has not been collected, recorded and reported during the past three fiscal years; neither through an annual survey, regular supervision or audit. The chart of accounts does not include a code for service delivery unit and can only record expenditure by program and administrative department.

8.4. Performance evaluation for service delivery

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

| PI | Dimension | Score | Justification for score |
|-------------|---|----------|--|
| PI-8 | Performance information for service delivery | D | Scoring Method M2. |
| 8.1 | Performance plans for service delivery | D | Information is available annually on program policies and activities to be performed by the majority of the programs, but is of very general nature without quantitative indicators of outputs or outcomes and could not be related to budget allocations. It is also not clear to what extent the information is published. |
| 8.2 | Performance achieved for service delivery | D | Information is not published on the activities performed for the majority of public service programs and departments. |
| 8.3 | Resources received by service delivery units | D | No information has been collected systematically about resources received by service delivery units during the last three (or any one) fiscal year. |
| 8.4 | Performance evaluation for service delivery | D | Evaluations of the efficiency or effectiveness of public service delivery have been carried out for any of the programs or departments during the last three years. |

Ongoing reforms

Some work is ongoing on strategic planning (e.g. strategic investment plan with support from DLDP, and a tourism development strategy), but is in their early stages. It is likely that outcome and output targets will emerge from those strategies and become incorporated in the budget proposals for FY2018 and MTB 2018-2020.

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 legislation²⁴ requires that:

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

²⁴ 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.

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”.

Tropoja Municipality does not have a website. It publishes information for the public on its bulletin board and on its Facebook page²⁵. Fiscal information usually stays on the bulletin board for about 3 weeks before it is taken down to make space for other notices. The exception is notices on tax rates, fees and other charges which stay on for most of the year unless replaced by a new notice. It was reported²⁶ that nothing had been posted for some time prior to the PEFA mission due to the ongoing rehabilitation of the municipal office complex. In fact, the bulletin board appeared to have been taken down altogether during the reconstruction. The Mayor holds open meetings with citizens every Tuesday, but it was not clear if any financial information was ever being presented at those meetings or in what format. The Director of the Cabinet has been assigned responsibility for information to the public.

The following table shows a summary of key fiscal documents to which the local citizens have access.

Table 3.6 Public Access to Key Fiscal Documents on Municipality of Tropoja

| Element | Fulfilled? (Yes/No) | Reference / Means of publication |
|--|------------------------|---|
| Basic elements: | | |
| 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. | No | The budget proposal was reportedly published on the municipality’s bulletin board before the meeting of the Council which reviewed and approved the budget. However, this could not be evidenced. |
| 2. Enacted budget. The annual budget law approved by the Council is publicized within two weeks of passage of the law. | No | For the 2016 budget, the Council decision was reportedly published on the bulletin board within two weeks of approval but this could not be evidenced. |
| 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 | Not published. |
| 4. Annual budget execution report for 2015. The report is made available to the public within six months of the fiscal year’s end. | No | The annual financial report is not disclosed to the public. |
| 5. Audited annual financial report, incorporating or accompanied by the external auditor’s report. The reports | NA | Annual financial statements are not audited, ref. PI-30. |

²⁵ No fiscal information was found there.

²⁶ Meeting with Director of the Mayor’s Cabinet – responsible for information to the public.

| Element | Fulfilled? (Yes/No) | Reference / Means of publication |
|--|------------------------|--|
| are made available to the public within twelve months of the fiscal year's end. | | |
| Additional elements: | | |
| 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 | No pre-budget statement is prepared. |
| 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 report on legality and financial regularity for the period 01.01.2012 to 30.06.2014 and activity measures to improve the situation for the Municipality of Bajram Curri is made available by the High State Control on its website within twelve months of end of fiscal year, re. http://www.klsh.org.al/ . |
| 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 citizen budget is not prepared. |
| 9. Information on fees, charges, and taxes that belong to the subnational government. The information is publicly available and up to date. | Yes | Information was reportedly posted on the bulletin board until the board was taken down as part of office building rehabilitation. |

| PI | Dimension | Score | Justification for score |
|------|-------------------------------------|-------|--|
| PI-9 | Public access to fiscal information | D | Two out of five basic documents on the Municipality's budget are reportedly made available to the public but timeliness could not be established. Two additional documents (revenue rates and audit report) are available to the public. |

Ongoing reforms

The Municipality is in the process of creating its own website.

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

Municipality of Tropoja owns only one public corporation, which is the Water Supply of Tropoja. The Company is established as joint-stock company on 28.08. 2001. The Municipality of Tropoja has not recognized its equity participation on its financial statements. In the absence of this it is difficult to assess the level of fiscal risk and the adequacy of risk mitigation measures. Each joint-stock company is required to issue an annual report with financial statements. The Water Supply Company failed to prepare its annual report for 2015 and have it audited by an external certified auditor.

A new Board of Directors with three members (one General Director and two representatives from the Municipality) is in place starting from 27.01.2016. No financial reports for the year 2015 have been presented to the Board.

The water sector in general is poorly monitored and deeply inefficient. In this sector, prices are set by the Regulatory Entity of the Water Supply and Sewage Treatment (ERRU). The regulator's aim is to set tariffs high enough to cover running costs but not investment needs. It denies tariff increases to companies that do not show improvement in their financial performance. Currently, the Water Supply of Tropoja is loss-making and did not manage to cover its operational and maintenance costs during 2015. In addition, the Company has collected during 2015 only 75% of its billed revenues, thus further deteriorating its financial position. The Company has expenditure arrears concerning both payment of social contributions deducted from staff salaries and unpaid bills to the electricity company.

The team was advised that Municipality of Tropoja in February 2016 signed an investment agreement with the Albanian Development Fund who is acting as the implementing agency of KFW funds for installing water meters in the city of Bajram Curri. Once the installation of the meters has been finalized the assets will be transferred to the Water Supply Company. The total value of the investments is about Lek 30 million and the Municipality of Tropoja has contributed an amount corresponding to 10% of the value of investment.

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

No potential contingent liabilities have been identified beyond those concerning the Water Company, ref. 10.3 above. There is no record in the financial reports of the Municipality of Tropoja of any guarantees issued or any financial implications of ongoing litigation and court cases. .

| PI | Dimension | Score | Justification for score |
|--------------|---|----------|--|
| PI-10 | Fiscal risk reporting | D | Scoring Method M2. |
| 10.1 | Monitoring of municipal corporations | D | The Municipal government has not officially received any financial reports from the Water Supply Company for 2015. |
| 10.2 | Monitoring of lower levels of government | NA | Not applicable, as there is no level of government below the municipality. |
| 10.3 | Contingent liabilities and other fiscal risks | NA | No contingent liabilities are identified.. |

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

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 Urban Planning Department, Procurement commission (held on ad-hoc basis) and Support Services Unit. It was noted that there is no public investment management manual with guidelines integrated across the overall project cycle and across the various functional and administrative units involved.

11.1. Economic analysis of investment projects

For large projects a full cost-benefit analysis is generally required, although the threshold varies by sector. The team was advised that the Municipality has not conducted any cost-benefit analyses for assessing the economic feasibility of proposed investment projects. In the case of donor-funded projects, this task is often performed by external consultants hired by the project. During 2015, such donors-funded projects constituted more than 25% of total investments. Whenever they do take place, cost-benefit analysis and project appraisals are generally not published.

11.2. Investment project selection

Prior to their inclusion in the budget, all investment projects identified within the spending limit authorized by the executive council are prioritized by the Urban Planning Department in cooperation with the Finance Department. The selection criteria used are not clear and vary considerably: some applying very basic criteria due to severe limitation of available funds, so a main project selection criterion is whether the project responds to an emergency situation. Certain non-published criteria are also set internally for project selection—such as projects with the lowest cost, or those most voted projects by citizens. Documentation on those guidelines, however, has not been formalized and it is uncertain whether the prioritization is set on the basis of national and/or regional development priorities.

11.3. Investment project costing

Though Article 29 of the OBL stipulates that the budget shall present detailed data on capital projects (including: the full value of the contract, the amount already spent on the project up to the budget year, budget year allocation, estimates for the two outer years and the sources of financing) this information is not provided in the budget documentation of the Municipality. The current legislation does not require the government entities inclusion of all costs associated with an investment under a unique project code. Therefore, the Municipality records under a separate budget line all the costs associated with the investments, such as supervisory costs, design and so on. Maintenance and operating costs are not of the projects are not estimated and reported in budget documents

11.4. Investment project monitoring

While budget institutions are required to report to MOF on all projects regardless of the sources of financing, the reporting does not include projects financed by local government. Monitoring of capital expenditure and physical progress of major investment projects is done during project implementation by the Urban Planning Department. It is done ad hoc during the year and not using any standard procedures. Issues that may arise are discussed with the Mayor. In addition, the list of the ongoing project investments were included in the Budget documents of 2016 and an analysis of investment progress for the first half of 2016 has been presented to the Council.

| PI | Dimension | Score | Justification for score |
|--------------|--|-----------|--|
| PI-11 | Public investment management | D+ | Scoring Method M2. |
| 11.1 | Economic analysis of investment projects | C | Economic analyses are conducted to assess some major investment projects funded by donors. |
| 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 Urban Planning Department. However, the selection is not done on the basis of standard or clearly defined criteria. |
| 11.3 | Investment project costing | D | Projections of the total capital cost of major investment projects, together with the capital costs for the forthcoming budget year, are not included in the budget documents. Operation and maintenance costs are not estimated and reported. |
| 11.4 | Investment project monitoring | C | The physical progress and capital costs of major investment projects is monitored and reported to the Council on annual basis. |

Ongoing reforms

Please refer to PI-8, Ongoing reforms.

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

The financial reports as prepared by the Finance Department do not provide the necessary information for exercising the financial asset monitoring function. The Finance Department failed to present its equity participation and receivables related to taxes (ref. PI-19.4) in the financial statements for the year ended in 2015 and 2014. As noted in 10.1, the equity holdings relates to the Water Supply Company of Tropoja which is 100% owned by the Municipality. Furthermore, the Water Supply Company did not have its financial statements for the year 2015 audited; hence no presentation of its financial situation to the Supervisory Board was made. The same applies to the receivables. The team has not seen any reporting on the taxes collected during 2015, outstanding receivables at year-end and their ageing.

12.2. Non-financial asset monitoring

The MOF's Instruction on Asset Management at Public Sector Units²⁷ requires that all budget institutions establish a system for proper management of assets, including: clearly assigning responsibilities within the institution for assets management, establishing and regularly updating a register of assets, documenting all purchases, sales or disposition of assets, and undertaking a complete physical inventory on the assets at least once a year. The register of assets should contain information on: name of assets, purchase value, subsequent capital investment that increased asset value, accumulated depreciation and accumulated maintenance costs.

Following amalgamation with communes under TAR, the finance department at the Municipality has prepared a consolidated fixed asset register. A report on the main groups of assets is presented to the local council as part of the annual financial statements (Formati 6).

The fixed assets which originate from the former Municipality and communes are kept at historical cost. Depreciation is calculated on a group basis and not for every single asset. A stocktaking of fixed assets as at 31 December 2015 has been carried out and will serve as a basis for the preparation of a fixed assets registers to be used for the preparation of the financial statements for the year ending 31 December 2016. However, the assessment team understands that for major part of the assets inherited by the communes no data exist about the date of purchase of assets, hence the re-calculation of accumulated depreciation for every single asset could not be done. Consequently, the net value of fixed assets could not be properly estimated. Finally, the value of assets, such as buildings which are recorded at historical value, is not estimated correctly because the historical value is very different from their fair value. The stocktaking identified assets which are damaged or which did not exist. A commission is appointed by the Mayor to decide on the amounts the fixed assets value.

²⁷ Instruction no 30 dated 27.12.2011 and no 11 dated 6.5.2016.

12.3. Transparency of asset disposal

Instruction on disposal of financial assets and buildings²⁸ were issued by MOF during 2016, which introduces a methodology for accounting for old, damaged and non-existing assets. As mentioned above (dimension 12.2), after the amalgamation, the Municipality has been working to have a complete and accurate list of fixed assets. The items to be disposed are approved by the Mayor and the local council and information on asset transfers and disposals are presented and reported to the local council with the annual financial statements of the Municipality as per formats approved by MOF (Formati no, 6 – Movements of assets during the year). However, the information presented with the financial statements of the assets disposed is limited to their net book value only. No information about the procedures followed for assets disposal is presented as well. Finally, in the budget documents there is lack of information on the assets planned to be disposed.

| PI | Dimension | Score | Justification for score |
|--------------|--------------------------------|-----------|--|
| PI-12 | Public asset management | D+ | Scoring Method M2. |
| 12.1 | Financial asset monitoring | D | The municipality does not maintain a record of its holdings and receivables in major financial asset categories. |
| 12.2 | Non-financial asset monitoring | C | Fixed asset register exists but is operating sub-optimally, with only partial information collected so far on their usage, age, location, and net value. |
| 12.3 | Transparency of asset disposal | D | Partial information is included in annual financial reports and submitted to the local council, which is not disclosed to the public. In addition, no information about the assets planned to be disposed of is presented in the budget documents. |

Ongoing reforms:

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.

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.

²⁸ A new instruction No. 118 was added on 6 May 2016 to the existing Financial Instructions No. 30 of 27 December 2011.

13.1. Recording and reporting of debt and guarantees

Municipality of Tropoja has contracted no loans and issued no debt guarantees in recent years, and has neither formal debt nor guarantees on its books.

13.2. Approval of debt guarantees

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

13.3 Debt management strategy

Dimension not applicable to local government. Function undertaken and loan issue controlled by MOF.

| PI | Dimension | Score | Justification for score |
|--------------|---|----------|---|
| PI-13 | Debt management | B | Scoring Method M2. |
| 13.1 | Recording and reporting and debt and guarantees | NA | The Municipality and the former communes have no formal debt or guarantees to manage. |
| 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

None identified.

3.4 Policy-based fiscal strategy and budgeting

PI-14 Macroeconomic and fiscal forecasting

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

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

14.2 Fiscal forecasts

Despite the MOF instructions to prepare and annually update an MTB, the municipality has not prepared multi-year forecasts for any fiscal parameters for preparation of any of the last three years' budgets i.e. FY2014, FY2015 and FY2016. Forecasts of revenue, expenditure and budget balance are done for the coming budget year only.

| PI | Dimension | Score | Justification for score |
|--------------|---|-----------------|--|
| PI-14 | Macroeconomic and fiscal forecasting | D | Scoring Method M2. |
| 14.1 | Macroeconomic forecasts | NA | Macroeconomic forecasting is not applicable to municipalities. |
| 14.2 | Fiscal forecasts | D ²⁹ | The municipality has not prepared multi-year forecasts for any fiscal parameters. Forecasts of revenue, expenditure and budget balance are done for the coming budget year only. |
| 14.3 | Macrofiscal sensitivity analysis | NA | Not applicable to municipalities. |

Ongoing reforms

During 2016, Municipality of Tropoja has initiated work on a MTB 2017-2019 including three year forecasts of revenue, expenditure and budget balance, but no document was available to suggest that this work has been completed, except for a three-year investment program.

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

Until the preparation of the FY2017 budget, Municipality of Tropoja has prepared budget estimates; no multi-year estimates have been made. There is very little attempt to estimate the fiscal impact of policy changes. For revenue, the Council decides the tax and fees rates for local revenue within the rate band provided in legislation. The decisions are made on the basis of recommendations from the municipal administration, but no estimate or analysis is made of the revenue implications of choosing one rate compared to another one. The tariffs are generally set to cover the expenses incurred by the municipality for the respective services. Decisions on tax, fee and tariff rates are made at the same time as the annual budget approval and already taken into account in the budget estimates.

An attempt to estimate the expenditure implications of different policies was noted in relation to maintenance of rural roads- a service transferred from regional to municipal responsibility from 1st January 2016. A main determinant for maintenance costs and service output relates to the length of road to be managed by each worker. The public services department's road maintenance unit had estimated the cost of varying the number of km per worker in order to apply for additional funding from the state budget. However, this appears to be an exceptional case.

²⁹ 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.

15.2 Fiscal strategy adoption

Municipality of Tropoja does not have an explicit fiscal strategy. Municipalities must operate a balanced annual budget³⁰. However, municipalities can take loans for the purpose of financing specific investment projects (with the approval of MOF)³¹. Whilst the budget is indeed balanced and the municipality has not taken any loans, there is no statement as to whether this approach is supposed to continue or alternatively if loans will be sought to finance investments in the future.

