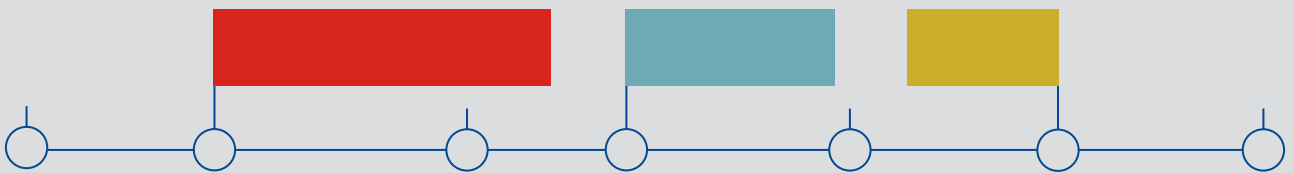




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PUBLIC EXPENDITURE AND FINANCIAL ACCOUNTABILITY

PEFA



Assessment in
the Municipality
of **Fier**



PEFA-Assessment in the Municipality of Fier

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,
May 10, 2017

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About the USAID Planning and Local Governance Project

USAID's Planning and Local Governance Project in Albania (PLGP) works both at the national policy level and at the local level to promote acceptance of the principles of decentralized governance, and to disseminate and institutionalize practical and effective methods and techniques for municipal management. The PLGP 'partner' local self-government units after the Territorial and Administrative Reform include: Tirana, Durrës, Fier, Lushnjë, Berat, Kuçovë, Patos, Vlora, Saranda, Elbasan, Korça, Vora and Kamza. The program works in four main areas:

SUPPORT THE GOVERNMENT OF ALBANIA TO DRAFT AND IMPLEMENT EFFECTIVE DECENTRALIZATION POLICIES AND LEGISLATION

The Project assists the Government of Albania (GOA), local government representatives, and relevant NGOs/municipal associations to make informed decisions based on inclusive consultations/broad consensus on the policy development framework for effective decentralization such as the Territorial and Administrative Reform, the National Cross-Cutting Strategy on Decentralization and Local Governance 2014-2020, the Law on Local Self-Government, the reformation of the unconditional grant system and the development and discussion of the first-ever comprehensive law on local government finances, aiming at a more equitable distribution of resources and improved delivery of services;. PLGP continues to promote an inclusive dialogue and help building a bipartisan consensus on issues of strategic importance to local self-governments and the citizens of Albania.

IMPROVE LOCAL GOVERNANCE

PLGP provides technical assistance and on-the-job training to staff in the 13 consolidated partner municipalities to improve the efficiency of their management systems and service delivery operations. A special focus is given to information and communication technology (ICT) helping building e-government solutions that enhance both local operational efficiency and public administration modernization. The program assists partner local self-governments to improve tax collection by addressing systemic weaknesses of tax administration; develop alternative methods to increase own-source revenues; better manage assets under local government jurisdictions; and ensure the predictability, sustainability and transparency of local government budgetary processes. It assists the selected local self-governments in raising citizen awareness of local government functions, enabling the exercise of citizen rights and responsibilities, and citizen participation in local government decision-making.

IMPROVE MANAGEMENT OF LOCAL SERVICES

PLGP assists the GOA and local governments in ensuring that laws, policies, procedures, and services such as water, wastewater, and solid waste management are consistent with EU standards and environmental standards in particular. It assists selected local governments, and supervisory boards, in developing skills, defining roles, and building knowledge needed to effectively manage and oversee jointly-owned utility companies dealing with these services.

ASSIST THE GOA AND LOCAL GOVERNMENTS TO PLAN AND MANAGE URBAN AND REGIONAL GROWTH

PLGP provides technical assistance to the GOA and selected local governments in developing skills and knowledge to draft territorial plans in accordance with the Law on Territorial Planning. It provides technical assistance to the National Territorial Planning Agency to develop a conceptual framework for the National Territorial Plan in accordance with the Territorial Planning Law and implementing regulations. Citizens, civil society groups, businesses, and other NGOs will be provided opportunities for increasing their participation in and oversight of territorial planning.

Contents

Executive Summary	7
Chapter 1 Introduction	10
1.1 Rationale and purpose	10
1.2 Assessment management and quality assurance.....	11
1.3 Assessment methodology.....	12
Chapter 2 Background information	15
2.1 Country economic situation.....	15
2.2 Fiscal and budgetary trends.....	17
2.3 Local Government Structure.....	18
2.4 Fier Municipality	21
2.5 Legal and regulatory arrangements framework for PFM	24
2.6 Institutional arrangements for PFM in Fier	26
Chapter 3 Evaluation of PFM systems, processes and institutions.....	29
3.1 Subnational PEFA indicator HLG-1: Transfers from a higher level of government	29
3.2 Pillar 1. Budget Reliability	33
3.3 Pillar 2. Transparency of Public Finances.....	40
3.4 Pillar 3. Management of Assets and Liabilities	49
3.5 Pillar 4. Policy Based Fiscal Strategy and Budgeting.....	55
3.6 Pillar 5. Predictability and Control in Budget Execution	64
3.7 Pillar 6. Accounting and Reporting	80
3.8 Pillar 7. External Scrutiny and Audit	84
Chapter 4 Conclusions on the analysis of PFM systems.....	87
4.1 Integrated analysis of PFM performance	87
4.2 Effectiveness of the internal control framework.....	90
4.3 PFM strengths and weaknesses.....	91
Chapter 5 Government PFM reform process	93
5.1 Approach to PFM reform	93
5.2 Institutional considerations	93
Annex 1. Performance Indicator Summary	94
Annex 2. Summary of observations on the Internal Control Framework	101
Annex 3A. List of documents consulted.....	103
Annex 3B List of people interviewed	104
Annex 3C Sources of information for each Performance Indicator	105
Annex 4. Disclosure of quality assurance arrangements	106

Abbreviations

ALL	Albanian Lek
APP	Public Procurement Agency
CA	Contracting authority
CHU	Centralized Harmonization Unit
COFOG	Classification of Functions of Government
DLDP	Decentralization and Local Development Program
EU	European Union
FMC	Financial management and controls
FMIS	Financial management information system
FY	Fiscal year
GFS	Government Finance Statistics
GDTF	General Department of Tax
HLG	High level of government
HR	Human resources
HSC	High State Control
IA	Internal audit
IFMIS	Integrated Financial Management Information System
IIA	Institute of Internal Audit
IPSAS	International Public Sector Accounting Standards
LGU	Local Government Unit
MOF	Ministry of Finance
MOSLI	Minister of State for Local Issues
MTB	Medium-term budget
NA	Not Applicable
NS	Not Scored
NU	Not Used
NDSI	National Strategy for Development and Integration
PEFA	Public Expenditure and Financial Accountability Program
PFM	Public Financial Management
PI	Performance indicator
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
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

1. This report presents the findings of the first assessment of PFM systems in the Municipality of Fier based on PEFA methodology. 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 October 2016 and during the period prior to that as defined by PEFA methodology. It is focused on the amalgamated Municipality following the 2015 merger with nine former communes (Libofshë, Dermenas, Qendër, Mbrostar, Topojë, Levan, Frakull, Portez and Cakran) as part of the Territorial Administrative Reform (resulting in a more than doubling of the population), but covers for a number of issues the period back to FY2013 inclusive. It is one of a series of five assessments of Tirana and other municipalities financed by SECO and USAID/PLGP, with the sample selected so as to have a view of PFM in large, medium and small municipalities. Fier, with a population of 120,000 is the largest municipality assessed apart from the capital city, Tirana.

Main findings of the assessment

2. The main findings of the assessment are focused on the whether the Municipality has appropriate systems in place to assist it in maintaining aggregate fiscal discipline, allocating resources strategically, and using them efficiently for service delivery. A summary of findings on the individual elements of the PFM systems – indicator by indicator – is provided in section 4.1 of the report below, which is reflected in the table of scores at the end of this section.

Aggregate Fiscal Discipline

3. Overall fiscal discipline is not a primary concern, although a number of issues need to be addressed. The Municipality is bound to balance its budget as – in common with almost all Albanian municipalities - it has no realistic prospect of borrowing to finance a fiscal deficit. About three quarters of its income consists of conditional and unconditional transfers from central government, which effectively determine much of its expenditure. The amounts and timing of these transfers are generally predictable during budget execution, but they are not set within a multi-year framework which would enable the municipality to plan their use effectively.

4. A major concern is the indifferent performance in the Municipality's own revenue collections. Fier collected only 58% of planned local revenues (incl. taxes that in practice would be considered shared taxes) in 2013, 78% in 2014 and 85% in 2015. Such revenues on

average cover about two thirds of actual expenditure. Actual capital investments constitute between 5%-8% of Fier's budget from own local taxes and fees and freely disposable intergovernmental transfers. Major public investment are currently financed from conditional intergovernmental transfers from the Regional Development Fund. Funds awarded and actually executed from the RDF constitute 23% and 37% of Fier's own budget in FY 2014 and FY 2015. Notwithstanding the policy choices to seek investment financing from the RDF, underperformance in revenue collection have thereby substantially reduced the city's scope for initiatives of its own. This situation is partly a reflection of limits placed by central government on municipal taxing powers but also reflects inadequacies in the city's property and taxpayer records, and in the efforts made and instruments available to enforce payment.

Strategic Allocation of Resources

5. 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. In accordance with national requirements, Fier has prepared its General Local Plan (GLP), which incorporates its Territorial Development Strategy (TDS) and provides the basis for its Capital Investment Plan (CIP). However, implementation of these plans depends almost entirely on funding from central government, which has been highly unpredictable from year to year. The existence of these plans should mean that if resources become available, they will not be wasted; but the municipality does not decide the order in which its chosen investments should be executed.

6. Investment apart, the city's predictable resources from its own revenues and from unconditional grants distributed according to a national formula are largely pre-empted by the ongoing costs of running the city administration, keeping the city clean and tidy, and maintaining the public infrastructure. The allocation of resources to these functions is unlikely to change much within a fiscal year, or even between one year and the next. But the unpredictability of investment funding means that the functional composition of expenditure as measured by PEFA may change considerably between budget and out-turn.

7. Formal requirements for transparency and public consultation on the budget appear to be observed. But there is no evidence that discussion by the Municipal Council of the medium-term plans or the annual budget makes much overall difference to the outcomes. Although the recommendations of external audit reports are freely available on the High State Control website, the reports have not been discussed by the Council. Although freedom of information legislation means that annual and in-year budget execution reports should be available on the city website, it is not clear that this requirement is consistently followed.

Efficiency in Use of Resources for Service Delivery

8. It appears that the TAR has resulted in an overall reduction in the municipal wage bill, as not all the staff of the former communes have been absorbed by the new municipalities. This should already mean an efficiency gain, which should be reinforced by the new municipalities' greater ability to deploy staff and other resources in preparing plans and dealing with problems. In the medium term there should be scope for efficiency gains through the improvement and integration of IT systems; while the fact that all revenue and expenditure transactions are recorded in the national Treasury system provides an important element of overall structure, there are no automatic links between municipal budgetary systems and the Treasury, with most municipal operations (budgeting, revenue, payroll, procurement) dependent on separate and relatively basic IT systems. There is clearly room for a central initiative to develop integrated IT systems which could be used by all municipalities. There is formal compliance with requirements for budgets to be presented in a programme format, but many municipal operations do not readily lend themselves to this, while little progress has been made in setting objectives to be secured by such programmes, and identifying performance indicators to measure progress towards their achievement. Other efficiency gains will be dependent on improvements in investment planning, which require changes in the way the central government allocates conditional grant finance.

9. 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, particularly if the medium-term planning of municipal investment can be improved. Internal audit in Fier is useful and effective, and external audit by HSC is evolving towards a greater focus on the performance of systems rather than simply inspecting compliance.

Integrity and consistency of financial data

10. Considerable difficulty has been encountered in this assessment as a result of inconsistencies between data provided by municipalities and data extracted from the Treasury system. Clearer instructions are needed covering what is to be included in municipal budgets, how they should be presented, and how budget execution should be reported. The unpredictability of Regional Development Fund (RDF) funding and the differences in the way it is reported by different municipalities, are the most glaring example of this. Rationalisation of budget preparation, reporting and accounting requirements would facilitate the development of better IT systems while improving the integrity of the data they contain through greater discipline in the way data is managed.