As the municipal administration prepares only one-year estimates of revenue and expenditure, there is no indication of expected trends or targets in own revenue collection or in development of expenditure by program and/or nature of expense (salaries, investment, operating costs).

15.3 Reporting on fiscal outcomes

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

| PI | Dimension | Score | Justification for score |
|--------------|---|----------|---|
| PI-15 | Macroeconomic and fiscal forecasting | D | Scoring Method M2. |
| 15.1 | Fiscal impact of policy proposals | D | Estimates of the impact of revenue and expenditure policy changes have taken place but are exceptional and have not been done on a multi-year basis during the last three fiscal years. |
| 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

A strategic investment plan is being prepared with assistance from DLDP and expected to be complete in early 2017. Such a strategic plan may provide some important ingredients of a fiscal strategy from FY2018 onwards.

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

Tropoja municipality has not prepared medium term expenditure budgets for FY2016 or for any of the preceding years FY2015, FY2014 or FY2013.

³⁰ Law on Local Self-Governance 2015, Article 34.6 and corresponding Article 12 of Law 9936 of 2008.

³¹ Law on Local Self-Governance 2015, article 39 and corresponding provision in the preceding Law 8652 of 2000.

16.2 Medium-term expenditure ceilings

As no medium-term expenditure budget exercise has been undertaken in the past, no ceilings have been prepared. This is changing for the MTB 2017-2019 period ref. ongoing reforms below.

16.3 Alignment of strategic plans and medium-term budgets

There is neither an overall strategic plan for the development of Tropoja, nor any medium term strategic sector plans. See ongoing reforms below, however, for work in progress.

16.4 Consistency of budgets with previous year's estimates

As no medium-term expenditure budget has been prepared in any of the past four years, this dimension cannot be assessed.

| PI | Dimension | Score | Justification for score |
|--------------|---|----------|---|
| PI-16 | Medium-term perspective in expenditure budgeting | D | Scoring Method M2. |
| 16.1 | Medium-term expenditure estimates | D | Three year estimates of expenditure are not being prepared. |
| 16.2 | Medium-term expenditure ceilings | D | No expenditure ceilings have been prepared. |
| 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 | As no medium-term expenditure budget has been undertaken in any of the past four years, this dimension is not relevant. |

Ongoing reforms

With the assistance of DLDP, Municipality of Tropoja is in the process of preparing a strategic investment plan. The plan is expected to be complete by the beginning of 2017.

Preparation of an MTB for 2017-2019 has been initiated. For public investments, a three year investment program for 2017-2019 has been agreed between the Urban Development Department and the Finance Department within the budget ceilings determined by the Finance Department. Selection of priority projects to receive funding was determined through discussions and the agreed list submitted on 27 August 2016.

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 3-7 below.

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

| Period | Action |
|-------------|---|
| February | MOF shall Issue to all authorizing officers (including at LGUs) a budget preparation instruction which includes: <ol style="list-style-type: none"> unconditional transfers for local government units; regulations for sharing or delegating functions between central government units and local government units; and methods of calculating unconditional and conditional transfers for local government units. |
| July 10 | MOF shall Issue medium-term budget programme (approved by Council of Minister) to be accompanied by an annex which includes: <ol style="list-style-type: none"> the means of calculating and the amount of unconditional transfers to local government units; the amount and purpose of conditional transfers which the state budget provides for local government units; and means of calculating shared national taxes in the next three budget years. |
| September 1 | LGUs shall submit revised medium term budget programme requests and additional requests with respective arguments to the MOF. |
| November 4 | MOF shall inform each LGU of the transfers from central government and the share and amount of the shared national tax in the draft budget. |
| November 30 | The mayor/chairman of the LGU shall submit to the respective council the draft budget for the following budget year. |
| December 31 | LGU councils shall approve a local budget on the basis of the forecasts of their own revenues and unconditional transfers as set out in the State Budget. |

Each LGU was supposed to issue a more detailed budget calendar for its budget preparation process. However, Municipality of Tropoja has neither issued such a budget calendar in 2015 for preparation of the FY2016 budget nor in any of the previous years. The state budget calendar is insufficient as guidance for the local budget preparation process, which is handled informally in Tropoja and former Bajram Curri Municipality. Lack of a budget calendar in 2015, therefore, cannot be attributed to any disruption caused by the amalgamation of the municipal and commune budgets in August 2015 in connection with TAR.

17.2 Guidance on budget preparation

No budget call circular or budget preparation guidelines have been issued by the Municipality of Tropoja's Department of Economy (Budget and Finance Unit) for the preparation of the FY2016 budget or by the former Bajram Curri Municipality for any other recent budget. Lack of a budget calendar in 2015, therefore, cannot be attributed to any disruption caused by the amalgamation of the municipal and commune budgets in August 2015 in connection with TAR.

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 for FY2016 was submitted to the Council in December – less than 15 days before the start of the budget year, whereas in the three previous years the submission took place after the start of the budget year (ref. table 3-8). In fact both of the budgets for FY 2014 and FY2015 for former Bajram Curri Municipality were submitted to the Council in February of the fiscal year. 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 constitute the main part of – the municipality's revenue estimates.

Table 3.8 Annual submission and approval of the budget

| Budget Year | Budget Proposal submitted to Council | Date of Council approval of the budget |
|-------------|--|--|
| FY2013 | | 30 January 2013 |
| FY2014 | Approx. 20 February 2014 ³² | 26 February 2014 |
| FY2015 | Approx. 20 February 2015 | 28 February 2015 |
| FY2016 | 19 December 2015 ³³ | 23 December 2015 ³⁴ |

| PI | Dimension | Score | Justification for score |
|--------------|--------------------------------------|----------|---|
| PI-17 | Budget preparation process | D | Scoring Method M2. |
| 17.1 | Budget calendar | D | No budget calendar has been prepared for the municipality's budget preparation process in 2015 or any prior years, beyond what relates to the interaction between the municipality and the state budgets as per national legislation. |
| 17.2 | Guidance on budget preparation | D | No instructions for the preparation of the annual budget FY2016 (or any prior years) have been issued by the Municipality. |
| 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 Law³⁵ present an updated and more detailed budget calendar which is effective for preparation of the MTB 2017-2019 and annual budget for FY2017. On 27th July 2016 the Budget and Finance Section sent letters to all departments to remind them of budget submissions due 1st August (though no prior correspondence on the matter could be produced). Submission were received from Human Resources Department (with positions and salary increases) and from the Public Services Department regarding investment projects. The investment proposals exceeded the expenditure ceiling proposed by the Budget and Finance Section by some 100%. That ceiling had not been approved by the Council. Detailed budget estimates are due by 20th October. The DLDP project has offered to assist Municipality of Tropoja

³² Exact date could not be established.

³³ Originally submitted 5th December 2015, but resubmitted on the 19th when it was realized that the unconditional grants from the state budget was reduced by 9% from the earlier estimate.

³⁴ The Council meeting for approval of the FY2017 budget took place on 14th December 2016.

³⁵ Law no.57 of 2nd June 2016.

with the preparation of a comprehensive and consistent budget document as DLDP has already done in at least one other municipality.

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

Background

Municipality of Tropoja Council follows the procedures set out in Law No.139/2015 on Local Self-Governance (effective from 1st January 2016) and its predecessor, Law No. 8652/2000, 'On Organization and Functioning of Local self-governance'. The latter is relevant to the budgets assessed by this indicator. Seven special committees have been formed, of which the Committee for Economic Development, Finance and Budget (CEDFB) is responsible for scrutiny of budget proposals.

18.1 Scope of budget scrutiny

The Council review covers fiscal policies, project priorities and details of revenue and expenditure. However, all of these elements are reviewed at the same time within a very short timeframe. The scope of scrutiny of the budget is very limited, ref. 18.2.

18.2 Legislative procedures for budget scrutiny

The Council has not formally established its own procedures but has simply followed those set out in the law. Budget proposals are received by the Council from the Mayor approximately 15 days before the Council meeting that will discuss and potentially approve the budget. The Council secretariat does a legal review of the budget proposal. About 5 days before the Council meeting, the budget proposal is sent to the CEDFB for a technical review. CEDFB members (3 councillors) may request and obtain additional information from the administration, especially from the Head of Budget and Finance. CEDFB sends the budget proposal with comments to the full Council. For FY2016 the Council wished to enhance the funding for education but no fiscal space could be identified, so nothing in the budget proposal was changed. Apart from legal advice from the Council Secretary no technical support is available to the Council.

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. According to Law 8652/2000 article 35 "in advance of discussing and approving its acts, the Council holds public hearings", which specifically applies to approval of the budget and its amendments. However, there is no indication that such public hearings have taken place.

18.3 Timing of budget approval

The municipal budget shall be approved by the Council before the start of the new fiscal year³⁶. This requirement has been met only once during the past three years, namely for the FY2016 budget of Tropja Municipality on 23rd December 2015. The FY2015 budget for former Bajram Curri Municipality was approved on 28th February 2015 and the FY2014 budget on 26th February 2014. The late approval during those two years was reportedly a result of late approval of the State Budget and thus late information from MOF on grants allocated to the municipality.

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 substantial 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 Council³⁷. Reallocations have happened occasionally since the amalgamation in 2015 (ref. PI-21.4) and always adhere to reallocation rules..

| PI | Dimension | Score | Justification for score |
|--------------|---|-----------|--|
| PI-18 | Legislative scrutiny of budgets | D+ | Scoring Method M1. |
| 18.1 | Scope of budget scrutiny | B | The Council's review covers fiscal policies and revenue/expenditure aggregates for the coming year as well as details of revenue and expenditure as all of these items are included in the budget proposals. |
| 18.2 | Legislative procedures for budget scrutiny | C | The Council has not established any local procedures for budget review, and so adheres to the national law. However, the Council has not had the time and technical support to effectively implement the procedures. |
| 18.3 | Timing of budget approval | D | The Council has approved the budget before the 31 st of December for FY2016 only. The FY2015 and FY2014 budgets were approved almost two months into the fiscal 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 give the Mayor substantial powers to reallocate within programs and are always adhered to. |

Ongoing reforms

Some issues addressed by draft law on local government finance, ref. PI-1.

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

³⁶ Law 9936 on management of budget system Article 32.

³⁷ Law 9936 Article 44.

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 Tropoja 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. Shared taxes include the Simplified Profit Tax (former Small Business Tax), The Vehicle Registration Tax and the Property transaction tax, the latter becoming a shared tax in FY2014. During FY2016 the Infrastructure Impact Tax has become the main source of own revenue. The municipal revenue unit comprises three staff only, all of which undertake follow up with businesses and households in the field.

Table 3.9 Tropoja Municipality's Own Revenue Collections 2016 January-August

| Revenue type | Collections, ALL '000 and percent of total | | Collected by |
|-------------------------------|--|-------------|-----------------|
| Taxes on property | 3,049 | 4% | Revenue Section |
| Infrastructure impact tax | 48,530 | 71% | Revenue Section |
| Hotel tax | 927 | 1% | Revenue Section |
| Advertisement tax (billboard) | 798 | 1% | Revenue Section |
| Other taxes | 3,728 | 5% | Revenue Section |
| Solid waste fee | 5,574 | 8% | |
| Street lighting fee | 984 | 1% | |
| Environmental fee | 1,034 | 2% | |
| Network maintenance fee | 1,247 | 2% | |
| Other fees | 2,888 | 4% | |
| TOTAL OWN COLLECTION | 68,759 | 100% | |

Source: Report on Collection of Taxes and Tariffs for 8 Months of 2016. Tropoja Municipality Revenue Section.

Note1: Aggregate revenue estimate for FY2016 was ALL 55 million, indicating that the annual estimate had already been exceeded by August.

Note2: About 75% of the property taxes and 85% of the solid waste tax are collected from businesses, which pay much higher rates than households.

19.1 Rights and obligations for revenue measures

Information to the public on tax and non-tax revenue rates, filing and payment information is limited to the tax, tariff and fee rates published on the municipality's bulletin board. Letters are sent to businesses and households regarding their tax and tariff obligations and payment procedures, but do not include information about complaint procedures.³⁸

³⁸ To be confirmed through copy of a standard letter (but not yet received by the assessment team).

19.2 Revenue risk management

The municipality maintains a register of all businesses and households in its territory. Letters are issued early in each year to all businesses and household on the tax and tariff payments they are due for the year. Deadline for payment is 30th April with a 15% discount offered for payments made more than one month early. As businesses contribute the larger share of revenues and are much smaller in number (about 400 only) the focus is on ensuring they pay the correct amounts and on time. Since some rates depend on the business turnover, the municipality depends on fairly accurate estimates of business income. In cases of non-payment the municipality can freeze the business' bank account and this has happened in a number of cases where payments have been more than two months overdue. For households in arrears, the municipality can deny services and transfer payments to the respective households, but this is more difficult to administer.

19.3 Revenue audit and investigation

All three staff of the municipal revenue unit visits businesses in arrears, as decided along the way. No compliance improvement plan with specification of audits and investigations exist. Revenue staff rarely checks on or audits business turnover, as this task is undertaken by the regional branch of the national revenue agency based in Kukes, and the information is made available to the municipality. Given the limited staffing, it is virtually impossible for the municipality to keep the information on building and land surface areas up to date. Changes are made each time information is obtained regarding building expansion, but it is uncertain if all building changes are registered.

19.4 Revenue arrears monitoring

An up to date report on revenue arrears does not exist³⁹. The Due Diligence report prepared by STAR in July 2015 estimated revenue arrears at ALL 98 million (of which 58% from the pre-TAR municipality Bajram Curri and the rest from the seven communes), corresponding to 238% of total own revenue collection in FY2015 (217% for Bajram Curri) excluding transfers from national government. It noted, however, that some of the former communes did not have a complete and accurate list of receivable taxes from individuals and businesses, so the amount might have been higher. The Municipality's financial statements do not show tax arrears at end of FY2015 and there is no specific plan on how to recover the arrears. No age profile of the arrears is available.

| PI | Dimension | Score | Justification for score |
|--------------|---|----------|--|
| PI-19 | Revenue administration | D | Scoring Method M2. |
| 19.1 | Rights and obligations for revenue measures | D | Information on tax and tariff rates are publicized, but payers are not informed about rights and redress processes/procedures. |
| 19.2 | Revenue risk management | C | Municipal revenue staff uses very simple risk management principles. They focus their attention on revenue from businesses which provide the bulk of revenue and are much fewer in number than households. |
| 19.3 | Revenue audit and investigation | D | No compliance improvement plan with specification of audits and investigations exist. |
| 19.4 | Revenue arrears monitoring | D* | Revenue arrears amounted to more than 200% of total revenue collections in FY2015, both for the pre-TAR municipality and for the new amalgamated municipality. |

³⁹ It was stated during interviews that such a report exists but it was not presented to the assessment team as evidence despite several reminders.

| PI | Dimension | Score | Justification for score |
|----|-----------|-------|---|
| | | | An age profile of arrears is not available, so the share of arrears older than 12 months cannot be established. |

Ongoing reforms

The government has agreed with the IMF on a reform of moving to a value based property tax system based on a national fiscal cadastre. Whilst such a reform should help municipalities to correctly assess land and building taxes to be paid, no steps have been taken yet to implement this reform.

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 taxes and tariffs in Tropoja is arranged through banks or the post office (for businesses) and through the municipal cashier (for households). Banks and post office receive a commission. All payments for fees and user charges are also made to the municipal cashier. The banks and post office transfer the collections to the Municipality's account with the TDO in Bajram Curri town every month. The municipal cashier deposits the collections in the same account at least monthly but more frequently during periods of frequent payments, says up to the tax/tariff payment deadline.

20.1 Information on revenue collections

The Treasury branch office provides monthly reports on deposits into the municipality's account including details of revenue collections received according to the classification codes. This covers all own revenue collections. The Revenue unit of the municipal administration then produces a summary report to the Mayor.

20.2 Transfer of revenue collections

All revenue collections are transferred to the municipality's account monthly as described above.

20.3 Revenue accounts reconciliation

The municipality enters individual collections of taxes and tariffs into the register of revenue liabilities. Therefore, the municipality should be able to reconcile tax/tariff liabilities against payments and produce accurate reports of revenue arrears (receivables). There is no evidence⁴⁰, however, that such reconciliation ever takes place. As a result, there could be discrepancies between the collections registered and those actually paid in, in the amount outstanding for each taxpayer and in the commissions deducted by banks/post office. No in-year reports on revenue arrears (and taxpayer disputes) could be obtained by the assessment team.

⁴⁰ The assessment team requested a copy of a revenue reconciliation report but it was not forthcoming.

| PI | Dimension | Score | Justification for score |
|--------------|------------------------------------|-----------|--|
| PI-20 | Accounting for revenue | D+ | Scoring Method M1. |
| 20.1 | Information on revenue collections | A | The Economic Department receives monthly reports from the Treasury District Office on all revenue collections with details by type and summarizes this into a report to the Mayor. |
| 20.2 | Transfer of revenue collections | D | Most revenue is transferred to the municipality's account at the Treasury District Office on a monthly basis. |
| 20.3 | Revenue accounts reconciliation | D* | Insufficient evidence obtained. |

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. 2145001-145), operating under the National Treasury's District Office 1836. Cash balances are generated daily and obtained by the Economic Directorate as needed, at least weekly. Cash balances comprise various revenue sub-accounts and balances of available funds from various sources for a variety of operating purposes across service delivery programs. No other municipal bank accounts were identified.

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 operations⁴¹. An annual cash inflow forecast is prepared for unconditional grants only by the Budget and Finance Section and inflows from the specific grants; own revenues and grants from donors are not included. The cash inflows and outflows linked to the unconditional grant are agreed on the basis of a quarter-by-quarter schedule with MOF.

According to evidence presented to the evaluation team, the approved annual cash flow plan is updated by the Budget and Finance Section "as needed", on the basis of cash outflows realized year to date. The accuracy of forecasts is nonetheless a concern due to the lack of a fiscal discipline approach and of proper policy coordination between the Budget and Finance Section and other Departments. This led to serious problems of predictability in the release of funds and

⁴¹ Instructions 93 to 104, 132 and 255, from "Standard Procedures of Application for Budget Preparation", Ministry of Finance, dated 6 February, 2012.

allocation of available resources during the remaining of the year, according to Budget and Finance Section.

21.3. Information on commitment ceilings

Ceilings for commitments are based solely on the limits set by the budget appropriation. According to art. 50 of the Organic Budget Law authorizing officers of general government units shall maintain information on financial commitments, and shall not allow any new commitment if that exceeds the limit of the budget appropriation. However, the team did not find any evidence of reports on commitments, or on availability of funds for commitments submitted to various departments during the year, which would be particularly important where reallocations have taken place.

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;
- 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 current expenditure item between various spending units shall be approved by the authorizing officer of the local government unit from which the spending unit is a subordinate body.

During the period August 2015 - August 2016 there have been several decisions by the local council and the Mayor concerning changes and reallocation within programs, capital projects and operational expenditures. The assessment team could not locate any report or evidence summarising the adjustments/reallocations during the year and, therefore, could not judge the size and frequency of these adjustments. Allocation to the Municipality of earmarked grants are reported to the Council but no document could be identified that showed such revenue being incorporated in the approved budget – other than the special case of 2015 where the August budget (representing amalgamation of the municipality and communes) also included all earmarked grants received. Budget reallocations are not published.

| PI | Dimension | Score | Justification for score |
|--------------|--|-----------|--|
| PI-21 | Predictability of in-year resource allocation | D+ | Scoring Method M2. |
| 21.1 | Consolidation of cash balances | A | As there is only one municipal account, the information on cash balances is readily available (on daily basis). |
| 21.2 | Cash forecasting and monitoring | D | A cash flow forecast is prepared for the fiscal year, but the information on own revenues and grants from donors is not included. |
| 21.3 | Information on commitment ceilings | D | Departments and Programs are not provided with reliable information on funds available for commitment, especially where reallocations have taken place. |
| 21.4 | Significance of in-year budget adjustments | D* | The assessment team could not locate any report or evidence summarising the adjustments/reallocations during the year and, therefore, could not judge the size and frequency of these adjustments. |

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, has resulted in accumulation of arrears over many years.

During interviews the Head of the Budget and Finance Section expressed concerns regarding a full understanding of the arrears situation. This is related to lack of documentation of arrears, particularly in the years prior to TAR; lack on information on court decisions on pending disputes, overspending at commune level and so on. However, the decision at the Municipality was to consolidate all the arrears into the Municipality's 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 below:

Table 3.10 Expenditure Arrears for Municipality of Tropoja

| | 2015 | 2014 |
|-----------------------------------|--------------------|-------------------|
| Supplier | 52,004,176 | 73,789,020 |
| Salaries and related expenditures | 27,258,737 | 4,330,486 |
| Other liabilities | 53,213,600 | 7,568,567 |
| | 132,476,513 | 85,688,073 |

The stock of expenditure arrears is 28% of total expenditure in 2015 (59% in 2014) but about 110% of unconditional revenue sources.

Currently, Ministry of Finance has instructed all the budgetary entities to create a workflow for registering contracts and 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 Sector at the Municipality and shall then be 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. 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 and this can cause a further, unrecorded stock of payment delays which may affect prices offered by vendors to the Municipality.

22.2. Expenditure arrears monitoring

The current legal and regulatory framework envisages for 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.

At the Municipality of Tropoja, data on the stock and composition of expenditure arrears is generated annually and the report is presented to the Mayor and to the Council. The report does not have any analysis on the ageing of liabilities. During the budget preparation process, the Municipality of Tropoja does not create any provision for payments of arrears.

| PI | Dimension | Score | Justification for score |
|--------------|--------------------------------|-----------|--|
| PI-22 | Expenditure arrears | D+ | Scoring Method M1. |
| 22.1. | Stock of expenditure arrears | D | The stock of expenditure arrears was 28% of total expenditure in 2015 (59% in 2014). |
| 22.2. | Expenditure arrears monitoring | C | Data on the stock and composition of expenditure arrears is generated annually at the end of each fiscal year. The report does not have any analysis on the ageing of these expenditure arrears. |

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 team was informed that currently, 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 Governance” art. 64, the Mayor is responsible for approval of the Organization structure and the changes to the level of salaries of the employee. 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 Section. These files contain the general information about the employees – date of birth, gender, civil status, educational and other professional qualifications, etc. Controls Access to these files is strictly regulated. These files 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 Section as the basis for the preparation of the payroll;
- *Position control.* Each position is determined by the Mayor, while the level of salaries per each position is defined by the Local council. The latest decision of the Council, dated 20.9.2016, was based on the Council of Minister Decision no 165, dated 2.3.2016 which determined the salary level for local government employee (6 different levels depending on the population size of LG). The 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 and Budget Section. The section validates the HR-provided data, 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 found adequate audit trial to ensure accuracy of the calculations of the payroll;
- As the budget is implemented, Head of Finance and Budget Section monitors the staffing levels with respect to a ceiling of authorized positions. The team did not find adequate audit trails to ensure such monitoring.

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 Section and to the Finance and Budget Section 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 on line declarations database to verify the correct application of the payroll changes. However, from the discussion with the Head of Finance and Budget Section,

we understand that there were some retroactive adjustments made, less than 1% of the payroll, which have been corrected in the following month.

23.3. Internal control of payroll

This measure requires that internal controls exist to restrict and control the access to payroll and staff database. 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 team understands that there are no written internal regulations and no adequate audit trail to ensure integrity of the payroll data. However, adequate separation of functions exists between HR and Finance sections. HR's responsibility is to have personnel files and keeps them up to date and collects each month from all the units the time worked for each employee. Finance and Budget Section, 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 and Budget Section. The payroll is approved by head of Finance and Budget Section and payroll specialist at the Finance and Budget Section and by the head of HR. Finally, when the payment is send for execution at the Treasury office, the Head of Economic Directorate and the Mayor gives the final approval.

23.4 Payroll audit

HSC has audited the former Municipality of Bajram Curri for the period January 2012 – June 2014⁴². The audit found the organisational structure, positions and salaries to be in compliance with the decisions issued by the Council of the Municipality and the Mayor. No issues were identified in the calculation of salaries, social insurance and income personal tax for the employees.

As there is no internal auditor hired by the Municipality, no internal audit of the payroll could be exercised.

| PI | Dimension | Score | Justification for score |
|--------------|--|-----------|---|
| PI-23 | Payroll controls | C+ | Scoring Method M1. |
| 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 rare and immaterial. |
| 23.3 | Internal control of payroll | C | Sufficient controls exist to ensure integrity of the payroll data of greatest importance. |
| 23.4 | Payroll audit | C | Partial payroll audits or staff surveys have been undertaken within the last three completed fiscal years. |

Ongoing reforms

None identified.

⁴² The audit was done to the former Municipality of Tropoja' payroll, before the TAR.

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 contracts⁴³. 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 (PPL) 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 procurement⁴⁴.

24.1. Procurement monitoring

The Public Procurement Agency (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.

According to the PPL as amended, all procurement entities shall maintain a contract 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.

At the Municipality of Tropoja the procurement function is not exercised by a separate unit but ad-hoc commissions are created by the Mayor depending on the type of the procurement. The register is prepared and reported to the PPA on annual basis by the staff as appointed by the Mayor. In addition, as required by the PPL, all the contracting authorities shall use the e-procurement system where all notices and tender documentation shall be on the web portal of the PPA and contractors are obliged to submit bids electronically. However, 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 compliance with the law. In addition, there are concerns about the controls to ensure the data is accurate and complete for all

⁴³ Country Partnership Framework for Albania 2015-2019 WBG.

⁴⁴ Public Finance Management Reform 2014-2020, 2015 Monitoring Report, <http://www.financa.gov.al/files/userfiles/Raportimet/PFM>.

procurement methods for goods, services and works; our judgment is that the materiality of such inaccuracy and incompleteness is less than 50% of the value of procurement.

24.2. Procurement methods

The assessment of this dimension focuses on the use of open competitive procurement methods which normally include open tender, request for proposals and small purchases (three offers are required). The PPA system is designed to ensure the transparency and integrity of the procedures requiring all contracting authorities to use the system, from the invitation to tender to submission of documents, for all the purchases that exceeds ALL 100 000 (EUR 700). Most of the procedures are conducted as procedures with publication of invitations to bid, although the share of negotiated procedures without publication is significant (17% of the value of procurement, as per register sent to PPA for the year 2015).

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.

The latest report produced by the Municipality of Tropoja is for the period 1 January 31 December 2015. The table below shows the percentage of the tenders using various procurement methods and about 17% of all tenders (in terms of value) used non-competitive methods.

Table 3.11 Procurement Statistics for Municipality of Tropoja

| 1 January - 31 December 2015 | | | |
|------------------------------|-------------------|-------------------|-------------|
| Type of procurement | No of procurement | Amount in Lek | % |
| Small purchases | 52 | 9,489,387 | 12% |
| Request for proposal | 4 | 18,253,389 | 22% |
| Open tender | 1 | 39,995,986 | 49% |
| Sole procurement | 2 | 13,675,010 | 17% |
| | 59 | 81,413,772 | 100% |

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, entity 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. It is possible to examine the procurement plans, although the electronic publications are not equipped with search functions. The system enables electronic processing of public procurement, including e-noticing, e-tender documentation, e-submission and, to a certain extent, e-evaluation. All contracting authorities are obliged to use the system when procurement value exceeds ALL 100 000 (EUR 700). The legal framework for procurement, the procurement plan for 2016, statistics on realisation of procurement operations for 2015 as well as bidding opportunities and contract awards is posted on the PPA website. The annual procurement plans for 2016 and the plan realisation for 2015 were sent to PPA in January 2016, while the team count not assesses the timeliness of the publication of other procurement procedures such as contract award.

24.4. Procurement complaints management

The PPL, as amended, 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 the complainant became aware of the issue. If the Contracting Authority fails to examine the objection within the time limits specified in the PPL, or rejects the objection the complainant may file written appeal with the Public Procurement Commission within 10 days. The Public Procurement Commission (PPC) is a quasi-judicial body responsible for the review of complaints concerning 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 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 (CA) upon receiving the complainant's written appeal shall suspend on-going procurement, unless PPC instructs CA to do otherwise. As per the 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 cases⁴⁵. The processes for submission and resolution of complaints are well documented in the law and in 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. Decision of the PPC is final and enforceable. However, in cases where complainant or the contracting authority claim that the decision of the PPC does not comply with the law, within 5 days upon receipt of the decision, may bring the administrative conflict suit in front of Tirana District Court, but it does not suspend the procurement procedures. During 2016, only one procurement procedure in Tropoja has gone through PPC and the complaint was accepted as valid, while during 2015 there were no complaints to PPC.

Table 3.12 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 | C | Databases or records are maintained for contracts including data on what has been procured, value of procurement and who has been awarded contracts. There are concerns about the controls to ensure the data is accurate and complete for all procurement |

⁴⁵ The assessment team could not verify the average processing time of each complaint for 2015.

| PI | Dimension | Score | Justification for score |
|------|--|-------|--|
| | | | methods for goods, services and works, but materiality of such concerns is judged to be less than 50%. |
| 24.2 | Procurement methods | A | 83% of total value of contracts is procured through competitive bidding procedures. |
| 24.3 | Public access to procurement information | C | The legal framework for procurement, procurement plan for 2016, realisation of procurement operations for 2015 (i.e. statistics) as well as bidding opportunities and contract awards are posted on the PPA website. While the procurement plan and realisation of procurement operations are timely submitted, the team could not assess the timeliness of the publication of other procurement procedures such as contract awards. Complaints resolution as decided by the PPC is publicized on the PPC website. |
| 24.4 | Procurement complaints management | B | The procurement complaint system meets criterion (1), and three of the other criteria. |

Ongoing reforms

None identified.

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

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, Control activities, are described minimum control activities 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. The assessment team was advised that there is no additional internal regulation to better define roles and responsibilities on every step across various departments starting from the request of requisition until the payment execution. However, the team understands that all the expenditure with no exceptions are approved by the Mayor and the Economic Director which are the Authorizing

and Executing officer respectively, while the payment order with the necessary supporting documents and the recording is done by the Head of Finance and Budget.

25.2. Effectiveness of expenditure commitment controls

Commitment controls for salary and non-salary financial transactions are present in the current control system as well. The team was advised that commitments are entered into the system when the event occurs (i.e. on an accrual basis). Until June 2016 when the amendments of the OBL entered into force, commitment controls existed at the level of the annual appropriation only. With the amendments of the OBL and changes to the functionalities of the Treasury system, multiyear commitments could be entered into the system too. According to the art 40 of the OBL, as amended, each general government unit, before starting any one or multi-year procurement procedure, is obliged to have a confirmation from the TDO, that there are available funds to them to continue with the procurement. Therefore, if there is any multiyear commitment, the data are entered into the Treasury system, thus extending the commitment controls at the level of multiyear appropriation.

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. Periodic cash rationing is the only effective mechanism to ensure that payments do not exceed cash availability, but sometimes it seems that has not worked properly. Regarding the current accumulated arrears, the Municipality does not have any internal regulation to assist the Finance and Budget Section with the verification procedure of the outstanding stock, and prioritizing of payments (ref. PI-22).

25.3. Compliance with payment rules and procedures

In Albania, TDOs 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, including local government, is controlled by the financial officers at the TDO before they are processed. However, in the last audit report issued by the HSC (covering the period January 2012 to June 2014) lack of internal controls was noted in some instances, as payment were made to contractors without the service being delivered. However, the assessor could not find reliable data on which to judge the materiality of the expenditure that are non-compliant with regular procedures.

| PI | Dimension | Score | Justification for score |
|--------------|--|-----------|--|
| PI-25 | Government operations outside financial reports | D+ | Scoring Method M2. |
| 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 | D* | No reliable data about the weight of the expenditure that are not compliant with regular procedures were found |

Ongoing reforms

None identified.

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

The IA function was created with the decision no 104 of the Mayor of the Municipality of Tropoja, dated 30.8.2016. At the time of the assessment, 26-30 September, none of three positions was filled and consequently no internal audit has taken place during the period under review.

26.2. Nature of audits and standards applied

Not applicable as no internal audit has taken place.

26.3. Implementation of internal audits and reporting

Not applicable as no internal audit has taken place.