Prospects for improvements in PFM

11. Fier as a relatively large municipality has the administrative capacity needed to discharge the functions for which the municipality is responsible, although the limitations on its resources mean that it cannot readily adapt to new challenges. The problems it faces are common to all municipalities in Albania, which is at a cross-roads for the development of municipal government. The need for more effective revenue raising through property taxes based on realistic valuations is acknowledged, while permanent arrangements have not yet been established to allocate to municipalities the resources they need in order to discharge the responsibilities recently transferred to them. There are no arrangements in place to allocate investment resources to each municipality in a way which enables them to plan their investments within a medium-term fiscal framework. The absence of common standards for the public presentation of fiscal information by municipalities is a further problem which needs to be addressed.

Municipality of Fier - 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	B	C	A		C+
PI-1	Aggregate expenditure out-turn	M1	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	M1	C				C
PI-5	Budget documentation	M1	B				B
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	B	D	D+
PI-9	Public access to fiscal information	M1	D				D
Pillar III: Management of assets and liabilities							
PI-10	Fiscal risk reporting	M2	A	NA	NA		A
PI-11	Public investment management	M2	C	C	D	C	D+
PI-12	Public asset management	M2	D	C	B		C
PI-13	Debt management	M2	NA	A	NU		A
Pillar IV: Policy-based fiscal strategy and budgeting							
PI-14	Macroeconomic and fiscal forecasting	M2	NU	B	NU		B
PI-15	Fiscal strategy	M2	A	B	D		B
PI-16	Medium-term perspective in expenditure budgeting	M2	B	A	D	NA	B
PI-17	Budget preparation process	M2	C	A	D		C+
PI-18	Legislative scrutiny of budgets	M1	A	A	B	C	C+
Pillar V: Predictability and Control in Budget Execution							
PI-19	Revenue administration	M2	B	C	D	D*	D+

Municipality of Fier - Summary Assessment 2016 ratings							
PFM Performance Indicator		Scoring Method	Dimension Ratings				PI Score
			i.	ii.	iii.	iv.	
PI-20	Accounting for revenue	M1	A	D	D		D+
PI-21	Predictability of in-year resource allocation	M2	A	C	D	C	C+
PI-22	Expenditure arrears	M1	D	A			D+
PI-23	Payroll controls	M1	B	A	B	C	C+
PI-24	Procurement management	M2	A	A	B	B	B+
PI-25	Internal controls on non-salary expenditure	M2	B	C	A		B
Pillar VI: Accounting and reporting							
PI-26	Internal audit	M1	C	B	B	B	C+
PI-27	Financial data integrity	M2	B	A	NA	D	B
PI-28	In-year budget reports	M1	A	A	C		C+
PI-29	Annual financial reports	M1	D	D	C		D+
Pillar VII: External scrutiny and audit							
PI-30	External audit	M1	C	D	C	C	D+
PI-31	Legislative scrutiny of audit reports	M2	D	NA	NA	NA	D

Chapter 1 Introduction

1.1 Rationale and purpose

1. The objective of conducting a subnational PEFA 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.

2. During the last two years, the local governance environment has changed dramatically. In July 2014, the Parliament 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.

3. 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 enacted. The latter decentralized a number of important and costly functions to the new local government units which will have important implications for financial management as well.

4. 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 related to local government sources of revenues, expenditure management and 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; and 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.

5. The development of municipal government in Albania has particularly been supported by USAID and the Swiss Government (SECO/SDC). In accordance with this SECO has commissioned and financed the assessments of three municipalities (Tirana, Berat and Tropoja), while USAID/PLGP has been responsible for the assessments of Fier and Kuçova. Other development partners (EU, UNDP, World Bank, SDC) have been consulted in the preparation of the terms of reference and have commented on the draft reports. Overall the five municipal PEFA assessments are intended to:

- Provide government officials at both, central and local level with an assessment of PFM performance at subnational level and improve the understanding of the need for 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 in this area;
- Provide opportunities for donor alignment and further use of synergies.

1.2 Assessment management and quality assurance

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

Box 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), Enea Hoti;
 - High State Control (HSC), Bajram Lamaj;
 - Representatives of each of the five municipalities, (Fier- Florian Muçaj);
 - EU Delegation, Edina Halapi;
 - UNDP, Viktor Malkaj;
 - World Bank (WB), Hilda Shijaku;
 - SDC/ DLDP, Valbona Karakaçi,
 - USAID/ PLGP, co-chair, represented by Kevin McLaughlin
 - SECO, co-chair, represented by Philipp Keller, Swiss Embassy in Tirana.
- **Assessment Team for Fier:** International PFM consultant John Wiggins (team leader), as well as local PFM consultants Elton Stafa and Merita Toska.

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 (Fran Brahim), HSC (Bajram Lamaj), SDC (Elda Bagaviki), PEFA Secretariat (Guillaume Brule) all on 13 September; and DLDP (Stefan Pfäffli) on 12 September.
- Final Concept Note approved by OT on 20th September, 2016.

Review of the Assessment Report for the Municipality of Fier:

- Assessment report draft circulated December 14th and December 27th, 2016:
- Invited reviewers: Municipality of Fier, Ministry of Finance, SECO, and PEFA Secretariat.
- Reviewers who provided comments: Municipality (Enkelejda Peshkepia) Ministry of Finance (Fran Brahim), SECO, PEFA Secretariat (Guillaume Brulé)

1.3 Assessment methodology

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

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

Tirana, as the capital city with some 30 per cent of the country's population, was automatically selected for assessment. Fier, Berat and Kuçova (in order of population) were selected as municipalities with substantial urban centres, while Tropoja was included in order to have an insight into a remote and largely rural municipality. Apart from the water utility Fier does not control any operations which are not accounted for as part of its budget, and has no interest in other business activities. There is no further tier of government subordinate to the municipality.

8. 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 five consultants, contracted by SECO through ECORYS: international PFM

consultants Frans Ronsholt (team leader) and Jorge Shepherd, as well as local PFM consultants Elona Gjika and Sabina Ymeri. USAID/PLGP participated in the scoping mission through a local PFM expert Elton Stafa. 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.

9. The aim of the scoping mission was to evaluate for each of these municipalities whether the assessments could be conducted in accordance with the requirements of the 2016 PEFA Framework considering that the relevant assessment periods spanned the transition phase of the TAR. The territorial coverage of each municipality in FY2016 is significantly different from the coverage in FY 2014, and FY 2015 represents a hybrid year of transition. Therefore, an assessment of the municipalities' performance in 2016 cannot be undertaken with complete adherence to the PEFA 2016 Framework.



Tirana apart, Fier continues to have the highest ratio of own revenues to total income among the four municipalities assessed (see Table 2.11 below). 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.

10. In the case of Fier Municipality the impact of TAR on the organisation and overall level of financial operations is only moderate. While the integration of the 9 communes into the municipality implies an increase in potential own revenues of 75 per cent, it does not require

a fundamental change in the financial management arrangements. Across the country the integration of rural areas with urban settlements implies an increase in the new municipalities' dependence on finance from central government as compared with the position of the former municipalities. The map attached illustrates the large increase in the area of the Municipality of Fier.

11. This PEFA assessment follows 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. Fier and Kuçova are the owners or part owners of the water and sewerage utilities which operate in their areas, but neither municipality has any other subordinate institutions or extra-budgetary activities. Moreover, and in line with guidance, macroeconomic forecasting and macro fiscal sensitivity analysis in PI-14 as well as debt management strategy PI-13.3 have been excluded as they are central government functions which a municipality would not be expected to undertake. These indicator dimensions are marked NA for 'Not Applicable'.

12. Two assessment teams have been fielded for the municipal assessments proper. The SECO/ECORYS team that undertook the scoping mission also undertook the assessments of Tirana, Berat and Tropoja. A team commissioned by USAID/PLGP consisting of John Wiggins (international consultant) and Elton Stafa and Merita Toska (local experts) undertook the assessments of Fier and Kuçova. The field mission schedule for the team covering Fier and Kuçova was as follows:

Table 1.1. Field Mission Schedule

Date	Activity
15 th September	OT meeting
15 th -16 th September	PEFA capacity building workshop for all five municipalities
30 th September	Wrap-up meeting with Swiss Embassy, USAID/PLGP, MOF and HSC.
24 th -28 th October	Data collection/interviews in Kuçova (Municipality and central governmental institutions)
31 th October - 4 th November	Data collection/interviews in Fier (Municipality and central governmental institutions)
9 th December	Follow up meeting with the Municipality of Fier
13 th December	Follow up meeting with the Municipality of Kuçova
16 th December	Wrap-up meeting with Swiss Embassy, USAID/PLGP, MOF and HSC.

Chapter 2 Background information

2.1 Country economic situation

1. From 1945 to 1990 Albania was ruled by the most repressive communist regime in the world. Freedom of movement, speech and religion were all denied, and private property was expropriated. Most of Albania's substantial economic resources were wasted on unproductive investments sustained by keeping Albania isolated from the rest of the world. Compared to the rest of Europe real incomes remained very low, and the public infrastructure very inadequate. By the time of the fall of the Berlin Wall and the collapse of the Soviet Union the forces in Albania seeking fundamental change had become irresistible, and the "Students' Movement" led to the sudden installation of democracy and a market economy in the place of dictatorship and the former command economy. In the vacuum resulting from the disappearance of the former regime uncontrolled private interests tended to prevail over the interests of society as a whole. Since the turn of the millennium Albania has been working to build the social, political and judicial institutions which will support social and economic development, while ensuring the rule of law. While progress has been made, further work remains to be done.

Table 2.1. Some facts about Albania

Name	Republic of Albania (formerly People's Socialist 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

2. The transition to the market economy necessitated large changes in the country's economic structure. Much industrial capacity immediately became uncompetitive, resulting in high unemployment and a continuing large trade deficit as people satisfied pent-up demand for goods which could only be obtained from abroad. The trade deficit has been mainly financed by foreign direct investment (FDI), particularly in the tourism, finance and distribution sectors, by the sale of state assets to foreign purchasers, and by remittances from Albanians who had moved abroad in search of work. During the period up to the global financial crisis in 2008 these forces resulted in rapid economic growth. But since then conditions have been much

more difficult, and economic growth slowed progressively from 7.5 per cent in 2008 to 1.1 per cent in 2013. The last three years have seen a partial recovery based in inward investment and construction, with growth expected to reach 3 per cent in 2016. For this recovery to be sustained the country needs to build productive capacity, for which a continuing flow of FDI will be needed, particularly to ensure that the country benefits from the introduction of new technology. This investment will in turn be dependent on Albania providing an adequately trained work force and a stable and reliable business and legal environment.

Table 2.2. 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
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	-4.8	-5.2	-4.1
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	24.3	26.3	26.4
Expenditures (% on GDP)	32.3	33.0	29.3	28.9	28.2	29.2	31.5	30.5
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/ALL ER	83.9	95.0	103.9	100.8	108.2	105.7	105.5	126.0
Average EUR/ALL 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.

3. 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.

2.2 Fiscal and budgetary trends

4. As tables 2.2 and 2.3 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 2.3 General government revenue and expenditure (in ALL billion)

	2013	2014	2015
TOTAL REVENUE	328.6	366.7	379.2
As % of GDP	24.3%	26.3%	26.4%
Grants	5.7	10.1	11.2
Tax and Social and Health Insurance	290.6	323.5	330.6
Local Government own revenue ¹	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	438.8	437.4
As % of GDP	29.2	31.5	30.5
CG Current expenditure	298.8	308.4	316.7
LG Current expenditure ²	29.8	32.9	34.1
As % of GDP	2.2	2.4	2.4
Capital expenditure inc. net lending	65.4	60.5	63.1
Arrears	0	33.8	17.6
AGGREGATE DEFICIT	-65.4	-72.1	-58.2
As % of GDP	-4.8	-5.2	-4.1
General Government Debt as % of GDP	70.4	72.0	73.0

Source: Ministry of Finance, Table 4, 2016 Budget Law, Table 6.1 2016 Budget Law, Fiscal Statistics January-December 2015; IMF CR16/289; Authors' calculations.

¹ Local own revenue here excludes certain non-tax revenue from fees, asset management income etc. It also excludes any type of revenues transferred by the national government or borrowing receipts.

² Local Government expenditure here includes expenses financed through own source revenues from taxes, fees, asset management revenues, freely disposable unconditional grants and competitive grants allocated

through the Regional Development Fund. This item excludes financing of delegated functions or other local functions which are financed by line ministries.

2.3 Local Government Structure

5. The local government system in Albania is based on the Constitution, and is built on the principles of decentralisation of authority and subsidiarity. The Constitution provides for the establishment of two tiers of local governments. Since 2000 the decentralisation 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 reorganisation of local first tier governments by reducing their number from 373 to only 61. 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 organisation and functioning of local governments, including the division of powers and responsibilities between the central and local governments.

Table 2.4 Overview of subnational government structure in Albania

Level of Govt.	Central	Regional	Municipal
Corporate Body	Yes	Yes	Yes
Own political leadership	Yes	Yes	Yes
Approves own budget	Yes	Yes	Yes
Number of jurisdictions	1	12	61
Average population	2.8 mill.	233,000	45,900
% of public revenue	97%	0%	3%
% of public expenditure	92.2%	0.4%	7.4%
% funded by transfers	3%	100%	62%

6. The Council and Mayor of municipalities are directly elected every four years. Regional Councils are not directly elected, but are composed of representatives of the constituent municipalities. The main (exclusive) responsibilities of municipalities are the provision and maintenance of the local infrastructure, including roads, local amenities, waste disposal, public lighting, control of building, social services, pre-university education infrastructure and irrigation systems. They also perform delegated responsibilities on behalf of central government, such as civil registration services. Regional Councils have very limited direct responsibilities, with the focus of their work on the harmonisation of local and national strategies. The lion's share (75%) of municipal expenditure is financed through grants from the state budget. Municipalities may obtain resources through local taxes as established by law, fees and user charges for services, revenue from property, and donations.

7. National and subnational budgetary systems are governed by the same legal and regulatory framework. The budgetary system is managed through a unified Treasury account, controlled by the Ministry of Finance. Each budgetary entity, including municipalities and their institutions have their own accounts and sub-accounts with the 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.

8. As Table 2.3 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. As noted above, 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.

9. The allocation of municipal expenditure by economic classification is shown in Table 2.5 and the functional allocation in Table 2.6. 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 2.5. Gross current and capital expenditure of all municipalities (/000 ALL)

	2010	2011	2012	2013	2014	2015
I. Current expenditures	21,263	19,027	20,387	20,155	21,094	20,647
Personnel	9,580	9,640	9,583	10,058	10,384	10,218
Operational	8,771	8,146	8,532	8,692	9,544	9,290
Subsidies	2,407	771	1,665	852	572	499
Grants and Transfers	457	438	573	521	568	586
Interest Payment	47	32	35	32	27	55

II. Capital expenditures	16,538	13,574	10,778	13,035	15,469	16,526
Total Expenditures	37,801	32,601	31,166	33,190	36,563	37,173

Source: Ministry of Finance, Treasury System, Authors' calculations.

10. As noted above, 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. Expenditure on 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 specific grants provided by central government is excluded from the statistics presented here. 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 2.6. Functional allocation of expenditures (61 Municipalities, ALL million)

	2010	2011	2012	2013	2014	2015
Total Expenditures	37,801	32,601	31,166	33,190	36,563	37,173
General public administrative services	11,096	10,476	10,881	10,221	10,753	9,953
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	4,868	4,295	4,462	3,733	5,109	4,069
Social protection	446	402	412	485	488	497

Source: Ministry of Finance, Treasury System, Authors' calculations.

11. Only a relatively small part of municipalities' income is fully under their control. Across the country 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 2.7.

Table 2.7. Municipal revenues (61 Municipalities, ALL million)

	2010	2011	2012	2013	2014	2015
Revenues from taxes	9,171	9,084	7,599	7,501	8,993	8,339
Small business tax ¹	2,478	2,641	2,267	2,090	1,698	2,064

Property Taxes	1,605	1,564	1,970	1,840	3,101	3,315
Tax on Hotels	123	122	93	78	85	101
Tax on Infrastructure.	2,622	3,209	1,642	1,796	2,439	1,420
Tax on Transf. Immov. Prop.	291	378	536	614	581	606
Tax on Billboards	398	381	390	373	374	357
Other taxes	1,654	788	701	710	716	476
Revenues from fees and charges	3,573	3,445	4,319	4,185	4,762	4,717
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
Administr. charges and other n.e.c.	2,023	1,863	2,180	2,182	2,343	2,325
Unconditional grant	10,562	10,205	9,230	10,955	12,128	11,252
Shared taxes²	1,170	1,309	1,407	1,509	1,065	1,133
Conditional grants for Local Functions	13,178	8,456	8,541	8,572	8,960	11,733
Ministry of Transport & Infrastructure	5,486	2,685	2,173	2,667	1,771	2,005
Ministry of Education and Sport	2,633	2,206	2,403	1,694	2,731	1,800
Ministry of Urban Development	-	-	-	-	159	313
Ministry of Environment	-	39	44	78	27	56
Ministry of Culture	42	513	155	112	114	55
Ministry of Economy	41	49	47	52	51	50
Ministry of Health	3	72	81	26	1	32
Ministry of Agriculture	88	166	184	109	42	0
RDF for Local Transp. Infrastructure ³	4,884	2,726	3,454	3,833	4,066	7,421
Net Annual Local Borrowing	148	86	69	468	654	
Total receipts	37,801	32,601	31,166	33,190	36,563	37,173

Source: Ministry of Finance, Treasury System, Authors' calculations.

¹ The small business tax has in practice become a shared tax from 2014 when the central government started collecting it on behalf of local government units.

² The outturn of Regional Development Fund for Local Transport Infrastructure is obtained by processing data from the Treasury System with other data from the Ministry of Finance.

2.4 Fier Municipality

Municipal economic situation

12. TAR has resulted in an increase in the municipal population from 55,000 to 120,000 through the incorporation of nine mainly rural communes. Fier is an important regional centre of a relatively prosperous agricultural area, and has not had to contend with the decline of major industries or government activities. It now has good road links with Tirana on recently constructed four-lane highways. It plans to reinforce its role as a regional centre by the provision of new hospital facilities.

Revenue and Expenditure

13. Fier in common with other municipalities raises its own revenue through taxes on property and charges for municipal services. It receives unconditional grants and shares of nationally collected taxes to spend at its discretion, and also funds from central government to be spent on investment projects and on particular devolved and delegated functions. Municipal budgets are set by reference to funds which are freely disposable, excluding conditional grants whose amounts are unknown at the time municipal budgets are fixed.

Tables 2.8 – 2.10 provide information about the revenue and expenditure of the Fier municipality for the period 2013-15. They show that revenue and expenditure per head at about \$75 were a little below the national average of about \$101 for 2014. Fier started utilizing the Water Utility as a tax agent in late 2016, therefore the municipal revenue department has been responsible for the collection of local taxes and fees over the past three completed fiscal years. The revenue and expenditure figures from the municipality and Treasury sources are generally reasonably consistent for the years 2013 and 2014, with revenue and expenditure broadly in balance, while the functional allocations in 2014 to General Public Services, Housing and Community Amenities, Education and Social Protection were all broadly in line with the national averages calculated from Table 2.6. Fier spent relatively few of its own resources on Economic Affairs in all three years. However the same function has received substantial support from the RDF in 2014 and 2015 when the proportion of expenditure allocated to Economic Affairs increased by 5 and 10 times when compared to what the municipality spent on the function on its own.

14. Budget planning is essentially focused on what can be financed from the municipality's own revenues (property taxes and service charges) and unconditional transfers from central government (including the municipality's share of nationally collected taxes). Finance for investment depends almost exclusively on conditional transfers from central government (including amounts received from the RDF) whose amounts cannot be predicted from year to year and which are not included in the budget as approved by the municipal council, although such capital spending is reported and accounted for alongside the expenditure provided for in the municipal budget. Funds allocated to meet the specific costs of functions recently transferred to the municipality are similarly excluded from the budget, but reported in the out-turn.

Table 2.8. Fier Revenues 2013-15 (ALL thousands)

<i>data in /000 ALL</i>	2013	2014	2015
	Out-turn	Out-turn	Out-turn
Own Source Revenues	165,050	218,667	312,665
Revenues from Own Local Taxes	94,963	111,053	155,099
Property taxes on buildings and agricultural land	26,806	66,695	130,097
Infrastructure impact tax	67,037	43,272	19,621
Public space occupation tax	91	114	2,940
Other taxes	1029	972	2441
Revenues from Local Fees and Charges	62,615	100,844	119,341
Cleaning fee	25,682	55,244	63,446
Greening fee	1,859	5,925	7,284
Public lightening fee	3,600	7,988	8,754
Parking fee	2,474	2,772	3,529
Other fees	29,000	28,915	36,328
Other revenues from assets, donations etc.	7,472	6,770	38,225
Freely disposable transfers	308,745	293,485	541,699
Unconditional transfer from the state budget	184,510	208,300	418,022

Shared taxes	124,235	85,185	123,677
Vehicles Registration Tax & Mineral Rent	32,922	24,927	33,142
Property transfer tax	13,798	11,053	15,969
Small businesses tax	77,515	49,205	74,566
Total Budget, excluding carry-overs	473,795	512,152	854,364
Conditional Grants	355,713	583,419	879,779
Conditional Transfers from line ministries	355,713	420,358	596,522
<i>Ministry of Social Welfare and Youth</i>	344,413	410,037	527,598
<i>Ministry of Transport and infrastructure</i>	0	0	35,000
<i>Ministry of Interior</i>	7,763	8,022	20,717
<i>Ministry of Education</i>	0	2,299	3,027
<i>Ministry of Urban Development</i>	0	0	0
<i>Other Central Institutions</i>	3,538	0	10,180
Regional Development Fund (Road Infrastructure)	0	163,061	283,257
Total conditional grants excl. MSWY & RDF	11,300	10,321	68,924
TOTAL	829,508	1,095,571	1,734,143

Source: Municipality of Fier, Treasury System, Ministry of Finance, Authors' calculations.

Table 2.9. Fier: Economic Classification of Expenditure (ALL /000)

	2013	2014	2015
Personnel	262,069	301,025	326,359
Operational	139,882	163,471	241,579
Capital	35,200	34,567	28,822
Transfers ¹	19,415	22,199	24,393
Total expenditures	456,566	521,262	621,153

Source: Municipality of Fier, Treasury System, Ministry of Finance, Authors' calculations.

¹ This line item excludes transfers to poor families financed through earmarked grants from the Ministry of Social Welfare

Table 2.10. Fier: Functional Classification of Expenditure (ALL /000)

	2013	2014	2015
General Public Administrative Services	129,595	145,665	294,211
Public order and safety	0	0	0
Economic Affairs	31,131	33,462	25,060
Housing and community amenities	161,666	186,289	185,777
Recreation, culture and religion	95,468	105,366	59,194
Education	38,706	50,480	56,911
Social Protection	0	0	0
Total	456,566	521,262	621,153

Source: Municipality of Fier, Treasury System, Ministry of Finance, Authors' calculations.

The Development Strategy of the Municipality of Fier

The Municipality of Fier has adopted its Strategy for the Development of the Territory for the next 15 years in accordance with law no. 107/2014 "For Planning and Development of the Territory", as part of its General Local Plan (approved by the Municipal Council in December 2016). its development vision is to be accomplished by pursuing five strategic objectives: (i) increase of economic competitiveness supporting the diversification of its economic profile; (ii) support to the agriculture and tourism sector as two of the key sectors for the development of the local economy ; (iii) protection and regeneration of its natural assets as base elements for economic and social regeneration; (iv) orientation and control of urban development through the intelligent management of land and the creation of planned infrastructures for the whole of its territory ; and (v) smoothing of social disparities through improvement of the education and health systems. It has to be recognised, however, that the Municipality's ability to promote these objectives is limited, since its

role in relation to social policy, health and education is relatively minor, and it will remain dependent on the central government for the financing of much of the necessary investment.