26.4. Response to internal audits

Not applicable as no internal audit has taken place.

| 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 | No internal audit has taken place during the period under review. |
| 26.2 | Nature of audits and standards applied | NA | Not applicable as no internal audit has taken place. |

| PI | Dimension | Score 2016 | Justification for 2016 score |
|------|---|------------|--|
| 26.3 | Implementation of internal audits and reporting | NA | Not applicable as no internal audit has taken place. |
| 26.4 | Response to internal audits | NA | Not applicable as no internal audit has taken place. |

Ongoing reforms

MOF adopted a comprehensive PFM reform strategy for 2014-20 and Effective Internal Control is one of the 6 pillars. Strengthening of Internal Audit (IA) by means of further improving the legislative framework and developing the professional skills are the key activities under this Strategy. MOF is preparing a new manual which will properly reflect the new development 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 national General Directorate of Treasury manages all aspects of the Treasury single account (TSA), including expenditures and revenues of all of the local government units. The Municipality of Tropoja conducts all its treasury transactions through its one official bank account (No. 2145001-145) (ref.21.1) and reconciles its account on monthly basis. The Municipality has no special/project bank accounts.

27.2. Suspense accounts

Suspense accounts are used temporarily to record revenues that have yet to be classified. Based on a confirmation from Finance and Budget section, there are no cases where such accounts are used.

27.3. Advance accounts

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

27.4. Financial data integrity processes

Municipality of Tropoja uses EXCEL spreadsheets to prepare the financial statements, system that is easily accessible and that do not provide any kind of audit trail. The fiscal data made available by the Treasury system makes a significant contribution to better quality data, 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 and fixed assets, the team find that there are no inter-linkages to ensure reconciliation and

no audit trails to verify accuracy and completeness of financial statements. It was also noted that there is not any unit or team in charge of verifying the data integrity.

| PI | Dimension | Score | Justification for score |
|--------------|------------------------------------|----------|---|
| PI-27 | Financial data integrity | C | Scoring Method M2. |
| 27.1 | Bank account reconciliation | B | Bank reconciliation for <i>all</i> active central government bank accounts takes place at least monthly, usually within 4 weeks from the end of each month. |
| 27.2 | Suspense accounts | NA | Suspense accounts are not used. |
| 27.3 | Advance accounts | NA | Advance payments are not used. |
| 27.4 | Financial data integrity processes | D | Access and changes to records is not effectively restricted and there is no unit or team in charge of verifying 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 sections and yet under the control of the Economic Directorate: the Budget and Finance Section and the Revenue Section, respectively. None of these reports, however, are published; they are 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). The reports are poorly designed as all the expenditures and revenues are listed based on some economic classifications (Ref. PI-4) whereas functional classification is missing. In addition, the expenditures are cumulative and compared to the annual plan. In this way, the management is not provided with a full picture of monthly progress in order to facilitate the analysis of discrepancies and take actions accordingly.

28.2 Timing of in-year budget reports

The Municipality's Finance and Budget Section obtains from TDO the monthly budget execution report which is submitted on an ad-hoc basis to the Mayor's Office. There are no defined timeframe for the submission of such reports.

28.3 Accuracy of in-year budget reports

Budget execution reports are prepared on monthly basis and are considered final only after these reports are reconciled with the automated financial reports produced by the Treasury system and if there are discrepancies the reports are not stamped until the differences are clarified and adjustments are made as necessary. The in-year budget reports do not present an analysis of expenditure suitable for monitoring the execution of the budget and release of cash funds because it does not provide information at both commitment and payment stages. Data issues relating to the revised budget estimates and changes in funding across expenditure programs are not highlighted in the report, commitments are not included and economic or functional analysis is missing making the reports less useful for analysis of budget execution.

| PI | Dimension | Score | Justification for score |
|--------------|---------------------------------------|----------|---|
| PI-28 | In-year budget reports | D | Scoring Method M1. |
| 28.1 | Coverage and comparability of reports | D | Coverage and classification of data does not allow direct comparison to the original budget for the main administrative headings. |
| 28.2 | Timing of in-year budget reports | D | Budget execution reports are prepared by TDO and sent to Mayor's office on an ad-hoc basis. |
| 28.3 | Accuracy of in-year budget reports | D | Although there are no material concerns regarding data accuracy, an analysis of budget execution is poor as the economic or functional classification is lacking and information on the expenditures is progressive and covers expenditures where payment are done. Commitment information is not included. |

Ongoing reforms

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

PI-29 Annual financial reports

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

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

According to Article 62 of the OBL local government entities are responsible for preparing financial statements, including a balance sheet. The financial statements shall be submitted to the Treasury before 28 of February each year. These statements provide information on revenue and expenditure, financial and non-financial assets, liabilities including medium- and long-term debt (domestic and foreign) obligations. Liabilities also include amounts due to suppliers, which refer to unpaid bills and other payables to vendors and contractors. It also comprises a statement of

operating expenses and a statement of operating revenue, failing to provide a comparison of both the expenditure and revenue outturns with the originally approved budget and an analysis of the revised budget. It rather provides comparison of actual expenditure and revenue between the last completed fiscal year and the previous year. Thus, it fails to provide an analysis of the approved to the revised budget and execution of budget, which makes difficult for the public to understand how the asset and liabilities balances add up from one year to the next. The accounting basis is modified cash, in that the recognition of the current and capital expenditures takes place when they occur, regardless of the payment date. Loans are also reported on an accrual basis. Tax and non-tax revenues are recorded on a cash basis. The financial statements are neither audited nor published. It is noticed that the presentation of financial reporting is relatively standard, this due to the uniformity of clear and descriptive financial formats prescribed by the MOF. Accounts lists are well integrated with financial reporting formats prescribed by MOF. However, the accounting policies for the preparation of financial statements and the bookkeeping are limited. The financial statements for FY2015 failed to present the Municipality's equity holdings, receivables related to tax, and provisions for contingent liabilities.

29.2 Submission of reports for external audit

Annual financial reports for the Municipality are not submitted for external audit, but only to the local council for internal reviewing.

29.3 Accounting standards

Accounting standards applied to all financial reports are consistent with the existing legal framework and financial instructions⁴⁶ and ensure consistency of reporting over time. These statements are not fully compliant with IPSAS standards for cash-based reporting systems. They do, however, comply with the present OBL and its modified cash requirement that revenues are to be reported on a cash basis and expenditures when occur rather than when paid.

However, the accounting policies for the preparation of financial statements and bookkeeping at the Municipality of Tropoja are missing. The accounting is kept in Excel, and there are no rules for recognition, valuation, classification of assets and liabilities.

| PI | Dimension | Score | Justification for score |
|--------------|--|----------|--|
| PI-29 | Annual financial reports | D | Scoring Method M1. |
| 29.1 | Completeness of annual financial reports | D | Financial reports for municipal government are prepared annually (the latest for FY2015), but are not comparable with the approved budget. They include information on revenue, expenditure, and certain assets and liabilities, including cash balances. |
| 29.2 | Submission of reports for external audit | D | Financial reports for the Municipality are not submitted for external audit. |
| 29.3 | Accounting standards | D | Accounting standards applied to all financial reports are consistent within the existing legal framework and somehow ensure consistency of reporting over time. The accounting is kept in excel, and there are no rules for recognition, valuation, classification of assets and liabilities. Finally, the national standards used in preparing annual financial reports are distant from international standards and not disclosed. |

⁴⁶ Law No. 9928/2004 on Accounting and Financial Statements, dated 29 April, 2004.

Ongoing reforms

The Government of Albania, with the support of the World Bank, plans to conduct a gap analysis comparing national accounting standards against IPSAS later in 2016. It is proposed that this will incorporate a roadmap for the further development and gradual implementation of national accounting legislation and guidance, taking account of Albania's needs and capacity constraints.

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 2014-2020⁴⁷. Reforms spelt out in this strategy, such as those concerning budget documentation, accounting principles, reporting, performance management, and the design and implementation of AGFIS, are set to be phased and implemented over the remaining of the plan period.

Accounting standards will be gradually revised with the ambition of eventually becoming fully compliant with the IPSAS accounting standards, as they are finally defined, which is likely to be only in the next plan period.

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)
- 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 presently staffed with 25 auditors within the High State Control (HSC), then reorganized in 1998 by Districts, responsible of conducting local government audits. The department is preparing on annual basis the audit program where the auditees are selected based on the materiality (size of funds received and revenues) and frequency (all LG shall be audited every two years). Scope of auditing include traditional financial compliance and in recent years performance auditing.

High risk areas across local government are identified by HSC as (1) fixed asset management, (2) procurement, and (3) records management, all of which were lacking proper instructions and standard operational procedures.

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. However, according to the Law No. 139/2015 on Local Self-Governance Article 43, item 4, the municipal

⁴⁷ The 2014-2020 PFM reform program consists of six pillars of intervention: (1).

council or regional council, the executive organs of the local self-government units may be subject to audit by specialized audit entities.

30.1 Audit coverage and standards

According to the Law No. 154/2014 "Organization and functioning of State Supreme Audit Institution" the High State Control shall perform the audits in accordance with the constitution, laws, bylaws, applicable manuals and international auditing standards. The audit covers the areas of compliance, legality, regularity, financial management, accounting, and the economy, efficiency and effectiveness of the management of public or state property funds. External audits were programmed by High State Control on the basis of a multi-year plan, as required by its governing legislation, and highlighted material issues verified in the past.

A legal and financial compliance audit was conducted at the Municipality of Tropoja covering the fiscal years 2012, 2013 and half of 2014. The HSC audit was done in accordance with the national auditing standards and it covered the majority of total expenditures. The main areas audited were: budgeting, revenue management, asset valuation, monitoring of payables, human resource management, procurement and project monitoring. However, a financial audit the Municipality's annual financial reports - as required by the newly introduced Law - was not conducted by the HSC during the period under review.

30.2 Submission of audit reports to the legislature

Audit reports of the Municipality were not submitted to the local council by the HSC for the last three completed fiscal years. The latest annual financial statements of the Municipality covered by HSC audit was the year 2013 and was subject to compliance audit only.

30.3 External audit follow-up

Despite the HSC audit report being submitted to the Mayor more than a year ago, the team could not locate an action plan agreed with the HSC to address the findings. The team understands that there is no specific calendar required by the law for the follow up of the findings. However, the team could not find any evidence of the findings being followed up, hence it is not possible to determine how many findings were addressed.

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 institution⁴⁸.

| PI | Dimension | Score | Justification for score |
|-------|------------------------------|-------|--|
| PI-30 | External audit | D+ | Scoring Method M1. |
| 30.1 | Audit coverage and standards | D | Financial reports of municipal entities representing most total expenditures and revenues have been audited using national auditing standards during the last three completed fiscal years. However, a financial audit as required by the newly introduced Law was never |

⁴⁸ Ref. The principle of Public Administration, Baseline Measurement report, SIGMA/OECD, 2015, Principle 15.

| PI | Dimension | Score | Justification for score |
|------|--|-------|---|
| | | | 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 independence | C | The independence of the HSC is ensured through law no. 154/2014 regulates the functional, operational and financial independence, mandate and organization of the HSC, 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 ⁴⁹ "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

⁴⁹ 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 local council to scrutinize the HSC audit report. The practice established by law⁵⁰ is that the Finance Committee convenes on an ad-hoc basis to review the un-audited financial report submitted by the Municipality's Office of the Mayor, and this takes place both for annual and mid-year reports. For individual units of the Municipality, in turn, the existing local government legislation is clear in that these are subject to an audit by the HSC⁵¹--a policy and a practice that are in adherence to the budget management system⁵².

An Audit Control Committee of the Council is established. It initiates investigations based on reported irregularities such the legality of a procurement operation. However, no investigations have taken place during 2015 and 2016 to date.

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

The local council issues recommendations on actions to be implemented by the executive council but - due to the above – they are 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 participation⁵³, debates and hearings take place with open participation by the public except in cases in which the local council decides in majority to restrict the access to the public. Hearings have been conducted in public for the un-audited reports only and minutes of hearings are available for the public upon request.

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

Ongoing reforms

None identified.

⁵⁰ 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".

⁵¹ Article 13 (*Supervision and Control*), item 5, Law No. 139/2015 on Local Self-Governance.

⁵² Article 70 (*External Audit*), Law No. 9936/2008 on the Budget Management System of the Public of Albania.

⁵³ 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. The largest source of revenue for the Municipality comprises earmarked grants from the State Budget, which are not recognized and included in the original budget approved by the Council;
- Complete and consistent data for comparing the original budget with actual budget execution outturns is not available (ref. PI-28 and PI-29). For 2013 and 2014 budget execution reports were either missing relevant expenditure breakdown or not separating the expenditure financed from discretionary resources and expenditure from earmarked funding. For 2015, the original budgets for the pre-TAR municipality and the communes were not available, so budget execution data could be compared only to the amalgamated and revised budget of August 2015;
- Aggregate expenditure outturn, therefore, could not be assessed - neither in aggregate nor by compositional variance (PI-1 & PI-2). Actual expenditure charged to the contingency votes was practically nil in each of the last three years, which means that all expenditure is classified according to function in budget execution reports (PI-2.3);
- Forecasting of own revenue is far from reliable. Aggregate collections fluctuate significantly from aggregate budget estimates - mostly underperforming, though over-performance appears to be happening in 2016 (PI-19). Compositional variance of own revenue by type from budget estimates is very high (PI-3);
- Execution of the Municipality's budget is highly dependent on unconditional transfers from the state budget. Those transfers have been quite reliable – being very close to estimates in 2013 and 2015, but with some underperformance on transfers of shared taxes in 2014. Earmarked transfers for delegated functions are also very reliable, whereas RDF grants for investments are important in size and highly unpredictable (HLG-1);
- Transfer disbursements from the state budget are timely and regular (with the exception of RDF funds), in accordance with a pre-defined schedule. Delays occur only in the transfer of the first tranche of the unconditional block grants. RDF funds are always available in time for contractual payments to be made (HLG-1.3).

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. However, the classification system used for the budget is not consistently applied and appears in different versions in different documents that cannot easily be reconciled or bridged to GFS sub-functional classification (PI-4);
- The majority of revenues and expenditures outside the approved budget, including earmarked transfers from the state budget, are reported as part of the standard budget execution reports and end-year financial statements. Other off-budget expenditures include in-kind donations and possible quasi-fiscal expenditure through the Water Supply Company which are not reported (PI-6);
- General objectives and activities of public services and other programs are described as part of the budget documentation though in very general terms and using a different program classification than budget estimates. Service performance 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. There is appropriate public access to only two of nine key fiscal documents, namely rates of taxes, fees and charges as well as the HSC audit report (PI-9).

Management and assets and liabilities

- The Municipality does not systematically monitor and report on fiscal risks and contingent liabilities. Major areas of concern include significant losses by the Municipality owned Water Supply Company and expenditure arrears many of which are taken over from the former communes (PI-10 & PI-22);
- Public investment management is done on an ad hoc basis. Project prioritization is done but not on clear and transparent criteria and economic analysis of major projects have been done only for projects funded by development partners. Monitoring of investment projects takes place and is reported but not according to any standard procedures (PI-11);
- Deficiencies are noted in the recording of both 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). Debt management is not an issue, since the Municipality has no formal debt and has not issued any guarantees (PI-13).

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 approach to budgeting has only been introduced for the FY2017 budget with a 2017-2019 outlook. A strategic development plan for the municipality as a basis for medium term budgeting and investment prioritization does not exist but is in the process of preparation (PI-16);
- No internal budget calendar or budget preparation guidelines are issued by the Economic Directorate to the Municipality's line departments and budget institutions. Only the high level instructions from the MOF are used, but not always adhered to. The budget proposal has not been submitted to the local council according to this calendar in any of the past three years and is often submitted after the start of the budget year, as information on approved unconditional grant transfers from the state budget is awaited (PI-17);
- The Council reviews fiscal policies and revenue/expenditure aggregates for the coming year as well as details of revenue and expenditure, but there are no standard procedures for the review and the time available for the review is very limited. The Council's approval of the budget has taken place before the start of the fiscal year in only one of the last three years due to late submission of the proposal. Clear rules exist for in-year budget adjustment by the executive without Council approval. They allow a high degree of reallocation within each program (PI-18).

Predictability and control in budget execution

- The Municipality's capacity to collect revenue is very limited. Basic information on tax/fee rates and tax payer liabilities is issued, but active follow up is limited to businesses and is done in collaboration with the regional office of national tax administration. Outstanding tax arrears are very high (more than 200% of annual collections) and there is no plan on how to collect (or write-off) the arrears (PI-19);

- The Revenue Section receives and consolidates monthly information on all collections. Transfers to the Municipality's main account with TDO takes place for monthly most revenue. The extent of reconciliation of revenue records could not be established (PI-20);
- As the Municipality only operates one bank account (at the TDO), cash balances are always consolidated and can be obtained daily if needed. Cash flow forecasting is done at the beginning of the year but does not include all sources of financing. It is updated ad hoc and not on a regularly schedule. Line managers can in principle commit funds within the annual budget allocation but this may not be reliable due to revenue outturn deviations and expenditure reallocations. Commitment information is not systematized and issue of updated information on funds available for commitment does not take place (PI-21). As the commitment control system is weak in view of significant resource fluctuations, this can lead to expenditure arrears which are substantial, and lack a reliable monitoring system as well as a plan for clearance (PI-22 & PI-25.2);
- 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 very limited due to lack of an internal control function and infrequent external audit (PI-23);
- The national procurement framework covers municipalities and has evolved positively in terms of the institutional setup, the segregation of roles and responsibilities, public access to information and functioning of the procurement appeals mechanism. Most procurement is done competitively. Procurement management and monitoring remains fragmented in the Municipality, lacking an institutional anchor. A procurement register is kept and reported to the PPA along with annual procurement plan, and bidding opportunities for publication on the PPA website. However, the completeness of data is a concern (PI-24);
- The internal control framework for expenditure execution is comprehensive and involves clear segregation of duties. HSC has expressed concern about compliance, but the materiality of non-compliance could not be established. As mentioned above, commitment control is weak (PI-25);
- An internal audit function within the municipality has been established but is not yet functioning (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 monthly reconciliations of the Municipality's single bank account with TDO as well as no use of advance and suspense accounts. However, integrity of fiscal data is at risk due to the basic stand-alone software systems used with lacking control of access and changes to records with no unit or team in charge of verifying data integrity (PI-27). The failure of the assessment team to obtain complete and consistent budget approval and execution data is evidence of such weaknesses;
- The in-year budget execution reporting is done ad hoc, is not integrated, and does not use a comprehensive standard format. The reports do not compare execution to the original approved budget and expenditure from earmarked funding is consolidated with expenditure from unconditional sources (PI-28). Consolidated financial statements are produced in adherence to national standards yet to be upgraded to international standards. The statements include information on revenue, expenditure, cash balances and expenditure arrears but no other assets and liabilities. The information on operating revenues and expenses, however, do not present an analysis of budget outturns, with the basis in the original, approved budget (PI-29).

External Scrutiny and audit

- External audit of the Municipality's financial affairs is done every 2-3 years by HSC in terms of compliance audit. No evidence could be found on follow-up and implementation of the audit recommendations by the Municipality. HSC does not undertake a financial audit of the annual financial statements and therefore does not issue an opinion on the statements – this was not required according to the legislation. Consequently, audited financial statements are not submitted to the Municipal Council, nor are the HSC reports submitted to the Council. The Council's scrutiny of the annual financial statements therefore takes place on the basis of unaudited information only (PI-30 & 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. Specific observations for Tropoja Municipality are detailed in Annex 2, 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. This control is exercised for both the Municipal Budget and the earmarked transfers from the State Budget through the use of the unified Treasury management system. Very limited operations are outside this system and concern only grants in-kind and quasi-fiscal operations.

It was not possible to evaluate some of the high level aspects of the control environment such as the overall personal and professional integrity and ethical values of management and staff, the management's philosophy and operating style, or the commitment to competence. It was noted, however, that the Municipality may face difficulties in recruiting and retaining qualified and motivated staff due to the relatively small size of the local community and its remoteness. An apparent lack of supervision, operational guidance and staff training in the area of financial management was also noted during the main field mission as well as lack of response to and follow up on the HSC audit findings and recommendations.

A clear organizational structure has been established for the Municipality with related staff positions. Due to the limited size of the Municipality, however, not all control measures have clear institutional linkages. A clear organizational anchor for procurement management and monitoring is missing which is important as the HSC report from 2014 highlighted a number of deficiencies in procurement processes. Also, the IA function has only recently been established and is not yet operational.

Municipal management is aware of risk to the Municipality's finances in several areas such as own revenue collection, expenditure arrears, Water Supply Company losses, safeguarding of physical assets and insufficient resources to finance the new functions of the Municipality as from 2016. Part of the risk stems from the amalgamation of the former municipality with the seven surrounding communes which has very significantly increased the Municipality's financial transactions and records, volume of financial revenue and expenditure as well as assets and liabilities. However, assessment of the magnitude of the risk was found only in the areas of own revenue collection and expenditure arrears whereas no assessment has been reported on the magnitude of Water Supply Company losses or the likelihood that such losses will have to be covered by the Municipality. The

Municipality has no documented plans in place for how to deal with these risks, though it is negotiating with national government regarding funding of the new functions.

Authorization and approval procedures are well established in law and defined for the core functions in the municipal administration (e.g. the distinction between the Authorizing Officer – the Mayor - and the Executing Officer – the Economic Director). Segregation of duties is well defined in some of the core financial processes such as in the processing of personnel and payroll information and in the payment procedures for other expenditures. In other areas segregation of duties are more uncertain, however, as internal instructions/regulations have not been prepared.

Records management is clearly a weakness of the administration: files are kept on shelves, in cardboard boxes and electronically filed in multiple unconnected computers. Physical filing problems at the time of assessment could be at least partly explained by the administration being in temporary office accommodation during the refurbishment of the City Hall building (during the main field mission). Access control to records and related audit trails of changes to records are generally missing with the exception of access to personnel records of municipal staff.

Inspection of the receipt of goods and services rendered takes place but is not always effective in controlling payment of contractors. Bank account reconciliation takes place on a regular basis and is facilitated by the Municipality operating only one account through the TDO. Reconciliation of fiscal data at the aggregate level is not undertaken in a way that allows comparison of the original budget approved by the Council (and the Prefecture), and the in-year budget amendments with the final budget execution data.

The STAR Due Diligence Report 2015 reviewed administrative processes and activities, but not service provision. The report highlights a range of areas in need of improvement and provides a useful starting point for reforming the municipal administration. However, no reviews of operating performance in service delivery were identified and service delivery targets/standards are not defined.

Internal communication processes are established but are rather ad hoc. Despite the small size of the administration, failure of communication between the sections of the Economic Directorate has been noted by external audit.

External communication is well established through the Mayor's weekly meetings with the citizens, but is quite informal. General public access to fiscal information about the Municipality is poor and a suitable website is missing. Access to procurement information, however, has improved through the centralized procurement website managed by the PPA.

The Mayor is responsible for setting up a system of monitoring the financial management and control systems, in order to ensure they are functioning correctly and systems are updated, whenever circumstances change. MOF's CHU 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. However, a copy of such a statement for the Municipality was not obtained. Internal audit is supposed to be a key part of this monitoring system, but was not yet functioning at the time of the assessment.

External audit is conducted periodically, most recently in 2014. HSC identified 13 areas where internal controls were failing. No response by the Mayor or his representative to the report could be identified.

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 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 few 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.

Municipal revenue is relatively secure with about 85% received in terms of unconditional transfers from the state budget; most of it blocks grants transferred with a high degree of predictability of both amounts and in-year timing. While own revenue collection only contributes some 15% to budgetary revenue, it constitutes an important element in the social contract between citizens and the elected Mayor and Council, and is a vehicle for creating fiscal space for improved service delivery. Until 2015 this revenue collection was seriously underperforming. Preliminary data for 2016 suggests that significant improvements are taking place.

In-year budget reallocations are not well documented. As expenditure commitment controls are not entirely effective, 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 reallocations. While the level of existing, recognized expenditure arrears is high, effective systems of monitoring developments in expenditure arrears are missing and pose a risk to fiscal discipline.

A second issue is the lack of a fiscal strategy. No provisions have been made in the annual budget estimates for paying off the arrears and a multi-year approach 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. However, development of a multi-year fiscal strategy by the Municipality is challenging until reliable multi-year estimates of transfers from the state budget are available.

It should be noted that the funding from the state budget through earmarked grants outside the Municipality's originally approved budget – corresponding to more than the Municipality's own budget resources – 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 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.

Due to lack of adequate data it has not been possible to assess the reliability of the Municipality's budget in terms of compositional variance from the originally approved spending allocations. This is partly due to inadequate budget execution reporting and partly to the effect of the amalgamation with communes in connection with TAR.

Through off-budget earmarked grants resources are added to the financial operations of the Municipality, corresponding to more than 100% of the resources of the Municipality's discretionary budget resources. This constitutes a 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.

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 in connection with the 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 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. Also, the build-up of expenditure arrears, and lack of plans for settlement of the existing stock, may lead vendors to increase prices offered to the Municipality in order to compensate for anticipated late payment.

External audit by HSC is thorough and include many important recommendations for improving expenditure efficiency, but the compliance approach to the audit – rather than financial systems approach – and the lack of response to audit findings seriously limits the impact of the audits.

Integrity of Financial Data

There are major concerns regarding the quality of financial data. The audit undertaken by HSC in 2014 revealed a range of issues concerning the completeness and quality of financial data maintained by Municipality of Bajram Curri. These problems are likely to have multiplied with the transformation into the much larger Municipality of Tropoja, particular as concerns the inventory of assets (including their ownership, usage and valuation) and liabilities (expenditure arrears). The summary of internal control effectiveness in section 4.2 pinpoints the risks to data integrity from poor record keeping, lack of audit trails and use of multiple stand-alone computer systems to generate financial records, 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 basic records of receipts and payments. The lack of an internal audit functions to date and the infrequent external audits by HSC have heightened these risks.

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 seven 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 greatly 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 State Control and Parliament. Thus the overall responsibility for the successful implementation of the strategy is shared among all these public sector stakeholders. To ensure the effective implementation of the reform strategy and to facilitate coordination of efforts, a Steering Committee has been established by the Prime Minister Order no. 202, dated 25.8.2014. 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 areas 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 Medium Term Budgeting (MTB) Program 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 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 Tropoja 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 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, especially in Tropoja where the Internal Audit function is not effective yet;
- During the last year, and following TAR amalgamation, the Municipality of Tropoja finalized its review of the existing institutional arrangements and internal organizational restructuring;
- The Municipality is also in the process of preparing a strategic development plan (e.g. strategic investment plan, and a tourism strategy with the support of DLDP) to serve as an anchor for sector service plans, investment project selection and medium-term expenditure priorities.
- In addition, DLDP is assisting the Municipality with preparation of a complete MTB 2017-2019 and budget for FY2017 which is likely to address the issues raised on the budget classification 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. MOF is the main driver of the national PFM reforms including the roll-out to municipalities. Development partners support this process partly through assistance at the national level, partly through support to selected

municipalities. Reforms at the municipal level are in particular supported by the PLGP (USAID funded), DLDP (SDC funded) and STAR (UNDP funded).

However, a number of issues need to be more substantially addressed in the reform 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** – which requires linkages 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 and funding strategy implementation;
- **Additional functions are delegated to local governments**, following territorial reorganization, but detailed plans for phasing in the devolution have not yet been drawn up by MOF which 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 Title | Score | Description of requirements met |
|---|-----------|---|
| HLG-1. Predictability of Transfers from a Higher Level of Government | D+ | Scoring Method M1. |
| HLG-1.1 Annual deviation of actual total HLG transfers from the original total estimated amount provided by HLG to the SN entity for inclusion in the latter's budget | A | Aggregate transfers from the national government were higher than 95% of the original estimates in both 2013 and 2015, but they were lower in 2014. 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 88% in 2013, 22% in 2015, and just below 4% 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 grant but its weight is lower than 25% of actual disbursements. |
| PI-1. Aggregate expenditure outturn | D* | Data available for 2013, 2014 and 2015 does not enable calculation of outturn ratios. |
| PI-2. Expenditure composition outturn | D+ | Scoring Method M1. |
| 2.1 Expenditure composition outturn by function | D* | No scoring is applied; as outturn results for the three years are not comparable and the data incomplete. |
| 2.2 Expenditure composition outturn by economic type | D* | No scoring is applied; as outturn results for the three years are not comparable and the data incomplete. |
| 2.3 Expenditure for contingency reserves | A | Actual expenditure charged to the contingency/reserve budget lines is close to zero in all three years i.e. far below an average of 3% of the original approved budget total. |
| PI-3. Revenue outturn | D | Scoring Method M2. |
| 3.1. Aggregate revenue outturn | D* | Data for the three fiscal years do not represent the new municipality, but an assessment based on the former Bajram Curri municipality only would clearly lead to a D score as two years are well below 92%. |
| 3.2. Revenue composition outturn | D | Data for the three fiscal years do not represent the new municipality, and data for FY2015 is incomplete. However, an assessment for the pre-TAR municipality only would clearly lead to a D score, irrespective of the findings for FY2015, as two years are well above 15%. |
| PI-4. Budget classification | D | Budget formulation, execution and reporting use a combination of program, administrative and economic classification, but the program classification appears in different versions in different documents that cannot easily be reconciled or bridged to GFS sub-functional classification. |

| PEFA INDICATOR/Dimension Title | Score | Description of requirements met |
|--|-----------|--|
| PI-5. Budget documentation | D | None of the requirements for the four basic elements are fulfilled. And none of the requirements for the relevant additional elements are fulfilled. |
| PI-6. Central government operations outside financial reports | A | Scoring Method M2. |
| 6.1. Expenditure outside financial reports | A | No expenditure was identified which was unreported in the municipality's budget execution and annual financial reports . |
| 6.2. Revenue outside financial reports | A | No revenue was identified which was unreported 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 Tropoja Municipality. |
| PI-7. Transfers to subnational governments | NA | There is no level of subnational government below municipalities. |
| 7.1. System for allocating transfers | NA | |
| 7.2. Timeliness of information on transfers | NA | |
| PI-8. Performance information for service delivery | D | Scoring Method M2. |
| 8.1. Performance plans for service delivery | D | Information is available annually on program policies and activities to be performed by the majority of the programs, but is of very general nature without quantitative indicators of outputs or outcomes and could not be related to budget allocations. It is also not clear to what extent the information is published. |
| 8.2. Performance achieved for service delivery | D | Information is not published on the activities performed for the majority of public service programs and departments. |
| 8.3. Resources received by service delivery units | D | No information has been collected systematically about resources received by service delivery units during the last three (or any one) fiscal year. |
| 8.4. Performance evaluation for service delivery | D | Evaluations of the efficiency or effectiveness of public service delivery have been carried out for any of the programs or departments during the last three years. |
| PI-9. Public access to information | D | Two out of five basic documents on the Municipality's budget are reportedly made available to the public but timeliness could not be established. Two additional documents (revenue rates and audit report) are available to the public. |
| PI-10. Fiscal risk reporting | D+ | Scoring Method M2. |
| 10.1. Monitoring of public corporations | D | The Municipal government has not officially received any financial reports from the Water Supply Company for 2015. |
| 10.2. Monitoring of subnational governments (SNGs) | NA | Not applicable, as there is no level of government below the municipality |
| 10.3. Contingent liabilities and other fiscal risks | NA | No contingent liabilities are identified. |
| PI-11. Public investment management | D+ | Scoring Method M2. |

| PEFA INDICATOR/Dimension Title | Score | Description of requirements met |
|--|-----------------|---|
| 11.1. Economic analysis of investment proposals | C | Economic analyses are conducted to assess some major investment projects funded by donors. |
| 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 Urban Planning Department. However, the selection is not done on the basis of standard or clearly defined criteria. |
| 11.3. Investment project costing | D | Projections of the total capital cost of major investment projects, together with the capital costs for the forthcoming budget year, are not included in the budget documents. Operation and maintenance costs are not estimated and reported. |
| 11.4. Investment project monitoring | C | The physical progress and capital costs of major investment projects is monitored and reported to the Council on annual basis. |
| PI-12. Public asset management | D+ | Scoring Method M2. |
| 12.1. Financial asset monitoring | D | The municipality does not maintain a record of its holdings and receivables in major financial asset categories. |
| 12.2. Nonfinancial asset monitoring | C | Fixed asset register exists but is operating sub-optimally, with only partial information collected so far on their usage, age, location, and net value. |
| 12.3. Transparency of asset disposal | D | Partial information is included in annual financial reports and submitted to the local council, which is not disclosed to the public. In addition, no information about the assets planned to be disposed of is presented in the budget documents. |
| PI-13. Debt management | B | Scoring Method M2. |
| 13.1. Recording and reporting of debt and guarantees | NA | The Municipality and the former communes have no formal debt or guarantees to manage. |
| 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. |
| PI-14. Macroeconomic and fiscal forecasting | D | Scoring Method M2. |
| 14.1. Macroeconomic forecasts | NA | Macroeconomic forecasting is not applicable to municipalities |
| 14.2. Fiscal forecasts | D ⁵⁴ | The municipality has not prepared multi-year forecasts for any fiscal parameters. Forecasts of revenue, expenditure and budget balance are done for the coming budget year only. |
| 14.3. Macrofiscal sensitivity analysis | NA | Not applicable to municipalities. |
| PI-15. Fiscal strategy | D | Scoring Method M2. |