2.5 Legal and regulatory arrangements framework for PFM

Legal Framework

15. Table 2.10 presents an overview of the main laws and regulations that guide the PFM systems in Albania. The impact of the legal framework in respect to specific areas is discussed in more detail in the narrative of the respective Performance Indicators. Internal financial control is analysed in detail in Chapter 4.2.

Table 2.4. Summary of PFM Legislation

Area	Description
General	<ul style="list-style-type: none"> Articles 155-160 of the Constitution provide the basis for the approval by the National Assembly of annual budgets submitted by the Government.
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) issued in accordance with the law. The Instructions cover the Medium Term Budget Preparation and define the roles, functions and responsibilities in management of government revenue and expenditure, including the accounting, control and reporting systems. Annual budget preparation and execution instructions are also issued every year. Law on Financial Management and Control (2010), defines 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); General laws for direct and indirect taxes: <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 (2006).
Public sector entities	<ul style="list-style-type: none"> Law "On Concessions and Public Private Partnerships" (2013);

	<ul style="list-style-type: none"> • Law “On commercial companies” (2008).
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"> • Provision for the independent exercise of the functions of the Supreme Audit Institution (High State Control) is made in Articles 162-165 of the Constitution; • Law on the Organisation and Functioning of the High State Control (2014).
Legislative oversight of the preparation and execution of the Budget	<ul style="list-style-type: none"> • The Constitution (1999), Articles 155-160. • Law on Organisation and Functioning of the Council of Ministers.
Decentralisation	<ul style="list-style-type: none"> • Articles 108-113 of the Constitution provide the basis for elected local governments; • Law on Local Self Government (2015) • National Cross Cutting Strategy for Decentralization and Local Governance (2015);
Transparency	<ul style="list-style-type: none"> • On the right to information (2014); • On Public Notice and Consultation.

16. The Law 115/2014 “On the administrative and territorial division of local government units in the Republic of Albania” reduced the number of local government units from 373 communes and municipalities and 12 regions to 61 municipalities and 12 regions. 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.

17. The main purpose of the TAR, consistently with the Government’s strategy on Decentralization and Local Governance, is to increase the efficiency of local administration and improve the quality and standards of service delivery. Larger LGUs with greater human and financial resources should be able to discharge effectively wider responsibilities for the development of their territories in accordance with the new organic law on “Local Self-Government” enacted in December 2015, which aims to consolidate the decentralization process and delegate further functional and fiscal autonomy to the local level. Some new functions in the area of pre-school education, fire protection, irrigation and agriculture were accordingly transferred to the local level from the beginning of 2016. Pending the establishment of new permanent arrangements for the distribution of central funding to the municipal level, municipalities were given additional block grants to meet the costs of the staff employed and other operational expenses on the functions transferred to them.

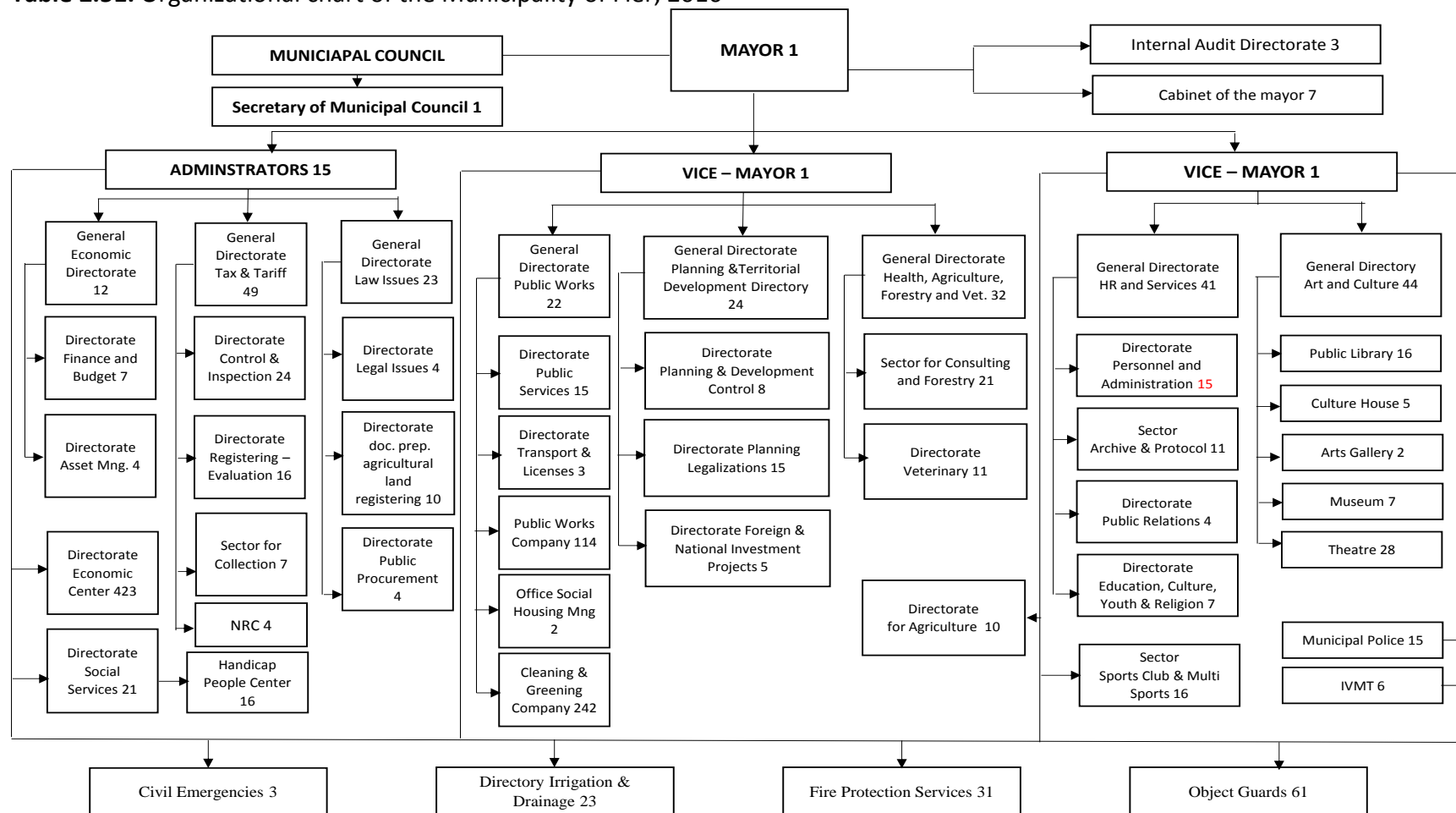
18. The new consolidated municipalities were constituted following the June 2015 local elections and took office during July and August. Consolidation of the five municipalities with 36 communes' finances took place through the amalgamation of the communes' treasury accounts into one single treasury 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.

19. 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 has been prepared 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 text will be finalized before the end of 2016 for submission to the National Assembly.

2.6 Institutional arrangements for PFM in Fier

20. It is the responsibility of the Mayor to prepare the three-year budget projections and the annual budgets for approval by the Council in accordance with the organic Budget Law which applies at municipal as well as at national level and with instructions from MoF. The Finance Directorate acts at municipal level in the same way as MoF at central government level in preparing budgets and fiscal plans on the basis of submissions by the spending units responsible for each of the Municipality's functions. The assessment and collection of municipal taxes and fees is the responsibility of the Revenue Directorate, although the actual collection is mainly in the hands of the Municipality's water utility alongside the bills businesses and householders have to pay for water. Internal control arrangements are set out in detail in Chapter 4.2. The Municipality of Fier has at maximum, 1300 employees. The city's administrative organization is shown in the following Chart, together with the number of employees engaged in each function.

Table 2.51. Organizational chart of the Municipality of Fier, 2016



Source: Municipality of Fier

Table 2.62. Overview of Amalgamation of the Municipalities selected for PEFA Assessment

Municipality Name	No. communes absorbed	No. population ¹			Total Revenues ² 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%
Kuçova	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

¹ Source: Census 2011, Institute of Statistics.

² Source: End-of year budget execution data for 2014 fiscal year, Ministry of Finance & PLGP/USAID.

Chapter 3 Evaluation of PFM systems, processes and institutions

3.1 Subnational PEFA indicator HLG-1: Transfers from a higher level of 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 (last three completed fiscal years);
- Dimension HLG-1.2. Earmarked grants outturn (last three completed fiscal years);
- Dimension HLG-1.3. Timeliness of transfers from higher-level government (last three completed fiscal years);

Background

All 61 Municipalities in Albania receive five types of transfers from the budget of the central government:

- Unconditional grants – over which Municipalities have full discretion to spend as they see fit;
- Shared taxes – in this category are comprised the *mineral rent* and the *annual tax on used vehicles*, where Municipalities are entitled 18% of the vehicles tax collected by the central tax administration and 5% of the mineral rent generated in their jurisdiction. There are also two other taxes that despite being described in law 139/2015 on “*Local Self-Government*” as local taxes, are actually shared taxes where the tax base and rates are wholly determined by central government. These are the small businesses tax³ (or the simplified tax on small businesses) and the property transfer tax. Revenue from these taxes is accordingly treated here in the same way as shared taxes, whose proceeds can be used at the municipality’s discretion in the same way as unconditional grants.
- Conditional transfers – for financing delegated functions and can only be used for a specific program/purpose;
- Specific transfers – which are a new type of conditional transfers municipalities receive from central government to be used exclusively for financing the newly transferred functions (Law 139/2015 on Local Self-Government);
- Competitive grants for selected investment projects from the Regional Development Fund (RDF) allocated during the course of the year.

³ The simplified profit tax (formerly small business tax) became a shared tax in January 2014, hence it is not included in the calculations for 2013.

With regard to the conditional transfers Municipalities receive from central government institution, evidence showed that Municipalities do not include these funds in their original annual budgets. The only items included in the budget document are those financial resources flowing from the unconditional transfers, shared taxes and own revenues. Meanwhile, records regarding conditional transfers are kept separate from those of the approved budgets although the amounts and conditions are formally notified to the Municipal Council. In budget execution reports and balance sheets of the Municipality of Fier, expenditures are presented in consolidated format from all sources of financing, thus including conditional transfers from the Regional Development Fund or other central government agencies. The city has also presented tables and documentation evidencing expenditure financed through its own budget from local taxes and fees and from freely disposable transfers.

Planned values for conditional transfers classified under current expenditures linked with previously delegated functions such as business registry and civil registry, poverty and disability cash benefits, and maintenance expenditures for pre-university school dormitories, are shared with the municipality by the relevant line ministries at the beginning of each year. Any unspent balances are to be returned to the respective ministries.

HLG-1.1 Outturn of transfers from higher level government

Annual deviation of actual total HLG transfers from the original total estimated amount provided by HLG to the sub-national entity for inclusion in the latter's budget.

In Albania during the period 2013-15 municipalities received unconditional transfers from central government distributed according to a formula mainly based on population and area, a relatively small share of nationally collected taxes (as shared taxes), and conditional transfers to finance investments and meet the cost of social assistance payments, maintain dormitories, and social service centers, kindergartens etc. Some of these transfers were provided by the line Ministries concerned, but in some cases substantial amounts were provided by the central government's Regional Development Fund (RDF) on a competitive basis. Amounts to be provided as unconditional transfers were generally notified [by the end of October each year] in time to be taken into account in preparing the municipality's budget, while some guidance was given by the Ministry of Finance on the amounts likely to be received from shared taxes. But the amounts of conditional transfers and RDF assistance, if any, were notified only after the budget year had begun, and therefore not taken into consideration in the preparation of the budget. Furthermore, municipal officials state that they receive resources from the higher levels of government for delegated functions, without being informed at the same time about the amounts and purposes. This creates confusion about available conditional cash resources. As municipalities do not have direct IT access in the treasury system, such transfers are reconciled with the treasury officials on a weekly and monthly basis. It would be useful if line ministries making such transfers gave the

municipalities concerned full information at the same time about the amounts and purposes of the transfers. In Fier such resources constitute less than 15% of conditional transfers.