⁵⁴ 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 |
|--|-----------|---|
| 15.1. Fiscal impact of policy proposals | D | Estimates of the impact of revenue and expenditure policy changes have taken place but are exceptional and have not been done on a multi-year basis during the last three fiscal years. |
| 15.2. Fiscal strategy adoption | D | The municipality does not have an overall fiscal strategy. |
| 15.3. Reporting on fiscal outcomes | NA | No reporting can be done against a fiscal strategy as such a strategy does not exist. |
| PI-16. Medium-term perspective in expenditure budgeting | D | Scoring Method M2. |
| 16.1. Medium-term expenditure estimates | D | Three year estimates of expenditure are not being prepared. |
| 16.2. Medium-term expenditure ceilings | D | No expenditure ceilings have been prepared. |
| 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 | As no medium-term expenditure budget has been undertaken in any of the past four years, this dimension is not relevant. |
| PI-17. Budget preparation process | D | Scoring Method M2. |
| 17.1. Budget calendar | D | No budget calendar has been prepared for the municipality's budget preparation process in 2015 or any prior years, beyond what relates to the interaction between the municipality and the state budgets as per national legislation. |
| 17.2. Guidance on budget preparation | D | No instructions for the preparation of the annual budget FY2016 (or any prior years) have been issued by the Municipality. |
| 17.3. Budget submission to the legislature | D | In none of the last three years has the annual budget proposal been submitted to the Council at least a month before the start of the budget year. |
| PI-18. Legislative scrutiny of budgets | D+ | Scoring Method M1. |
| 18.1. Scope of budget scrutiny | B | The Council's review covers fiscal policies and revenue/expenditure aggregates for the coming year as well as details of revenue and expenditure as all of these items are included in the budget proposals. |
| 18.2. Legislative procedures for budget scrutiny | C | The Council has not established any local procedures for budget review, and so adheres to the national law. However, the Council has not had the time and technical support to effectively implement the procedures. |
| 18.3. Timing of budget approval | D | The Council has approved the budget before the 31 st of December for FY2016 only. The FY2015 and FY2014 budgets were approved almost two months into the fiscal 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 give the Mayor substantial powers to reallocate within programs and are always adhered to. |
| PI-19. Revenue administration | D | Scoring Method M2. |

| PEFA INDICATOR/Dimension Title | Score | Description of requirements met |
|---|-----------|--|
| 19.1. Rights and obligations for revenue measures | D | Information on tax and tariff rates are publicized, but payers are not informed about rights and redress processes/procedures. |
| 19.2. Revenue risk management | C | Municipal revenue staff uses very simple risk management principles. They focus their attention on revenue from businesses which provide the bulk of revenue and are much fewer in number than households. |
| 19.3. Revenue audit and investigation | D | No compliance improvement plan with specification of audits and investigations exist. |
| 19.4. Revenue arrears monitoring | D* | Revenue arrears amounted to more than 200% of total revenue collections in FY2015, both for the pre-TAR municipality and for the new amalgamated municipality. An age profile of arrears is not available, so the share of arrears older than 12 months cannot be established. |
| PI-20. Accounting for revenues | D+ | Scoring Method M1. |
| 20.1. Information on revenue collections | A | The Economic Department receives monthly reports from the Treasury District Office on all revenue collections with details by type and summarizes this into a report to the Mayor. |
| 20.2. Transfer of revenue collections | D | Most revenue is transferred to the municipality's account at the Treasury District Office on a monthly basis. |
| 20.3. Revenue accounts reconciliation | D* | Insufficient evidence obtained. |
| PI-21. Predictability of in-year resource allocation | D+ | Scoring Method M2. |
| 21.1. Consolidation of cash balances | A | As there is only one municipal account, the information on cash balances is readily available (on daily basis). |
| 21.2. Cash forecasting and monitoring | D | A cash flow forecast is prepared for the fiscal year, but the information on own revenues and grants from donors is not included. |
| 21.3. Information on commitment ceilings | D | Departments and Programs are not provided with reliable information on funds available for commitment, especially where reallocations have taken place. |
| 21.4. Significance of in-year budget adjustments | D* | The assessment team could not locate any report or evidence summarising the adjustments/reallocations during the year and, therefore, could not judge the size and frequency of these adjustments. |
| PI-22. Expenditure arrears | D+ | Scoring Method M1. |
| 22.1. Stock of expenditure arrears | D | The stock of expenditure arrears was 28% of total expenditure in 2015 (59% in 2014). |
| 22.2. Expenditure arrears monitoring | C | Data on the stock and composition of expenditure arrears is generated annually at the end of each fiscal year. The report does not have any analysis on the ageing of these expenditure arrears. |
| PI-23. Payroll controls | C+ | Scoring Method M1. |
| 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 |

| PEFA INDICATOR/Dimension Title | Score | Description of requirements met |
|---|-----------|--|
| | | 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 rare and immaterial. |
| 23.3. Internal control of payroll | C | Sufficient controls exist to ensure integrity of the payroll data of greatest importance. |
| 23.4. Payroll audit | C | Partial payroll audits or staff surveys have been undertaken within the last three completed fiscal years. |
| PI-24. Procurement | B | Scoring Method M2. |
| 24.1. Procurement monitoring | C | Databases or records are maintained for contracts including data on what has been procured, value of procurement and who has been awarded contracts. There are concerns about the controls to ensure the data is accurate and complete for all procurement methods for goods, services and works. but materiality of such concerns is judged to be less than 50%. |
| 24.2. Procurement methods | A | 83% of total value of contracts is procured through competitive bidding procedures. |
| 24.3. Public access to procurement information | C | The legal framework for procurement, procurement plan for 2016, realisation of procurement operations for 2015 (i.e. statistics) as well as bidding opportunities and contract awards are posted on the PPA website. While the procurement plan and realisation of procurement operations are timely submitted, the team could not assess the timeliness of the publication of other procurement procedures such as contract awards. Complaints resolution as decided by the PPC is publicized on the PPC website. |
| 24.4. Procurement complaints management | B | The procurement complaint system meets criterion (1), and three of the other criteria. |
| PI-25. Internal controls on non-salary expenditure | D+ | Scoring Method M2. |
| 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 | D* | No reliable data about the weight of the expenditure that are not compliant with regular procedures were found |
| PI-26. Internal audit effectiveness | D | Scoring Method M1. |
| 26.1. Coverage of internal audit | D | No internal audit has taken place during the period under review. |
| 26.2. Nature of audits and standards applied | NA | Not applicable as no internal audit has taken place. |
| 26.3. Internal audit activity and reporting | NA | Not applicable as no internal audit has taken place. |

| PEFA INDICATOR/Dimension Title | Score | Description of requirements met |
|--|-----------|--|
| 26.4. Response to internal audits | NA | Not applicable as no internal audit has taken place. |
| PI-27. Financial data integrity | C | Scoring Method M2. |
| 27.1. Bank account reconciliation | B | Bank reconciliation for all active central government bank accounts takes place at least monthly, usually within 4 weeks from the end of each month. |
| 27.2. Suspense accounts | NA | Suspense accounts are not used. |
| 27.3. Advance accounts | NA | Advance payment is not used. |
| 27.4. Financial data integrity processes | D | Access and changes to records is not effectively restricted and there is no unit or team in charge of verifying data integrity. |
| PI-28. In-year budget reports | D | Scoring Method M1. |
| 28.1. Coverage and comparability of reports | D | Coverage and classification of data does not allow direct comparison to the original budget for the main administrative headings. |
| 28.2. Timing of in-year budget reports | D | Budget execution reports are prepared by TDO and sent to Mayor's office on an ad-hoc basis. |
| 28.3. Accuracy of in-year budget reports | D | Although there are no material concerns regarding data accuracy, an analysis of budget execution is poor as the economic or functional classification is lacking and information on the expenditures is progressive and covers expenditures where payment are done. Commitment information is not included. |
| PI-29. Annual financial reports | D | Scoring Method M1. |
| 29.1. Completeness of annual financial reports | D | Financial reports for municipal government are prepared annually (the latest for FY2015), but are not comparable with the approved budget. They include information on revenue, expenditure, and certain assets and liabilities, including cash balances. |
| 29.2. Submission of reports for external audit | D | Financial reports for the Municipality are not submitted for external audit. |
| 29.3. Accounting standards | D | Accounting standards applied to all financial reports are consistent within the existing legal framework and somehow ensure consistency of reporting over time. The accounting is kept in excel, and there are no rules for recognition, valuation, classification of assets and liabilities. Finally, the national standards used in preparing annual financial reports are distant from international standards and not disclosed. |
| PI-30. External audit | D+ | Scoring Method M1. |
| 30.1. Audit coverage and standards | D | Financial reports of municipal entities representing most total expenditures and revenues have been audited 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. |

| PEFA INDICATOR/Dimension Title | Score | Description of requirements met |
|---|----------|--|
| 30.4. Supreme Audit Institution (SAI) independence | C | The independence of the HSC is ensured through law no. 154/2014 regulates the functional, operational and financial independence, mandate and organization of the HSC apart from a subjective criterion in the dismissal clause for the HSC Chairman. The HSC has unrestricted and timely access to the 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. |
| PI-31. Legislative scrutiny of audit reports | D | Scoring Method M2. |
| 31.1. Timing of audit report scrutiny | NA | Audit reports are not submitted to the legislature,. |
| 31.2. Hearings on audit findings | NA | Audit reports are not submitted to the legislature,. |
| 31.3. Recommendations on audit by the legislature | NA | Audit reports are not submitted to the legislature, |
| 31.4. Transparency of legislative scrutiny of audit reports | NA | Audit reports are not submitted to the legislature, |

Annex 2. Summary of observations on the internal control framework

This table draws on findings from the performance indicator assessments, and more generally on the HSC audit report of 2014 and the STAR Due Diligence Report 2015. Some additional observations are included from the assessment team's interviews of municipal officials.

| Internal control components and elements | Summary of observations |
|--|---|
| 1. Control environment | |
| 1.1 The personal and professional integrity and ethical values of management and staff, including a supportive attitude toward internal control constantly throughout the organization | <p>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> <ul style="list-style-type: none"> a) personal integrity and professional ethics of the management and other employees of the public entity; b) management policies and work style; c) organizational structure, ensuring segregation of duties, hierarchy and clear rules, rights, responsibilities and reporting lines; d) the policies and practices of human resource management; and e) the professional skills of employees." <p>The assessment team was not in a position to evaluate the overall the personal and professional integrity and ethical values of management and staff. Observations on other aspects of the control environment are provided below.</p> |
| 1.2 Commitment to competence | The assessment team is not in a position to conclude on the issue of commitment, but noted the difficulties the Municipality may face in recruiting qualified and motivated staff. |
| 1.3 The "tone at the top" (i.e. management's philosophy and operating style) | The assessment team did not have an opportunity to comprehensively judge management philosophy and operating style in the Municipality but noted an apparent lack of supervision and operational guidance in the area of financial management as well as lack of response to and follow up on the HSC audit findings and recommendations. |
| 1.4 Organizational structure | A clear organizational structure has been established for the Municipality with related staff positions. Due to the limited size of the Municipality, however, not all control measures have clear institutional linkages e.g. responsibility for procurement management and monitoring is defined in the organization but dealt with on an ad hoc basis (PI-24). Also, the IA function has only recently been established and is not yet operational (PI-26). |
| 1.5 Human resource policies and practices | While the Municipality attempts to follow the principles mentioned under 1.1 above, and the related provisions set out in national law, little has been done in terms of defining management and HR policies at the local level. Due to the relatively small size of the local community and its remoteness, the Municipality faces problems with recruitment and retention of staff with adequate |

| Internal control components and elements | Summary of observations |
|---|--|
| | professional skills and motivation. HSC's audit report of 2014 noted that the Municipality had hired staff without the requisite qualifications. |
| 2. Risk assessment | |
| 2.1 Risk identification | Interviews with municipal officials revealed that there was awareness of risk to the Municipality's finances in several areas such as own revenue collection, expenditure arrears, Water Supply Company losses, safeguarding of physical assets and insufficient resources to finance the new functions of the Municipality as from 2016. The STAR Due Diligence Report 2015 noted that not all administrative units have kept records of leased properties, owned companies or concessions or other contracts with third parties. It also noted that the archive volume of the new municipality is expected to increase from the documents received from the previous local government units. Consequently, reorganization of the new Municipality archive and its maintenance will be challenging. In addition, the HSC report from 2014 highlighted a number of further areas of risk such as procurement (lack of clear bid selection criteria, missing recording/filing of documentation and poor timeliness in communicating information). |
| 2.2 Risk assessment (significance and likelihood) | Assessment of the magnitude of the risk was found only in the areas of own revenue collection and expenditure arrears (ref. PI-19 and PI-22). No assessment has been reported on the magnitude of Water Supply Company losses or the likelihood that such losses will have to be covered by the Municipality (PI-10). |
| 2.3 Risk evaluation | No explicit evaluation of any risk was identified by the assessment team. |
| 2.4 Risk appetite assessment | The assessment team is not in a position to judge the level of risk appetite. |
| 2.5 Responses to risk (transfer, tolerance, treatment or termination) | No response by the Mayor or his representative to the HSC's 2014 report could be identified (PI-30). The Municipality has no documented plans in place for how to deal with tax arrears, expenditure arrears or funding of new functions. The administration is negotiating with national government regarding funding of new functions. |
| 3. Control activities | |
| 3.1 Authorization and approval procedures | Authorization and approval procedures are well established in law and defined for the core functions in the municipal administration (e.g. the distinction between the Authorizing Officer – the Mayor - and the Executing Officer – the Economic Director). |
| 3.2 Segregation of duties (authorizing, processing, recording, reviewing) | Segregation of duties is specified in Law No. 10296, 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. Segregation of duties is well defined in some of the core financial processes such as in the processing of personnel and payroll information and in the payment procedures for other expenditures. In other areas segregation of duties are more uncertain, however, as internal instructions/regulations have not been prepared. The STAR Due Diligence Report 2015 noted that "The Administrator" is a new role stipulated in the amendments to the law of local government appointed by and reporting to the Mayor, but lacking clarity about The Administrator's role in |

| Internal control components and elements | Summary of observations |
|---|--|
| | relation to the services provided and hierarchical dependence of agencies expected to provide services to citizens. |
| 3.3 Controls over access to resources and records | Records management is clearly a weakness of the administration: files are kept on shelves, in cardboard boxes and electronically filed in multiple unconnected computers. Physical filing problems at the time of assessment could be at least partly explained by the administration being in temporary office accommodation during the refurbishment of the City Hall building. The STAR Due Diligence Report of 2015 noted that “computers are not managed through a centralized and standardized system that automates the network management of user account data and security requirements. Therefore, the implementation of safety rules and access management is not implemented” and “the level of availability of hardware equipment is at the minimum level. Not all employees have access to a personal computer and the existing devices are from a wide variety of brands and models. There is lack of servers and back-up mechanisms for information”. As a result of the above, access control to records and related audit trails of changes to records are generally missing with the exception of access to personnel records of municipal staff (ref. also PI-23.1 and PI-27.4). |
| 3.4 Verifications | Inspection is the most accepted practice in the receipt of goods and services rendered, and in the project monitoring. Such inspection takes place (e.g. project inspection ref. PI-11.4) but is not always effective (e.g. HSC finding that some contractors were paid for services not delivered). |
| 3.5 Reconciliations | Bank account reconciliation takes place on a regular basis and is facilitated by the Municipality operating only one account through the TDO. Reconciliation of fiscal data at the aggregate level is not undertaken in a way that allows comparison of the original budget approved by the Council (and the Prefecture), and the in-year budget amendments with the final budget execution data (ref. PI-1, PI-2, PI-28). |
| 3.6 Reviews of operating performance | No reviews of operating performance (service provision) were identified and service delivery targets/standards are not defined (PI-8). |
| 3.7 Reviews of operations, processes and activities | The STAR Due Diligence Report 2015 reviewed administrative processes and activities, but not service provision. The report highlights a range of areas in need of improvement and provides a useful starting point for reforming the municipal administration. |
| 3.8 Supervision (assigning, reviewing and approving, guidance and training) | In the area of financial management, assignment of tasks and authority to approve expenditure appear well defined. However, review of reports and other documentation as well as guidance and training of staff appear to be in need of improvement. |
| 4. Information and communication | Internal communication processes are established but are rather ad hoc (e.g. frequency of in-year budget execution reports, PI-28). Despite the small size of the administration, the HSC report 2014 noted failure of communication between the sections of the Economic Directorate. External communication is well established through the Mayor’s weekly meetings with the citizens, but quite informal. General public access to fiscal information about the Municipality is poor and a suitable website is missing (PI-9). Access to procurement information, however, has improved through the centralized procurement website managed by the PPA. |
| 5. Monitoring | |

| Internal control components and elements | Summary of observations |
|--|--|
| 5.1 Ongoing monitoring | The Mayor is responsible for setting up a system to monitor the financial management and control systems, in order to ensure they are functioning correctly and systems are updated, whenever circumstances change. 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 ⁵⁵ . 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. The assessment team was not provided a copy of such a statement by the Municipality. Internal audit is supposed to be a key part of the monitoring system, but has only recently been established and was not yet functioning at the time of the assessment (PI-26). |
| 5.2 Evaluations | External audit is conducted periodically, latest for the period 1.01.2012-30.06.2014, i.e. completed well before the amalgamation of the audited municipality with the surrounding communes. HSC identified 13 areas where internal controls were failing. |
| 5.3 Management responses | No response by the Mayor or his representative to the HSC's 2014 report could be identified (PI-30). |

⁵⁵ Instruction No. 28, dated 15 December 2011, on the Presentation of the Quality Statement and Annual Report on Internal Control System in Public Sector.