According to the municipality, the amounts of unconditional transfers were paid in full, and the conditional transfers to meet the costs of services including social assistance payments were also paid. The municipality has also benefitted from competitive grants under the Regional Development Fund which once notified from the central government were paid in full. In 2014 Fier has been awarded from the RDF about 181.4 million ALL for investments, of which 139.7 million ALL for transport infrastructure. In 2015 it has been awarded 452.5 million ALL, out of which 398.3 for transport infrastructure. The out-turns have been much lower given the lengthy procurement process and the fact that public works have advanced a pace slower than planned. There were shortfalls in receipts of shared taxes in of 1.6 million ALL in 2013 and 45.6 million in 2014 (mainly due to receipts of Small Business Tax and the Property Transfer Tax). In 2015 the amounts transferred exceeded those planned by 49 million ALL. The amounts are shown in Table 1; for 2013 and 2014 the figures cover only the former Fier municipality, while for 2015 the additional nine former communes (now administrative units) are included for the whole year.

Table 3.1. Planned and actual receipts from state budget transfers

<i>data in /000 ALL</i>	2013		2014		2015	
	Plan	Out-turn	Plan	Out-turn	Plan	Out-turn
Freely disposable transfers	318,510	316,839	341,300	295,646	537,504	586,538
Unconditional transfer	184,510	184,510	208,300	208,300	418,022	418,022
Vehicle registr. tax & Mineral Rent	33,000	41,016	33,000	37,941	37,423	71,493
Property transfer tax	17,000	13,798	17,000	11,053	14,856	15,965
Small businesses tax	84,000	77,515	83,000	38,353	67,203	81,058
Conditional Transfers	358,303	355,713	612,119	583,419	1,072,488	879,779
Cond. Transf. from line ministries	358,303	355,713	430,710	420,358	620,014	596,522
<i>Ministry of Social Welfare</i>	344,490	344,413	420,232	410,037	539,467	527,598
<i>Ministry of Transp. and infrastr.</i>					44,624	35,000
<i>Ministry of Interior</i>	7,782	7,763	8,022	8,022	21,803	20,717
<i>Ministry of Education</i>			2,456	2,299	3,755	3,027
<i>Ministry of Urban Development</i>						
<i>Other Central Institutions</i>	6,031	3,538			10,365	10,180
Total Regional Development Fund			181,409	163,061	452,474	283,257
of which for Road Infrastructure			139,746	121,435	398,257	229,043
TOTAL	676,813	672,552	953,419	879,065	1,609,992	1,466,317
Freely dispos. transf. out-turns/plan		99.5%		86.6%		109.1%
Cond. transfers out-turns/planned		99.3%		95.3%		82.0%
Total state transfers out-turns/plan		99.4%		92.2%		91.1%
Composition variance		0.7%		5.4%		18.4%

Source: Municipality of Fier, Ministry of Finance & Authors' calculations.

Since total receipts were at least 90 percent of the original budget estimate in two of the last three years, the score is B.

HLG-1.2 Earmarked grants outturn

As table 3.1 shows, receipts of conditional transfers were within 10 per cent of the planned amounts in two of the last three years. While conditional grants from line ministries were paid in full, grants from the RDF have not. The RDF grants have been awarded to Fier once the budget year had started. Further, the delays the procurement procedures and in the physical progress of work have impacted the amounts that have actually executed, ending up with an outturn of 90% and 63% in 2014 and 2015. As a result the composition variance is higher in 2014 and 2015; as the variance between the originally notified amount and actual earmarked grants was 10 percent or less in two of the last three years, the score is C. The level of outturns of RDF financing depends also on the timing of the transfers from the central government. If municipalities were informed beforehand about the amounts awarded it would create preconditions for a better planning of the implementation phase, including procurement procedures and physical progress of works.

HLG-1.3 Timeliness of transfers from higher level government

According to the finance and budget department officials, a quarterly disbursement plan is prepared by the Ministry of Finance for both conditional and unconditional grants (with some front-loading in the first quarter of the year), which the central government (CG) subsequently adheres to. Revenues from the mineral rent, the vehicles registration tax, the small businesses tax and the property transfer tax are transferred from central authorities to the Municipality in monthly instalments and without delays. The flows of conditional grants from the Ministry of Social Welfare and the Ministry of Interior did not present any significant problems. There is no regular calendar for financial resources obtained from other line Ministries or those obtained on a competitive base for investment projects from the Regional Development Fund. Overall the weighted impact of any delays would be relatively minor, not calling into question the requirement that 75 per cent of funds must be received without delay in relation to the original schedule. Score: A

PI	Dimension	Score	Justification for score
HLG-1	Transfers from a higher level of government (M1)	C+	Scoring Method M1
HLG-1.1	Outturn of transfers from higher level government	B	Total receipts were at least 90 percent of the original budget estimate in two of the last three years
HLG-1.2	Conditional transfers outturn	C	The difference between the original budget estimate and actual earmarked grants was 10 percent or less in two of the last three years
HLG-1.3	Timeliness of transfers from higher-level government	A	A quarterly disbursement plan for unconditional grants is prepared by MoF, and implemented as scheduled. Delays in the payment of shared taxes and conditional grants were of minor significance.

3.2 Pillar 1. Budget Reliability

PI-1: Aggregate expenditure out-turn

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 assessed on the basis of the last three completed fiscal years (years 2013 and 2014 refer to the former (pre - TAR) Municipality, and 2015 data concern the new enlarged Municipality (post – TAR).

As explained in relation to HLG-1, and based on the current framework in regard, conditional grant amounts are not notified to the municipality in time to be included in the original budget. In its budget the municipality takes into account only the prospective receipts from unconditional transfers and those items falling under the shared taxes (mineral rent, vehicles registration tax, small businesses tax and the property transfer tax), and the budgeted yield of its own revenues. Amounts of conditional transfers from line Ministries and the RDF are therefore considered to be outside the budget (and thus to be taken into account in PI-6 below), although they are included in the subsequent budget execution reports. Deduction of conditional transfers and RDF funding from the out-turn totals should therefore give some indication of the overall performance of budgeted expenditure against plans.

Table 3.2. Total expenditures and total expenditures net of conditional transfers

<i>data expressed in /000 ALL</i>	2013		2014		2015	
	Planned	Out-turn	Planned	Out-turn	Planned	Out-turn
Total expenditures	715,662	456,566	635,889	521,262	963,782	621,153
Deviation of out-turn from plan	-259,096		-114,627		-342,629	
Absolute deviation as % of planned	36.2%		18.0%		35.6%	

Source: Municipality of Fier and Ministry of Finance & Authors calculations.

Table 3.2 gives an approximation of what the municipality plans in its budget, and its actual expenditure from freely disposable revenue sources. There is an extreme gap between what the municipality plans and the actual outturn at the end of the year, because of both policy choices in the allocation of resources and shortfalls in revenue collection. Since actual expenditure was between 64% and 82% of budget in all three years, score is D.

PI	Dimension	Score	Justification for score
PI-1	Aggregate expenditure outturn	D	Actual expenditure was between 64% and 82% of budget in all three years.

Ongoing reform

The Albanian government with the support donor community is currently working on the development of a new law on local government finances. The new law on local finances aims

to provide the basic rules which should regulate intergovernmental transfers and fiscal relation in Albania. The draft law is intended to regulate the financing of the Municipalities and Qarks defining their revenues from local taxes and fees, shared taxes and central government transfers as well as their other revenues, including borrowing. It specifies the basic rules for determining and allocating intergovernmental transfers as well as the policies and procedures for municipal budgeting, intergovernmental dialogue and other issues important to the financing of local government functions. This draft-law was submitted for the consideration to Council of Ministers before the end of February 2017.

PI-2: Expenditure composition out-turn

This indicator measures the extent to which reallocations between the main budget categories during execution have contributed to variance in expenditure composition. It contains three dimensions and uses the M1 (WL) method for aggregating dimension scores. It is assessed on the basis of the last three completed fiscal years (years 2013 and 2014 refer to the former (pre - TAR) Municipality, and 2015 data concern the new Municipality (post – TAR). This Indicator has three dimensions:

- Dimension 2.1. Expenditure composition outturn by function - which looks at changes in the composition of expenditure by function between budget and out-turn;
- Dimension 2.2. Expenditure composition outturn by economic type – looking at changes in composition by economic classification;
- Dimension 2.3. Expenditure from contingency reserves – looking at the extent to which expenditure is charged to Contingency.

Expenditure out-turns by function and economic classification are shown in Chapter 2 of this report, but no comparable breakdown of expenditure at budget/planning stage is available to provide a basis for scoring the first dimension.

PI-2.1. Expenditure composition out-turn by function

The following table shows planned and actual expenditure by functional classification for the total expenditure, excluding that financed from conditional grants from line ministries and the RDF. As can be noted, the actual amounts for all functions deviate substantially from the original estimates for all functions in all three years. It is important to note that arriving at the functional classification of expenditures required an elaboration of the budget documentation presented by the municipal officials. From such documentation it appears that the administrative classification is used as the basis for the functional classification. This explains why no expenditure is planned and recorded for the functions of Public Order and Safety and Social Protection. This situation is mostly due to the lack of comprehensive national guidelines and templates as well as human capacities to work on program based budgeting. Since, the variance in expenditure composition by functional classification was less than 15% in only one of the three years, the score for this indicator is D.

Table 3.3. Expenditures by functional classification

	2013		2014		2015	
	Planned	Out turn	Planned	Out turn	Planned	Out turn
General Public Administrative Services	170,498	129,595	171,278	145,665	406,918	294,211
Public order and safety	0	0	0	0	0	0
Economic Affairs	159,110	31,131	66,164	33,462	152,204	25,060
Housing and community amenities	198,495	161,666	205,450	186,289	235,020	185,777
Recreation, culture and religion	123,686	95,468	114,195	105,366	99,920	59,194
Education	63,873	38,706	78,802	50,480	69,720	56,911
Social Protection	0	0	0	0	0	0
Total	715,662	456,566	635,889	521,262	963,782	621,153
Composition variance	32.2%		13.7%		25.5%	

Source: Municipality of Fier & Authors calculations based on PEFA instructions.

PI-2.2. Expenditure composition by economic classification

The following table shows planned and actual expenditure by economic classification for the total expenditure, excluding that financed from conditional grants from line ministries and the RDF. There is a substantial change in the composition of expenditure in all three years for all line items. The largest shortfall is on investments planned to be executed from own source revenues. As the municipality appears to plan most of its own expenditure other than investments be financed from the unconditional grant, revenue collection shortfalls have greatly impacted the realization of investments. On average, in the last three years Fier has realized less than one third of planned investments. On the other hand, in 2014 and 2015 Fier received substantial funds for investments from the central government through the RDF. If we consider only outturn data, investment actually financed from the RDF has been 5 and 10 times higher than what Fier has financed through its own budget. Since the calculated variances in expenditure composition were 33.2%, 32.8%, 23.8% for the three years 2013-15 respectively the score is D.

Table 3.4. Expenditures by economic classification

<i>data in /000 ALL</i>	Planned - 2013	Out turn -2013	Overall difference	Composition variance
Personnel	291,966	262,069	-36.2%	33.2%
Operational	226,507	139,882		
Capital Investments	163,889	35,200		
Transfers	33,300	19,415		
Total expenditures	715,662	456,566		
	Planned - 2014	Out turn -2014		
Personnel	316,334	301,025	-18.0%	32.8%
Operational	218,522	163,471		
Capital Investments	67,755	34,567		
Transfers	33,278	22,199		

Total expenditures	635,889	521,262		
	Planned - 2015	Out turn -2015		
Personnel	405,831	326,359	-35.6%	23.8%
Operational	369,297	241,579		
Capital Investments	154,804	28,822		
Transfers	33,850	24,393		
Total expenditures	963,782	621,153		

Source: Municipality of Fier & Authors calculations based on PEFA instructions.

PI-2.3. Expenditure from contingency reserves

In the budget documents of the Municipality of Fier there are two line items, similar in nature and not allocated: the contingency fund and the reserve fund. While the reserve fund funds are used to cover unexpected temporary needs for financial resources during the fiscal year, contingency funds are used to cover expenditure needs above the planned allocations or to cover any underperformance in revenues during the execution phase of the budget (Law 9936/2008, "On the management of the budgetary system in the Republic of Albania", Art. 3).

Over the last three fiscal years, the budgeted amounts for contingency and reserve funds were about 9 million ALL in 2013 and 2014, and about 10 million ALL in 2015. The amounts charged to contingency were about 5.1 million ALL, 4.8 million ALL, and 5.2 million ALL respectively.

Table 3.5. Contingency and reserve funds

<i>data in /000 ALL</i>	2013	2014	2015
Planned contingency and reserve funds	9,000	9,000	10,000
Out turns for contingency funds	5,113	4,803	5,200
Total expenditures	715,662	635,889	963,782
Contingency fund out turns/total expenditures	0.71%	0.76%	0.54%

Source: Municipality of Fier & Ministry of Finance & Authors' calculations based on PEFA instructions.

The percentages of total expenditures these amounts were 0.71%, 0.76%, and 0.54% in 2013, 2014 and 2015 respectively. As long as the average percentage is lower than 3%, the score is A.

PI	Dimension	Score	Justification for score
PI-2	Expenditure composition out-turn	D+	Scoring Method M1.
PI-2.1	Expenditure composition out-turn by function	D	The variance was less than 15% in only one of the three years.
PI-2.2	Expenditure composition out-turn by economic classification	D	The variances were more than 15% in all three years
PI-2.3	Expenditure from contingency reserves	A	The average amount charged to contingency was 0.67% of total expenditure in 2013-15

PI-3: Revenue out-turn

This indicator measures the change in revenue between the original approved budget and end-of-year outturn. It contains two dimensions and uses the M2 (AV) method for aggregating dimension scores. It is assessed on the basis of the last three completed fiscal years (years 2013 and 2014 refer to the former (pre - TAR) Municipality, and 2015 data concern the new Municipality (post – TAR). There are two dimensions to this Indicator:

- Dimension 3.1. Aggregate revenue outturn – considering the difference between budgeted and out-turns for own source revenues;
- Dimension 3.2. Revenue composition outturn - measuring changes in the composition of those revenues between budget and out-turn

As suggested by the PEFA Secretariat, the data considered for this indicator include revenues actually administered and collected by the Municipality or on behalf of the Municipality by directly contracted collection agencies. Taxes considered as shared taxes (the mineral rent, vehicle registration tax, small businesses tax and the property transfer tax) are also included in the calculations for this indicator. They have also been considered as part of transfers from central government and assessed together with other transfers under the HLG-1. As noted in Chapter 2 above, the collection of local fees from businesses and households, from late 2016 is undertaken on behalf of the municipality in the area of the former municipality and the communes by the water utility. Thus all revenues for the last three completed fiscal years have been the direct responsibility of the municipal revenue department.

PI-3.1. Aggregate revenue out-turn

As explained above, for aggregate revenue out-turn we have considered only those revenues which the municipality actually plans in its budget. Total budgeted and realised figures for own revenues are summarised in the following table. [

Table 3.6. Revenue out-turn

data in /000 ALL	2013		2014		2015	
	Budget	Out-turn	Budget	Out-turn	Budget	Out-turn
Taxes, incl. shared taxes	390,129	219,198	256,006	196,238	366,009	278,776
Fees	80,700	62,615	127,837	100,844	141,170	119,341
Other (assets)	25,000	7,472	6,000	6,770	5,000	38,225
Total	495,829	289,285	389,843	303,852	512,179	436,342
Actual as % of budgeted	58.3%		77.9%		85.2%	

Source: Municipality of Fier & Ministry of Finance & Authors calculations based on PEFA instructions.

The data show that own source revenues fell far short of what budgeted in all three years under analysis. The most significant shortfalls were in the revenues from local taxes (especially the *infrastructure impact tax* imposed on new buildings, mainly due to the central

government decision to halt the issuance of construction permits until General Local Plans (GLPs) had been approved. Substantial shortfalls are registered also from the small business tax, which in 2014 became a shared tax the base and rate of which are outside municipal control (from 2014 this tax started being collected by the central government agencies and transferred back in full to the municipalities). Nevertheless, from a systemic point of view such large shortfalls are related also to overoptimistic revenue forecasts and to the inclusion in revenue projections of substantial amounts of tax arrears (accumulating from a number of years) which fail to materialize in the fiscal year. Since out-turns of revenues were less than 92% of budget in all three years, the score for this dimension is D.

PI-3.2. Revenue composition out-turn

There were substantial changes in the composition of revenues between budgets and out-turns in each of the three years under analysis. Details are shown in the following table, which shows the nominal values for nine line items of revenues, the overall difference and composition variance. Each budget line is adjusted by the overall difference between budget and out-turn, and the absolute differences between these adjusted lines and actual revenues summed to give the overall variance as a percentage of actual total revenues. The shortfalls in revenue from the *infrastructure impact tax, the small business tax and the cleaning fee* were the most important elements in changing the relative composition of revenues during the period 2013-15.

PI	Indicator/Dimension	Score	Justification for score
PI-3	Revenue out-turn	D	Scoring Method M2
PI-3.1	Aggregate revenue out-turn	D	Own source revenue was less than 92% of budget in all three years 2013-15. Despite the facts that data for 2013 - 2014 represent the pre-TAR municipality and that 2015 data is not completely comparable due to TAR, the differences are so significant that a score can be assigned with confidence.
PI-3.2	Revenue composition out-turn	D	Variance in revenue composition exceeded 15% in all three years 2013-15.

Ongoing reform: The new law on local finances that is actually under discussion, foresees the introduction of some fiscal rules, including indications on the need for more evidence based projections, and clear rules not allowing the introduction of tax arrears older than 18 months to be included in the revenue projections for next year.

Table 3.3. Revenue composition out-turn

	2013				2014				2015			
	Budget	Actual	Adj. B	Diff.	Budget	Actual	Adj. B	Diff.	Budget	Actual	Adj. B	Diff.
Property tax on build. & agricult. land	30,200	26,806	17,620	9,186	55,416	66,695	43,192	23,503	143,134	130,097	121,940	8,157
Small businesses tax*	84,000	77,515	49,009	28,506	83,000	49,205	64,692	-15,487	70,343	74,566	59,927	14,639
Infrastructure impact tax	223,329	67,037	130,298	-63,261	65,000	43,272	50,662	-7,390	85,390	19,621	72,746	-53,125
Public space occupation tax	1,000	91	583	-492	1,000	114	779	-665	8,709	2,940	7,419	-4,479
Other taxes	1,600	1,029	933	96	1,590	972	1,239	-267	6,154	2,441	5,243	-2,802
Vehicle registr. tax & Min. Rent*	33,000	32,922	19,253	13,669	33,000	24,927	25,721	-794	37,423	33,142	31,882	1,260
Property rights transferring tax*	17,000	13,798	9,918	3,880	17,000	11,053	13,250	-2,197	14,856	15,969	12,656	3,312
Cleaning fee	32,000	25,682	18,670	7,012	63,517	55,244	49,507	5,737	71,452	63,446	60,872	2,574
Greening fee	3,200	1,859	1,867	-8	15,703	5,925	12,239	-6,314	5,280	7,284	4,498	2,786
Public lightening fee	6,000	3,600	3,501	99	16,406	7,988	12,787	-4,799	6,720	8,754	5,725	3,029
Parking fee	3,200	2,474	1,867	607	3,200	2,772	2,494	278	3,500	3,529	2,982	547
Other fees	36,300	29,000	21,179	7,821	29,011	28,915	22,612	6,303	54,218	36,328	46,190	-9,862
Asset Revenue	5,000	4,498	2,917	1,581	5,000	2,179	3,897	-1,718	5,000	4,762	4,260	502
Other revenues	20,000	2,974	11,669	-8,695	1,000	4,591	779	3,812	0	33,463	0	33,463
Total revenues	495,829	289,285	289,285	0	389,843	303,852	303,852	0	512,179	436,342	436,342	0
Absolute sum of differences				144,913				79,265				140,538
Total revenue deviation				-41.7%				-22.1%				-14.8%
Composition variance				25.1%				13.0%				16.1%

Source: Municipality of Fier & Ministry of Finance & Authors calculations based on PEFA instructions.

3.3 Pillar 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. It is assessed on the completed fiscal year 2015.

According to the law no. 9936/2008 “On the Management of the Budgetary System in the Republic of Albania” the formulation, execution and reporting of the budget should be broken down according to the administrative unit, economic classification and functional classification. While standardized systems and document templates have been developed for the formulation, execution and reporting of the budget of central government’s agencies, such systems and templates have never been extended to the local level. With the exception of standardized templates to be shared with the Treasury District Offices, municipalities have developed their own templates for budget formulation, execution and reporting. This is one of the main reasons why budget documentation differs from municipality to municipality and why comparisons of budgets and outturn following different classifications require a substantial effort even within single municipalities. On the other hand, Treasury District Offices require municipalities to present and register their budgets in the treasury system following the administrative, economic and programmatic classification at both the 7 (for expenditure) and 3 (for revenue) digit level of economic accounts. In theory this should allow for consistent comparisons between budgets and out-turns.

As the documents of the municipality show, budgets are set by *administrative classification*, with the amounts for each administrative unit broken down by economic classification at the 3-digit level. The Administrative classification is then processed and presented in terms of the COFOG ten main functions. The budget (including expenditure financed through conditional grants not included in the original budget) is executed through the Treasury system, which contains sufficient details of each transaction as to enable all expenditure to be analysed by reference to administrative, economic and functional classifications. But the templates used by the municipality to plan and report the budget require some additional efforts to be entirely comparable with the more detailed information extracted by Treasury system. However, consistent comparisons between budget and out-turn can be made based on administrative and economic classifications at the GFS 3 digit level. Score: C

PI	Indicator/Dimension	Score	Justification for score
PI-4	Budget classification	C	Scoring Method M1. The 2015 budget classifications and Chart of Accounts are based on economic and administrative classification at the GFS standard 3-digit level, although consistent comparisons between budget and out-turn require additional efforts.

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. These are shown in the following table. It is assessed on the content of the last municipal budget submitted to the legislature, thus the budget document for 2016⁴. Budget documentation is published on the municipal website (see PI-9 below).

Table 3.4. Budget documentation

Full description of PEFA 2016 requirements	Requirements fulfilled? (Yes/No)	Information included in 2016 budget
Basic elements		
1. Forecast of the fiscal deficit or surplus or accrual operating result.	Yes	By law, the local government units are required to present balanced budgets (on cash basis).
2. Previous year's budget outturn , presented in the same format as the budget proposal.	Yes	The Decision of the Municipal Council approving the Budget is presented without comparisons with other years. However tables accompanying the Council's Decision provide comparisons with the outturn of the previous years, the expected budget for the current year and the three coming years.
3. Current fiscal year's budget presented in the same format as the budget proposal. This can be either the revised budget or the estimated outturn.	Yes	Same as for basic element 2.
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.	Yes	Data and projections are provided with respect to the previous year's outturn, the expected budget and the coming three fiscal years.
Additional elements		
5. Deficit financing , describing its anticipated composition.	Yes	No deficit is foreseen.

⁴The budget document for 2016 was approved with Municipal Council Decision No. 60 dated 17/12/2015.

6. Macroeconomic assumptions , including at least estimates of GDP growth, inflation, interest rates, and the exchange rate.	Yes	Guidance from Min. of Finance is reproduced and considered for the MTBP.
7. Debt stock , including details at least for the beginning of the current fiscal year presented in accordance with GFS or other comparable standard.	Yes	Apart from expenditure arrears, the Municipality of Fier has no debt.
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 is given about bank balances or amounts owed to the city.
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	Information is not provided about the Water Utility owned by the city.
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.	Yes	There are <i>some</i> explanations of new policy initiatives (taxes and fees).
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.	Yes	These are published on the Municipality of Fier website (http://bashkiafier.gov.al) MTBP 2016-2018
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	In the Fiscal Package of 2016 some exemptions for vulnerable families are provided. But no details are given of the cost to the Municipality of the tax concessions.