Annex 3A. List of documentation consulted

| Performance Indicators | Information sources |
|------------------------|---|
| | Documents, websites |
| HLG1 | <ul style="list-style-type: none"> National Treasury Office at the MoF data on transfers; RDF data for Municipality of Tropoja; Budget implementation instructions. |
| PI-1 | <ul style="list-style-type: none"> Summary expenditure and detailed expenditure data for FY2013, FY2014 and FY2015 obtained by PLGP/USAID and MoF; Municipality Council decisions for FY2013, FY2014 and FY2015; Draft-Law On Local Self-Government Finances (Open Discussion Draft), prepared for the Working Group for the Fiscal Decentralization Reform, 26 September 2016. |
| PI-2 | <ul style="list-style-type: none"> Summary expenditure and detailed expenditure data for FY2013, FY2014 and FY2015 obtained by PLGP/USAID and MoF; Municipality Council decisions for FY2013, FY2014 and FY2015. |
| PI-4 | Law no.9936 dated 26.06.2008, "On the Management of the Budgetary System in the Republic of Albania" (as amended July 2016). |
| PI-3 | <ul style="list-style-type: none"> Actual revenues as reported by Revenue Section and Annual Budgets for 2013, 2014, 2015 for Bajram Curri only; Law on Tax Procedures (2008); Law On National Taxes (2008); Law on Income Tax (1998); Law on Value Added Tax (2014); Law on excise duties (2002); Law on the System of Local Taxes and Fees (2006). |
| PI-5 | <ul style="list-style-type: none"> Budget documentation for FY 2016; Municipality Council Decision No. 49 of 23.12.2015. |
| PI-6 | Budget execution reports and Financial Statements for FY 2015. |
| PI-8 | <ul style="list-style-type: none"> Law No. 139/2015 on Local Self-Governance; Law no 8652/2000, on Organization and Functioning of Local Governments; Budget documentation FY 2016. |
| PI-9 | Law No. 139/2015 on Local Self-Governance. |
| PI-10 | <ul style="list-style-type: none"> Agreement with the Albanian Development Fund; Budget execution reports for 2015. |
| PI-11 | <ul style="list-style-type: none"> Budget documentation for FY 016; Budget execution reports FY2015; Urban Planning Department reports for FY2015; Law no.9936 dated 26.06.2008, "On the Management of the Budgetary System in the Republic of Albania" (as amended June 2016). |
| PI-12 | <ul style="list-style-type: none"> Instruction no 30 dated 27.12.2011 of the MoF On Asset Management at Public Sector Units; Instruction no 11 dated 6.5.2016 of the MoF On Asset Management at Public Sector Units; Instruction no. 118 dated 6.05.2016 of the MoF On disposal of financial assets and buildings; Financial Statement of Tropoja Municipality FY2015. |
| PI-13 | <ul style="list-style-type: none"> Law No. 9869, dated 04 February 2008, on the Borrowing of the Local Government; Law on State Debt, and State Guarantees in the Republic of Albania (2006). |

| Performance Indicators | Information sources |
|------------------------|--|
| | Documents, websites |
| PI-14 | Budget documentation for FY2013, 2014 and 2015. |
| PI-15 | <ul style="list-style-type: none"> • Law No. 139/2015 on Local Self-Governance; • Inventory of Rural Roads Year 2016. |
| PI-16 | <ul style="list-style-type: none"> • Budget documentation for FY2014, 2015 and 2016; • Three year investment plan prepared by Urban Development Department; • MOF (2012) – Standard Instruction on the Medium Term Budget Preparation; and Standard Instruction on Budget Execution. |
| PI-17 | <ul style="list-style-type: none"> • Law no.9936 dated 26.06.2008, “On the Management of the Budgetary System in the Republic of Albania” (as amended June 2016); • Approval acts of the budget by the Council for FY2015, 2014 and 2013. |
| PI-18 | <ul style="list-style-type: none"> • Law No. 139/2015 on Local Self-Governance; • Law No. 8652/2000, ‘On Organization and Functioning of Local self-governance’; • Approval acts of the budget by the Council for FY2015, 2014 and 2013. |
| PI-19 | <ul style="list-style-type: none"> • Revenue Section reports on collections; • Law on Tax Procedures (2008); • Law On National Taxes (2008); • Law on Income Tax (1998); • Law on Value Added Tax (2014); • Law on excise duties (2002); • Law on the System of Local Taxes and Fees (2006); • Due Diligence report prepared by STAR in July 2015; • Financial Statements for FY2015. |
| PI-20 | Treasury District Offices reports. |
| PI-21 | <ul style="list-style-type: none"> • Law no.9936 dated 26.06.2008, “On the Management of the Budgetary System in the Republic of Albania” (as amended June 2016); • Treasury District Offices reports; • Budget and Finance Section reports; • Instructions 93 to 104, 132 and 255, from “<i>Standard Procedures of Application for Budget Preparation</i>”, Ministry of Finance, dated 6 February, 2012. |
| PI-22 | <ul style="list-style-type: none"> • Budget and Finance Section reports for expenditure arrears FY2015 and 2014; • Strategy for Clearance and Prevention of Arrears Accumulated by the Central Government Decision No. 50 dated February 2, 2014. |
| PI-23 | <ul style="list-style-type: none"> • Law No. 139/2015 on Local Self-Governance; • Municipality Council decision dated 20.9.2016 On the salary level for Tropoja Municipality; • Council of Minister Decision no 165, dated 2.3.2016 Determination of the salary levels for local government employee; • HSC audit for former Municipality of Bajram Curri for the period January 2012 – June 2014. |
| PI-24 | <ul style="list-style-type: none"> • Law No. 182/2014 on amendments to the Public Procurement Law; • Country Partnership Framework for Albania 2015-2019 WBG; • Public Finance Management Reform 2014-2020, 2015 Monitoring Report; • Annual Contract Registers; • 2015 Baseline Measurement report of SIGMA “The principles of Public Administration”; • PPC website, Annual report 2015; • Annual procurement plans for FY2016. |
| PI-25 | <ul style="list-style-type: none"> • Law on Financial Management and Control (2010); |

| Performance Indicators | Information sources |
|------------------------|--|
| | Documents, websites |
| | <ul style="list-style-type: none"> • Law no.9936 dated 26.06.2008, "On the Management of the Budgetary System in the Republic of Albania" (as amended June 2016); • HSC audit for former Municipality of Bajram Curri for the period January 2012 – June 2014. |
| PI-26 | <ul style="list-style-type: none"> • Law no 114 dated 22.10.2015 "On Internal Auditing on Public Sector"; • Mayor decision no 104 dated 30.8.2016; • Albania Public Finance Management Strategy 2014 – 2020, Government of Albania, 2014. |
| PI-27 | Financial Statements for FY2015. |
| PI-28 | <ul style="list-style-type: none"> • TDO reports for FY2015; • Finance and Budget Section reports for 2015. |
| PI-29 | <ul style="list-style-type: none"> • Financial Statements for FY2015, 2014 and 2013; • Law no.9936 dated 26.06.2008, "On the Management of the Budgetary System in the Republic of Albania" (as amended June 2016); • Law No. 9928/2004 on Accounting and Financial Statements, dated 29 April, 2004; • Albania Public Finance Management Strategy 2014 – 2020, Government of Albania, 2014. |
| PI-30 | <ul style="list-style-type: none"> • Law No. 139/2015 on Local Self-Governance; • Law No. 154/2014 on the Organization and Functioning of the High State Control, dated 27 November 2014; • HSC audit for former Municipality of Bajram Curri for the period January 2012 – June 2014; • Baseline Measurement report, SIGMA/OECD, 2015, Principle 15. |
| PI-31 | <ul style="list-style-type: none"> • Law No. 139/2015 on Local Self-Governance; • Law no.9936 dated 26.06.2008, "On the Management of the Budgetary System in the Republic of Albania" (as amended June 2016). |

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 | Muse Nikoci | Economic Director | Municipality of Tropoja |
| 10 | Kujtim Osmanaj | Head of Human Resources Section | Municipality of Tropoja |
| 11 | Valentina Nezaj | Legal services | Municipality of Tropoja |
| 12 | Vjollca Berbati | Head of Budget & Finance Section | Municipality of Tropoja |
| 13 | Mirjeta Gjongecaj | Finance Specialist | Municipality of Tropoja |
| 14 | Hasan Cuka | Director of Planning and Development of Territory Directorate | Municipality of Tropoja |
| 15 | Ardon Breçani | Revenue section | Municipality of Tropoja |
| 16 | Rexhep Ismajlisufaj | Director of Cabinet / Economic Director | Municipality of Tropoja |
| 17 | Rubin Sellaj | Secretary to the Council | Municipality of Tropoja |
| 18 | Bajram Gjongecaj | Head of Tourism, Transport & Emergency Services | Municipality of Tropoja |
| 19 | Pal Rosaj | Head of Services Section, Infrastructure Maintenance | Municipality of Tropoja |
| 20 | Hysni Bercani | Director of Water Supply Company | Water Supply Company Tropoja |
| 21 | Philipp Keller | Deputy Head of Mission | Embassy of Switzerland |
| 22 | Sigita Stafa | National Programme Officer for Economic Development | Embassy of Switzerland |
| 23 | Elton Stafa | Program Officer | PLGP/USAID |
| 24 | Valbona Karakaqi | Programme Manager | Helvetas Swiss Intercooperation |
| 25 | 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 2015.⁵⁶ Albania's economy grew steadily at an average of 6% annually until the onset of the global financial crisis in 2008, driven by the construction and the services sector. An economic slowdown was experienced since 2009, which caused the labour for demand to fall while unemployment and poverty rose. Employment and labour participation declined by 8 percentage points during 2009-2013. All in all, the shrinking labour demand and wage income caused poverty rates to increase to 14.3% from 12.14% in 2008. During the same period inequalities in welfare across the country also increased, with a sharper increase in poverty rates in urban areas (from 10.2% to 13.6%), likely due to internal migration flows. GDP growth was sustained due to expansionary fiscal policy, which in turn led to rapidly rising public debt and accumulation of debt arrears.

Table A4.1 Some facts about Albania

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

Source: Population and Housing Census 2011, INSTAT.

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

Table A4.2 Main macroeconomic indicators

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

⁵⁶ World Bank, <http://www.worldbank.org/en/country/albania/overview>.

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

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

¹ Last update on 2015 Q3.

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

³ According to Labour Force Survey Results.

*The GDP data for 2015 are derived from IMF.

A4.2 Legal and Regulatory Framework for PFM

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

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

The legal framework regulating the budget system, planning, execution, monitoring and control of the budget applies uniformly to all general government entities. The main framework law was adopted in 2008, with amendments in summer 2016 to among other further regulate some areas of

fiscal discipline. This law regulates a series of issues pertinent to local governments as well, including structure, principles of budgets; elements of intergovernmental transfers; processes of budget preparation, execution and control/inspection. New legislation regulating expenditure control and internal audit has been adopted in the last two years, adjusting or improving the previous laws in financial management and control, internal and external audit.

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

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

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

| Area | Description |
|-----------------------|---|
| Legislative oversight | <ul style="list-style-type: none"> • The Constitution (1999); • Law on Organisation and Functioning of the Council of Ministers. |
| Decentralisation | <ul style="list-style-type: none"> • Constitution established principles of decentralisation and subsidiarity; • Law on Local Self Government (2015). |
| Transparency | <ul style="list-style-type: none"> • On the right to information (2014); • On Public Notice and Consultation. |

Public Internal Financial Control (PIFC) is the overall internal control system governing the internal control framework for the entire public sector in Albania and thus also for the Municipality of Tropoja, which 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 the beginning of 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 functions⁵⁷ 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

⁵⁷ E.g. in the area of pre-university education, municipalities are supposed to provide and maintain infrastructure such as school and kindergarten buildings, whereas national government provides funding of salaries for education staff through specific grants. With the adoption of the new local self-governance law the concept of "shared functions" is no longer in force. Maintenance of school facilities is an "own" function; while social welfare payments are delegated functions.

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

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

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

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

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

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

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

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

A4.6 Fiscal and budgetary trends

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

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

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

Source: IMF CR16/289.

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

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

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

| | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|--------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|
| I. Current expenditures | 38,742 | 36,703 | 37,843 | 40,594 | 44,778 | 42,688 |
| Personnel | 10,117 | 10,362 | 10,124 | 10,822 | 10,951 | 10,972 |
| Operational | 8,898 | 8,279 | 8,504 | 8,832 | 9,686 | 9,596 |

| | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---------------|---------------|---------------|---------------|---------------|---------------|
| Office materials and other admin. | 527 | 530 | 452 | 426 | 395 | 395 |
| Services from third parties (energy, water, phone) | 3,807 | 3,281 | 3,883 | 3,932 | 4,434 | 4,740 |
| Transport Expenditures | 876 | 908 | 974 | 1,022 | 1,068 | 826 |
| Travelling and allowances | 353 | 238 | 167 | 146 | 161 | 114 |
| General maintenance expenditures | 928 | 941 | 828 | 809 | 779 | 752 |
| Other operating expenditures | 2,407 | 2,381 | 2,199 | 2,496 | 2,850 | 2,769 |
| Subsidies | 2,407 | 771 | 1,665 | 852 | 572 | 499 |
| Transfers | 17,273 | 17,259 | 17,515 | 20,056 | 23,543 | 21,565 |
| Interest Payment | 47 | 32 | 35 | 32 | 27 | 55 |
| II. Capital expenditures | 16,564 | 13,581 | 10,825 | 13,035 | 15,473 | 16,531 |
| Total Expenditures | 55,305 | 50,284 | 48,668 | 53,629 | 60,251 | 59,218 |

Source: Ministry of Finance.

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

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

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

Source: Ministry of Finance.

Only a relatively small part of municipalities' income is fully under their control. At the national level about three quarters of municipalities' total income is derived from conditional and unconditional grants from central government, and from predetermined shares of taxes collected by central government. The main sources of revenue under municipal control are annual property taxes on buildings and land, annual fees charged for the provision of municipal services (which are very similar to property taxes), and the infrastructure impact tax levied in respect of new buildings. The potential revenue from property taxes is limited by central government restrictions on tax rates, as well as by inadequacies in the documentation of chargeable properties; it appears that municipalities have in many cases made only limited efforts to collect property taxes from households, considering that the potential revenue did not justify the trouble involved. The yield from the infrastructure impact tax is potentially important, but it has been reduced during the 2013-15 period by the centrally-imposed ban on the issue of new building permits. The different streams of municipal revenue are shown in Table A4.7.