Source: Municipality of Fier

PI	Indicator/Dimension	Score	Justification for score
PI-5	Budget classification	B	Budget documentation fulfils 9 elements, including all four basic elements.

PI-6 Government (subnational) operations outside financial reports

This indicator measures the extent to which revenue and expenditure under the control of the Municipality is excluded from its financial reports. It covers all municipal operations during 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.

6.1 Expenditure outside financial reports

Fier has no activities controlled by the Municipality, other than its share in the Water Utility which is considered under PI-10, which are not fully covered by its financial reports. Thus there is no expenditure outside financial reports, resulting in the score A.

6.2 Revenue outside financial reports

Fier has no activities controlled by the Municipality, other than its share in the Water Utility which is considered under PI-10. Thus there is no revenue outside financial reports, resulting in the score A.

6.3 Financial reports of extra-budgetary units

Since there are no extra-budgetary units, this dimension is Not Applicable.

PI	Indicator/Dimension	Score	Justification for score
PI-6	Municipal operations outside financial reports	A	Scoring method M2
PI-6.1	Expenditure outside financial reports	A	There is no expenditure controlled by the municipality which is not fully covered in financial reports
PI-6.2	Revenue outside financial reports	A	There is no revenue accruing to Fier which is not fully covered in financial reports.
PI-6.3	Financial reports of extra-budgetary units	NA	There are no extra-budgetary units.

PI-7 Transfers to lower levels of government

Since there are no government units subordinate to the city of Fier, this Indicator is Not Applicable.

PI-8 Performance information for service delivery (M2)

This indicator examines the service delivery performance targets in budget documentation, and the subsequent reporting of actual performance against the targets. It contains four dimensions and uses the M2 (AV) method for aggregating dimension scores.

- Dimension 8.1 Performance plans for service delivery (covering information for 2016);
- Dimension 8.2 Performance achieved for service delivery (covering information for 2015);
- Dimension 8.3 Resources received by service delivery units (covering information for 2015);
- Dimension 8.4 Performance evaluation for service delivery (covering information for 2013-2015);

The first two dimensions ask what information is provided about the level of services planned, and the level of services actually delivered, while the second two dimensions ask first whether information is available about the resources received by individual schools and health clinics, and second, whether there have been any independent evaluations of the services provided. These questions are only just beginning to be considered by municipalities in Albania, despite being required by the current legislation to provide information on services programmes and performance indicators related to them. Article 33, subsection 2 of law no. 139/20015 *“On local self-government”* states in relation to instruments to manage public services that *“Regardless of the selected instrument, in any event the local unit shall be responsible for: (a) Designing and implementing a system of service performance management, based on the local standards and/or national minimum standards; (b) Designing and implementing a system of indicators, including the gender aspect, for measuring service performance; (c) Creating a special unit within their structures to be responsible for presenting, supervising, and monitoring service performance, including the gender aspect”*.

PI-8.1 Performance plans for service delivery

Only major objectives and the related activities for expenditure programmes are set out in the budget documentation. No quantitative targets or goals are specified which could be used in measuring the efficient and effective use of resources. Hitherto budget documentation has not provided any information about the standard of service to be provided, for example concerning the availability of public lighting, or the services to be provided in terms of pre-school education. Since no information is available about plans for service delivery, the score for this dimension is D.

PI-8.2 Performance achieved for service delivery

There is some limited reporting of actual standards of service, but no information is available about performance against targets. Score: D

PI-8.3 Resources received by service delivery units

Fier implements three fees for public services: the cleaning fee, the greenery fee and the public lighting fee. Further there are revenues also from kindergartens, nurseries etc. Revenues from such fees are planned and reported regularly by the municipality on a monthly, quarterly and annual basis. Further, the treasury system collects sufficient information about each transaction to make possible reporting of the resources received by each service delivery unit (nurseries, kindergarten, library, football club etc.). Reports have been prepared and surveys undertaken identifying the resources received by services delivery units, the amounts to be subsidized by the municipal budget. The administration prepares also estimates and projections on how much fees should increase to get closer to cost recovery. Such projections are included also in the fiscal package and budget documentations presented to the municipal council. Score: B.

PI-8.4 Performance evaluation for service delivery

There have been no evaluations of effectiveness and efficiency of service delivery by independent bodies for any major expenditure programs or departments at least once within the last three years. Nor have either external audit (High State Control) or the Municipality's internal audit service produced any reports about standards of service achieved. Score: D.

PI	Indicator/Dimension	Score	Justification for score
PI-8	Performance information for service delivery	D+	Aggregation method M2
PI-8.1	Performance plans for service delivery	D	No plans are published at any frequency about the levels of service to be provided.
PI-8.2	Performance achieved for service delivery	D	Reporting of service levels achieved against targets is not yet established.
PI-8.3	Resources received by service delivery units (SDUs)	B	Reports have been produced about the resources received by individual SDUs.
PI-8.4	Performance evaluation for service delivery	D	No evaluations have been produced by internal or external auditors, or by other independent bodies.

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. The

score for this indicator depends on how many of five basic elements of information, and of four additional elements, are available to the general public. It covers the last completed fiscal year, the year 2015. At least four of the five basic elements must be available for a score of C or higher.

The Municipality of Fier is engaged actively in increasing transparency, consultation and participation of the community in the overall management of the city (as stated in the budget document of 2016), in accordance with the new organic law no. 139/2015 “On local self-government” which introduced an entire chapter regulating “transparency, consultation and civic participation”:

- *Local self-government units shall guarantee to the public the transparency of their activity (Art.15/1);*
- *Every act of local self-government bodies shall be published on their official website and displayed in particular places for public announcements (Art.15/2);*
- *Each unit of local self-government shall be obligated to appoint a transparency coordinator and adopt a transparency program, ensuring access for all, especially for the poorest communities, in accordance with the provisions of the applicable law for access to information (Art.15/3);*
- *Keep accounts in conformity with the applicable legislation, and provide information and financial reports for the design and implementation of their budgets to the central government or the citizens (Art.9/1.3/d).*

The situation in the Municipality of Fier with regard to fiscal documentation to which citizens have access is set out in the following table.

Table 3.5. Public access to fiscal information

Elements	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 by the country in PI-5) is available to the public within one week of the executive’s submission of them to the municipal council.	No	Although incomplete documentation is available on the Municipality of Fier website http://bashkiafier.gov.al/sq-al/Bashkia/Pages/Buxheti.aspx PEFA Secretariat advise that full information in accordance with PI-5 must be available for the element to be satisfied.
2) Enacted budget. The annual budget law approved by the municipal council is publicized within two weeks of passage of the decision.	Yes	Published on the Municipality of Fier website http://bashkiafier.gov.al/sq-al/Bashkia/Pages/Buxheti.aspx

		& www.financatvendore.al & http://www.vendime.al/category/fier/2015-fier/ . According to Fier officials, it was published on 18/12/2015 after the approval by with Municipality Council in Decision no. 60, dated 17/12/2015.
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-27.	No	There are half yearly budget execution reports produced by the finance and budget unit officials but they are for internal use only and there is no regular publication.
4) Annual budget execution report. The report is made available to the public within six months of the fiscal year's end.	No	The report is not published on the website of the Municipality of Fier.
5) Audited annual financial report, incorporating or accompanied by the external auditor's report. The reports are made available to the public within twelve months of the fiscal year's end.	NA	No opinion is given on annual budget execution reports as it is not a legal requirement in Albania.
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.	Yes	Information is provided about the fiscal outlook prior to budget preparation in the Medium Term Budget Program.
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	Recommendations in audit reports are published on HSC website 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	No user-friendly budget (citizen's budget) summary is published.

9) Macroeconomic forecasts	NA	Not applicable at municipal level
Supplementary elements (in case any of the additional elements is not applicable to sub-national governments)		
10) Information on fees, charges, and taxes that belong to the subnational government. The information is publicly available and up to date.	Yes	The information with regard to fees, charges and taxes is published in the Fiscal Package document.

Since only two of the four applicable basic elements and two additional elements are satisfied, the score is D.

PI	Dimension	Score	Justification for the score
PI-9	Public access to fiscal information	D	Only one out of the five applicable basic elements are satisfied.

3.4 Pillar 3. Management of Assets and Liabilities

PI-10 Fiscal risk reporting

This indicator measures the extent to which fiscal risks to central government are reported. Fiscal risks can arise from adverse macroeconomic situations, financial positions of subnational governments or public corporations, and contingent liabilities from the central 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 three dimensions and uses the M2 (AV) method for aggregating dimension scores. The indicator is assessed for the last completed fiscal year.

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

The first dimension of this indicator looks at reporting by corporate bodies owned by the city, whose operations are not included in the annual city budget. The second dimension is concerned with the monitoring of lower level governments, and is therefore Not Applicable. The third asks about the annual publication of information on contingent liabilities and other fiscal risks.

PI-10.1 Monitoring of public corporations

The only body owned by the municipality but excluded from its budget is the water utility, whose audited annual report has been published within six months of year-end. The city's Finance Director is a member of the management board. The water utility acts as the municipality's fiscal agent in collecting much of the fee and tax revenue due to the city from businesses and households, and its operations are expected to be integrated into the city budget for 2017. Score: A

PI-10.2 Monitoring of subordinate governments

Since there are no subordinate governments in this case, this dimension is considered as not applicable at municipal level. Score: NA

PI-10.3 Contingent liabilities and other fiscal risks

According to the information provided by the experts in the Municipality of Fier, they have not engaged in any transactions which would generate risks of this kind. Score: NA

PI	Dimension	Score	Justification for the score
PI - 10	Fiscal risk reporting	A	M2

PI – 10.1	Monitoring of public corporations	A	The water utility has submitted audited annual financial reports within 6 months of year-end.
PI – 10.2	Monitoring of subordinate governments	NA	Not applicable at municipal level.
PI – 10.3	Contingent liabilities and other fiscal risks	NA	Fier has not guaranteed any borrowing by subordinate institutions, or participated in any PPP operations.

PI-11 Public investment management

This indicator assesses the economic appraisal, selection, costing, and monitoring of public investment projects by the municipality, with emphasis on the largest and most significant projects. The time period considered for assessing this indicator is the last completed fiscal year. It contains four dimensions and uses the M2 (AV) method for aggregating dimension scores.

- Dimension 11.1 Economic analysis of investment projects
- Dimension 11.2 Investment project selection
- Dimension 11.3 Investment project costing
- Dimension 11.4 Investment project monitoring

The four dimensions of this indicator accord better with the situation of a central government rather than with that of an individual municipality. The first dimension asks whether investment proposals are subject to economic analysis in accordance with national guidelines; the second asks whether projects are prioritised on the basis of published standard criteria; the third asks whether full life-cycle costs are taken into consideration, and the fourth asks about the monitoring of project execution.

PI-11.1 Economic analysis of investment proposals

The Ministry of Finance introduced Public Investment Management procedures in 2007 and a new methodology for monitoring, evaluating and reporting of public investments has been introduced in 2014. These procedures require an economic analysis for all investment projects whereas a thorough analysis and full appraisal applies only for projects with an estimated value of above 100 million ALL. However it is unclear whether these procedures apply for municipalities and apparently there are no published guidelines for economic analysis of investment proposals by municipalities in Albania. Unless the central government provides the necessary resources – directly, through the provision of RDF funds, or through external funding – Fier does not have the resources to undertake major investment projects requiring sophisticated analysis. As explained in PI-2 above, very little was executed in the 2013 and 2014 and 2015 budgets for investment, with significant actual expenditure beginning after receipt of RDF funds in 2014 and 2015. In bidding for such financing the

municipality aims to put forward proposals consistent with its Territorial Development Strategy which reflect some assessment of the costs and analysis of the benefits to different sections of the population. Although there are no centrally imposed guidelines regulating these processes, Fier has prepared project fiches for the RDF committee that include an economic, financial and social cost benefit analysis. The road projects currently in process of execution are financed by the RDF, which is effectively in charge of project selection. Since the RDF has some selection criteria for the projects it finances, the score for this dimension is C.

PI-11.2 Investment project selection

Investment projects are proposed by spending units and are shortlisted by the strategic management group. Later on the short list is consulted with the public in public hearings. Project selection where finance is provided by RDF (or other similar financial resources provider) is primarily determined by the central government, although projects are prepared and executed by the municipal governments concerned. There are no published rigorous and transparent criteria regulating the basis of the choices made by central government through the RDF. Since all projects are prioritised by central government, the score for this dimension is C.