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

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

Source: Ministry of Finance.

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

| Municipality Name | No. communes absorbed | No. population ⁵⁸ | | | Total Revenues ⁵⁹ ALL million | | | Own source revenues ⁴ ALL mill | | | Share of own source revenues to total | |
|----------------------|-----------------------------|------------------------------|---------|----------|--|--------|----------|---|-------|----------|--|-----|
| | | Pre- TAR | TAR | increase | Pre-TAR | TAR | increase | Pre-TAR | TAR | increase | Pre-TAR | TAR |
| Tirana | 13 | 418,495 | 557,422 | 33% | 8,245 | 10,305 | 25% | 4,733 | 5,880 | 24% | 57% | 57% |
| Berat | 4 | 36,946 | 60,031 | 62% | 778 | 1,139 | 46% | 202 | 262 | 30% | 26% | 23% |
| Kucova | 3 | 12,654 | 31,262 | 147% | 286 | 548 | 92% | 79 | 116 | 47% | 28% | 21% |
| Fier | 9 | 55,845 | 120,655 | 116% | 1,005 | 2,015 | 100% | 305 | 530 | 74% | 30% | 26% |
| Tropoja | 7 | 5,340 | 20,517 | 284% | 146 | 538 | 268% | 22 | 30 | 36% | 15% | 6% |

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

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

⁵⁸ Source: Census 2011, Institute of Statistics.

⁵⁹ Source: End-of year budget execution data for 2014 fiscal year, Ministry of Finance & PLGP/USAID.

Annex 5. Organisation of Tropoja Municipality

| Organisation Structure of Municipality of Tropoja | |
|---|--|
| 1 | MAYOR OF TROPOJA |
| 1.1 | Vice-Mayors |
| 1.2 | CABINET |
| 1.3 | Internal Audit Section (has not yet become effective) |
| 1.4 | Human Resources Section |
| 1.5 | Economic Directorate |
| 1.5.1 | Budget & Finance Section |
| 1.5.2 | Revenue section |
| 1.5.3 | Economic assistance |
| 1.6 | Directorate of Planning and Development of Territory |
| 1.6.1 | Rural development section |
| 1.6.2 | Control of Territory Development section |
| 1.7 | Tourism and Other Services Directorate |
| 1.8 | Civil Status service |
| 1.9 | Police services |

| Dependent institutions | |
|------------------------|---------------------------------|
| | MAYOR OF TROPOJA |
| 1 | Administrative unit of Tropoja |
| 2 | Administrative unit of Bujan |
| 3 | Administrative unit of Bytyc |
| 4 | Administrative unit of Margegaj |
| 5 | Administrative unit of Llugaj |
| 6 | Administrative unit of Fierze |
| 7 | Administrative unit of Lekbibaj |
| 8 | Cultural Center of Bajram Curri |
| 9 | Sport Club of Valbona |
| 10 | Kindergarden Center |
| 11 | Maintenance and Public Services |

Annex 6A. Calculation Spreadsheets HLG-1

| Data for year = | | 2013 | | | | |
|--------------------------|---------|---------|-----------------|-----------|--------------------|---------|
| Type of transfer | budget | actual | adjusted budget | deviation | absolute deviation | percent |
| Unearmarked transfers | 34.521 | 34.706 | 61.472,0 | -26.766,3 | 26.766,3 | 43,5% |
| Education | - | - | 0,0 | 0,0 | 0,0 | |
| Culture | | | 0,0 | 0,0 | 0,0 | |
| General public services | 3.408 | 3.117 | 6.068,7 | -2.951,3 | 2.951,3 | 48,6% |
| Local community services | | | 0,0 | 0,0 | 0,0 | |
| Roads and transport | - | 97.242 | 0,0 | 97.241,9 | 97.241,9 | |
| Social care | 86.301 | 86.154 | 153.677,8 | -67.524,3 | 67.524,3 | 43,9% |
| Sports | | | 0,0 | 0,0 | 0,0 | |
| Housing | | | 0,0 | 0,0 | 0,0 | |
| Water and sanitation | | | 0,0 | 0,0 | 0,0 | |
| Total expenditure | 124.229 | 221.219 | 221.219 | 0,0 | 194.483,7 | |
| overall variance | | | | | | 178,07% |
| composition variance | | | | | | 87,91% |
| Table 3 | | | | | | |
| Data for year = | | 2014 | | | | |
| Type of transfer | budget | actual | adjusted budget | deviation | absolute deviation | percent |
| Unearmarked transfers | 42.921 | 36.383 | 38.686,9 | -2.303,9 | 2.303,9 | 6,0% |
| Education | | | 0,0 | 0,0 | 0,0 | |
| Culture | | | 0,0 | 0,0 | 0,0 | |

| | | | | | | |
|-----------------------------|---------------|---------------|-----------------|-----------|--------------------|---------|
| General public services | 3.081 | 3.081 | 2.777,0 | 303,7 | 303,7 | 10,9% |
| Local community services | | | 0,0 | 0,0 | 0,0 | |
| Roads and transport | | | 0,0 | 0,0 | 0,0 | |
| Social care | 90.857 | 83.894 | 81.894,0 | 2.000,2 | 2.000,2 | 2,4% |
| Sports | | | 0,0 | 0,0 | 0,0 | |
| Housing | | | | | | |
| Water and sanitation | | | | | | |
| Total expenditure | 136.859 | 123.358 | 123.357,9 | 0,0 | 4.607,8 | |
| overall variance | | | | | | 90,1% |
| composition variance | | | | | | 3,7% |
| Data for year = 2015 | | | | | | |
| Type of transfer | budget | actual | adjusted budget | deviation | absolute deviation | percent |
| Unearmarked transfers | 103.560 | 103.251 | 114.560,1 | -11.309,1 | 11.309,1 | 9,9% |
| Education | | | 0,0 | 0,0 | 0,0 | |
| Culture | | | 0,0 | 0,0 | 0,0 | |
| General public services | 6.617 | 5.785 | 7.319,8 | -1.534,7 | 1.534,7 | 21,0% |
| Local community services | | | 0,0 | 0,0 | 0,0 | |
| Roads and transport | - | 35.766 | 0,0 | 35.765,8 | 35.765,8 | |
| Social care | 183.266 | 179.811 | 202.732,8 | -22.921,9 | 22.921,9 | 11,3% |
| Sports | | | 0,0 | 0,0 | 0,0 | |
| Housing | | | | | | |
| Water and sanitation | | | | | | |
| Total expenditure | 293.443 | 324.613 | 324.612,7 | 0,0 | 71.531,5 | |
| overall variance | | | | | | 110,6% |
| composition variance | | | | | | 22,04% |

Annex 6B Calculation Spreadsheets PI-3

| Data for year = 2013 | | | | | | |
|--|--------|--------|-----------------|-----------|--------------------|---------|
| Economic head | budget | actual | adjusted budget | deviation | absolute deviation | percent |
| Tax revenues | | | | | | |
| Taxes on income, profit, capital gains (SBT) | 8.530 | 4.668 | 5.272,7 | -604,7 | 604,7 | 11,5% |
| Taxes on property | 1.750 | 1.422 | 1.081,7 | 340,3 | 340,3 | 31,5% |
| Taxes on goods and services (Vehicles) | 1.530 | 1.715 | 945,8 | 769,2 | 769,2 | 81,3% |
| Infrastructure impact tax | 2.800 | 8.318 | 1.730,8 | 6.587,2 | 6.587,2 | 380,6% |
| Hotel tax | 400 | 245 | 247,3 | -2,3 | 2,3 | 0,9% |
| Tariffs | | | | | | |
| Solid waste fee | 5.070 | 3.749 | 3.134,0 | 615,0 | 615,0 | 19,6% |
| Parking fee | 250 | 275 | 154,5 | 120,5 | 120,5 | 78,0% |
| Lighting fee | 950 | 758 | 587,2 | 170,8 | 170,8 | 29,1% |
| Environmental fee | 950 | 748 | 587,2 | 160,8 | 160,8 | 27,4% |
| Network maintenance fee | 1.110 | 748 | 686,1 | 61,9 | 61,9 | 9,0% |
| Advertisement (billboard tax) | 1.050 | 926 | 649,0 | 277,0 | 277,0 | 42,7% |
| Grants | | | | | | |
| Grants from foreign governments | | | 0,0 | 0,0 | 0,0 | |
| Grants from international organizations | | | 0,0 | 0,0 | 0,0 | |
| Grants from other government units | | | 0,0 | 0,0 | 0,0 | |
| Other revenue | | | | | | |
| Property income (rent) | 800 | 1.289 | 494,5 | 794,5 | 794,5 | 160,7% |
| Sales of goods and services (childrens' meals) | 1.000 | 1.327 | 618,1 | 708,9 | 708,9 | 114,7% |
| Certificates and document copies | 400 | 545 | 247,3 | 297,7 | 297,7 | 120,4% |

| | | | | | | |
|--|---------------|---------------|-----------------|-----------------|--------------------|---------|
| Licenses and authorizations | 650 | 246 | 401,8 | -155,8 | 155,8 | 38,8% |
| Sum of rest | 760 | 1.420 | 770,8 | 649,2 | 649,2 | 84,2% |
| Total revenue | 28.000 | 28.399 | 17.608,9 | 10.790,1 | 12.315,6 | |
| overall variance | | | | | | 101,4% |
| composition variance | | | | | | 69,9% |
| Table 3 | | | | | | |
| Data for year = 2014 | | | | | | |
| Economic head | budget | actual | adjusted budget | deviation | absolute deviation | percent |
| Tax revenues | | | | | | |
| Taxes on income, profit, capital gains (SBT) | 7.500 | 1.852 | 4.636,0 | -2.784,0 | 2.784,0 | 60,1% |
| Taxes on property | 3.200 | 2.702 | 1.978,0 | 724,0 | 724,0 | 36,6% |
| Taxes on goods and services (Vehicles) | 2.100 | 1.210 | 1.298,1 | -88,1 | 88,1 | 6,8% |
| Infrastructure impact tax | 8.000 | 1.933 | 4.945,1 | -3.012,1 | 3.012,1 | 60,9% |
| Hotel tax | 500 | 85 | 309,1 | -224,1 | 224,1 | 72,5% |
| Tariffs | | | | | | |
| Solid waste fee | 5.500 | 5.796 | 3.399,8 | 2.396,2 | 2.396,2 | 70,5% |
| Parking fee | 500 | 354 | | | | |
| Lighting fee | 900 | 1.107 | | | | |
| Environmental fee | 900 | 1.096 | | | | |
| Network maintenance fee | 1.100 | 1.262 | | | | |
| Advertisement (billboard tax) | 1.000 | 857 | 618,1 | 238,9 | 238,9 | 38,6% |
| Grants | | | | | | |
| Grants from foreign governments | | | 0,0 | 0,0 | 0,0 | |
| Grants from international organizations | | | 0,0 | 0,0 | 0,0 | |
| Grants from other government units | | | 0,0 | 0,0 | 0,0 | |
| Other revenue | | | | | | |
| Property income (rent) | 1.000 | 763 | 618,1 | 144,9 | 144,9 | 23,4% |

| | | | | | | |
|--|---------------|---------------|-----------------|-----------|--------------------|---------|
| Sales of goods and services (childrens' meals) | 1.500 | 1.282 | 927,2 | 354,8 | 354,8 | 38,3% |
| Certificates and document copies | 600 | 356 | 370,9 | -14,9 | 14,9 | 4,0% |
| Licenses and authorizations | 750 | 512 | 463,6 | 48,4 | 48,4 | 10,4% |
| Sum of rest | 950 | 1.086 | 587,2 | 498,8 | 498,8 | 84,9% |
| Total revenue | 36.000 | 22.253 | 20.151,3 | -1.717,3 | 10.529,1 | |
| overall variance | | | | | | 61,8% |
| composition variance | | | | | | 52,2% |
| Table 4 | | | | | | |
| Data for year = 2015 | | | | | | |
| Economic head | budget | actual | adjusted budget | deviation | absolute deviation | percent |
| Tax revenues | | | | | | |
| Taxes on income, profit, capital gains (SBT) | 7.500 | 8.111 | 4.636,0 | 3.475,0 | 3.475,0 | 75,0% |
| Taxes on property | 3.250 | | 2.009,0 | -2.009,0 | 2.009,0 | 100,0% |
| Taxes on goods and services (Vehicles) | 1.400 | 480 | 865,4 | -385,4 | 385,4 | 44,5% |
| Infrastructure impact tax | 2.500 | 854 | 1.545,3 | -691,3 | 691,3 | 44,7% |
| Hotel tax | 300 | | 185,4 | -185,4 | 185,4 | 100,0% |
| Tariffs | | | | | | |
| Solid waste fee | 6.015 | 4.380 | 3.718,1 | 661,9 | 661,9 | 17,8% |
| Parking fee | 500 | - | 309,1 | -309,1 | 309,1 | 100,0% |
| Lighting fee | 900 | | 556,3 | -556,3 | 556,3 | 100,0% |
| Environmental fee | 900 | 2.512 | 556,3 | 1.955,7 | 1.955,7 | 351,5% |
| Network maintenance fee | 1.200 | | 741,8 | -741,8 | 741,8 | 100,0% |
| Advertisement (billboard tax) | 900 | | 556,3 | -556,3 | 556,3 | 100,0% |
| Grants | | | | | | |
| Grants from foreign governments | | | 0,0 | 0,0 | 0,0 | #DIV/0! |
| Grants from international organizations | | | 0,0 | 0,0 | 0,0 | #DIV/0! |
| Grants from other government units | | | 0,0 | 0,0 | 0,0 | #DIV/0! |

| Other revenue | | | | | | |
|--|--------|--------|----------|---------|----------|--------|
| Property income (rent) | 1.000 | 1.492 | 618,1 | 873,9 | 873,9 | 141,4% |
| Sales of goods and services (childrens' meals) | 1.500 | 3.798 | 927,2 | 2.870,8 | 2.870,8 | 309,6% |
| Certificates and document copies | 600 | | 370,9 | -370,9 | 370,9 | 100,0% |
| Licenses and authorizations | 650 | | 401,8 | -401,8 | 401,8 | 100,0% |
| Sum of rest | 885 | 4.565 | 772,7 | 3.792,3 | 3.792,3 | 490,8% |
| Total revenue | 30.000 | 26.192 | 18.769,8 | 7.422,2 | 19.836,8 | |
| overall variance | | | | | | 87,3% |
| composition variance | | | | | | 105,7% |

Annex 7. Disclosure of quality assurance arrangements

| Composition of the Oversight team | |
|------------------------------------|---|
| Ministry of Finance | Fran Brahimi (co-chair) |
| Minister of State for Local Issues | Enea Hoti |
| High State Control | Bajram Lamaj |
| Tropoja Municipality | Economic Director Muse Nikoci / Rexhep Ismajlisufaj |
| 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(Fran Brahimi) | 13 th September, 2016 | 15 th September, 2016 |
| HSC (Bajram Lamaj) | 13 th September, 2016 | 15 th September, 2016 |
| PEFA Secretariat (Guillaume Brule) | 13 th September, 2016 | 15 th September, 2016 |
| SDC (Elda Bagaviki) | 13 th September, 2016 | 15 th September, 2016 |
| DLDP (Stefan Pfäffli) | 12 th September, 2016 | 15 th September, 2016 |
| Concept Note final approved by Oversight Team 20 th September, 2016 | | |

| Review of Draft Report | | |
|---|--------------------------------|-------------------------------|
| Draft report dated 21 November, distributed 28 th November, 2016 | | |
| Reviewer | Comments received | Date of ECORYS response |
| Tropoja Municipality | 15 th December 2016 | 27 th January 2017 |
| DLDP | 12 th December 2016 | 27 th January 2017 |
| PLGP | 20 th January 2017 | 27 th January 2017 |
| SECO | 29 th December 2016 | 27 th January 2017 |
| HSC (Bajram Lamaj) | 15 th December 2016 | 27 th January 2017 |
| PEFA Secretariat | 15 th December 2016 | 27 th January 2017 |
| Final Draft Report issued . 27 th January 2017 | | |
| PEFA Secretariat | 2 nd March 2017 | 20 th March 2017 |
| Final report issued 20 th March 2017 | | |



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