PI-11.3 Investment project costing

New projects are not for the most part included in budget documentation, because decisions on which projects should be financed are not made within the relevant timescale. Thus arrangements do not meet the minimum requirements for a C score, which depends on the availability of full information on total capital costs as well as information on spending during the year immediately ahead. Therefore, the score for this dimension is D.

PI-11.4 Investment project monitoring

Project execution is monitored by the Public Works Directorate and the Finance Department, with information on both physical and financial progress reported periodically at least 3-4 times a year in the budget implementation reports prepared for the municipal council. Payments to suppliers are linked with to evidence of physical progress, quality assurance from an independent expert (work supervisor) and acceptance from the Public Works Directorate. The urban planning department also prepares 3-4 reports each year on both physical and financial progress for every phase of the project implementation. While there is no strict calendar for this, the municipality follows the legislative requirements setting up the procedures for investment project monitoring. As there is no regular calendar, and the reports are not published, the score for this dimension is C.

PI	Dimension	Score	Justification for score
PI-11	Public investment management	D+	Scoring Method M2
PI-11.1	Economic analysis of investment proposals	C	Projects are put forward to central government taking into account some analysis of the costs and the likely beneficiaries.
PI-11.2	Investment project selection	C	Prior to their inclusion in the budget, some of the major investment projects are prioritized by a central entity. Most projects are selected by central government through the RDF.
PI-11.3	Investment project costing	D	Decisions on project implementation are generally taken after municipal budgets have been set, with no information in budget documentation about the total capital costs of projects.
PI-11.4	Investment project monitoring	C	Project implementation is regularly monitored by the Public Works Directorate, but the reports are not published.

PI-12 Public asset management

This indicator assesses the management and monitoring of subnational 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

This Indicator has three dimensions: the first looks at the municipality's holdings of financial assets, the second at non-financial assets, and the third at rules for the transfer and disposal of assets.

PI-12.1 Financial assets monitoring

Revenue arrears are considered to be financial assets and are included in total in the financial statements of the municipality, but the amounts are very uncertain. However, these financial statements are neither published nor subject to any regular audit. Given uncertainties about amounts owed to the municipality, the score for this dimension is D.

PI-12.2 Non-financial assets monitoring

The municipality maintains a record/register of all its physical or fixed assets: land (urban, rural - arable, pasture, forestry, unproductive), roads and pavements, buildings of different kinds, irrigation canals, plant and equipment. All changes in non-financial assets are regularly reported as part of the investment progress monitoring. Information on changes is included in the budget monitoring reports and financial statements. The asset register is not published, and contains only partial information on their usage, age, improvements and depreciation. It is part of the (unpublished) consolidated financial statement. The score for this dimension is C.

PI-12.3 Transparency of asset disposal

Although the municipality has a register of its non-financial assets, its ability to exploit them is limited by the fact that they are not for the most part included in the national register of properties. Registering all property will be time-consuming and expensive. Disposal or transfer of property is regulated by the national legislation and requires the approval of the municipal council; sales are by public auction, with a reserve price stated. However, in practice there has not been any sale or disposal of assets with the exception of very outdated and depreciated automobiles and equipment. The disposal of such assets took place through public auction (thus following the rules for public procurement) with each step of the procedure being managed by the legal department, the procurement unit, the finance department, and the relevant departments responsible for those assets. The score for this indicator is B.

PI	Dimension	Score	Justification for score
PI-12	Public asset management	C	Scoring Method M2
PI-12.1	Financial asset management	D	Data in the unpublished financial statements about revenue arrears is very uncertain.
PI-12.2	Non-financial asset management	C	There is a register of fixed assets, but it is not published.
PI-12.3	Transparency of asset disposal	B	There are procedures regulating asset disposals, and reports to the council contain information on disposals.

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

All the applicable dimensions of this indicator concern debt and guarantees contracted directly by the subnational governments and serviced by the subnational government. The third dimension, which concerns debt management strategy at central government level is considered Not Applicable at municipal level.

13.1 Recording and reporting of debt and guarantees

Fier has not contracted any loans, so this dimension is Not Applicable.

13.2 Approval of debt and guarantees

The legal framework regulating the subnational borrowing in Albania is the Law no. 9869/2008 “On borrowing of local governments”. According to the law on borrowing, subnational governments may access short and long term loans, subject to limits on amounts outstanding set by reference to freely disposable annual revenue and annual debt service obligations. To keep total public debt under control, all borrowing is subject to control by the Ministry of Finance, under article 6 and 7 of the law. This has been reinforced by the 2015 Administrative Order which requires all municipalities to seek the permission of the Ministry of Finance to undertake any borrowing. In practice despite this provision in the law, there has been very little borrowing by a small number of municipalities. The total outstanding debt at the end of 2015 was 0.065% of GDP or 0.09% of total public debt. Although Fier has not contracted any debts, resulting in Not Applicable for 13.1, PEFA Secretariat consider that a score should be given for 13.2 based on the current legislation. Since all borrowing is ultimately controlled by MoF, score is A.

13.3 Debt management strategy

In accordance with the terms of reference this dimension is Not Used.

PI	Dimension	Score	Justification for score
PI-13	Debt management	A	Scoring method M2
PI-13.1	Debt recording and reporting	NA	Fier has not contracted any loans
PI-13.2	Approval of debt and guarantees	A	All municipal borrowing is fully controlled by MoF.
PI-13.3	Debt management strategy	NU	Excluded by terms of reference.

3.5 Pillar 4. Policy Based Fiscal Strategy and Budgeting

PI-14 Macroeconomic and fiscal forecasting

This indicator measures the ability of a country to develop robust macroeconomic and fiscal forecasts, which are crucial to developing a sustainable fiscal strategy and ensuring greater predictability of budget allocations. It also assesses the government's capacity to estimate the fiscal impact of potential changes in economic circumstances. It contains three dimensions and uses M2 (AV) for aggregating dimension scores.

- PI-14.1 Macroeconomic forecasts
- PI-14.2 Fiscal forecasts
- PI-14.3 Macro fiscal sensitivity analysis

PI-14.1. Macroeconomic forecasts

The first dimension of this indicator concerns the preparation of macroeconomic forecasts by the central government, and the third the impact on fiscal forecasts of different macroeconomic assumptions. According to the terms of reference these dimensions are Not Used.

PI-14.2 Fiscal forecasts

The second dimension asks whether fiscal forecasts covering revenue and expenditure for the budget year immediately ahead and the two subsequent years have been submitted to the municipal Council with the budgets for the years 2014-16. The Medium-Term Budget Projections provide such information, with details of both revenue and expenditure shared with the municipal council. Both the numerical tables with revenue and expenditure forecasts (following the economic, functional and administrative classifications) and the accompanying report (including the underlying assumptions) are published in the municipal website. For an A score the information provided must include an explanation of the main differences from previous fiscal forecasts submitted to the Municipal Council. Since such an explanation has not been provided in the Municipality of Fier, the score for this dimension is B.

PI-14.3 Macro fiscal sensitivity analysis

This dimension is not applicable to the sub-national government since relevant to the central government only as set out in the concept note.

PI	Dimension	Score	Justification for score
PI-14	Macroeconomic and fiscal forecasting	B	Scoring Method M2
PI-14.1	Macroeconomic forecasts	NU	Excluded by the terms of reference for the assessment.

PI-14.2	Fiscal forecasts	B	The city administration prepares forecasts of fiscal indicators, including underlying assumptions, revenues (by type), aggregate expenditure, and the budget balance, for the budget year and two following fiscal years. These projections have been submitted to the Council in each of the last three years and published.
PI-14.3	Macro fiscal sensitivity analysis	NU	As 14.1

PI-15 Fiscal strategy (M2)

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).

The first dimension of the indicator asks whether the city administration submits to the Council estimates of the fiscal impact of all proposed changes in revenue and expenditure policy for the following three years. The second asks whether the administration has submitted its fiscal strategy for the following three years to the Council (for at least one budget year and the two following fiscal years), including time-based fiscal goals. The last dimension of the indicator asks whether the administration has submitted to the Council a report on progress in implementing its previously adopted fiscal strategy. This indicator thus presupposes that the municipal administration is able to control the whole of its budget, and plan the whole of its expenditure with a time horizon of at least three years. In reality in Albania municipal administrations cannot do this (or cannot fully do it), because a large part of their overall expenditure is devoted to capital investment where decisions are taken by the central government outside the municipal annual budget framework.

PI-15.1 Fiscal impact of policy proposals

The administration presented its Medium-Term Budget Forecast (MTBF) for 2016-18 to the Council, including all elements of revenue and expenditure under its direct control, and the impact of changes, if any. Estimates include all types of revenues from local taxes and fees,

asset management, etc., whereas expenditure estimates include projections based on the administrative, economic and functional classifications for the three years to come, and the actual figures for the previous year. Estimates were included of the impact of fiscal policy changes (revenue and expenditure) and also of changes in applicable laws made by the central government⁵. A report explaining the underlying assumptions is prepared and shared with the municipal council and is published in the municipal website. But as explained above, this can only be a partial presentation (since the municipalities have no basis for forecasting capital expenditures financed through the RDF or other similar instruments controlled by the central government). However, it appears to meet the requirements of the PEFA criteria and the score for this dimension is A.

PI-15.2 Fiscal strategy adoption

Municipalities **must** present balanced budgets (according to Law No. 139/2015, “*On Local Self-Government*”, Art. 34/6 and corresponding Art. 12 of the Law No. 9936/2008 “*On the Budgeting System Management in the Republic of Albania*”), unless they have approval from the Ministry of Finance for borrowing. Fier’s MTBF 2016-2018 is submitted on the basis of balanced budgets, which amount to fiscal targets. These could be seen as meeting the requirement for a fiscal strategy, although this has no real substance and contains no qualitative objectives for achievements during the period. However, since quantitative objectives are presented to the Council for three years ahead, the suggested score for this dimension is B.

PI-15.3 Reporting on fiscal outcomes

Although reports have been produced showing comparisons between original budget and out-turn figures, these have not included any explanation of differences between one year’s MTBF and that for the following year. Score: D

PI	Indicator/Dimension	Score	Justification for score
PI-15	Fiscal Strategy	B	Aggregation Method M2
PI-15.1	Fiscal impact of policy proposals	A	MTBF includes estimates of revenue and expenditure, taking account of any changes in policy. But the coverage is incomplete.
PI-15.2	Fiscal strategy adoption	B	Balanced budgets represent a kind of fiscal strategy. But there are no qualitative objectives associated with it.
PI-15.3	Reporting on fiscal outcomes	D	No explanations have been given for differences between one year’s MTBF and that for the following year.

⁵ Law No. 142/2015 for some changes and additions to Law no 9632/2006 “*On Local Tax System*” and other guidelines provided by the Ministry of Finance during early January of 2016.

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.

The first dimension of the indicator reviews the extent of detail in medium-term fiscal projections prepared by the subnational government as part of the annual budget cycle. The second assesses whether the expenditure ceilings for three years for each service or administrative unit are determined by the Mayor at the beginning of the process; the third dimension assesses whether expenditure policy proposals are consistent with medium-term strategic plans; and the fourth whether explanations are given for changes between successive years' MTBFs. As for PI-15 the plans put forward by the city administration do not cover much expenditure on investment, and so do not represent a complete plan for the development of the city.

PI-16.1 Medium-term expenditure estimates

In Albania the practice is first to prepare the MTBF covering the following three years, which is completed [in August] each year. The MTBF covers only expenditures, broken down by administrative and economic classification, which is expected to be able to be financed from unconditional transfers and revenues under the municipality's control, thus excluding most investment expenditure. The MTBF 2016-2018 includes forecasts of expenditures for the years 2016, 2017 and 2018 and the actual figures for the previous year. A draft MTBF 2017-2019 has been prepared and approved in the Municipal Council and deposited in the Ministry of Finance. Each unit in the city administration is required to work within expenditure ceilings set by the Mayor. The completed MTBF is submitted to the Council, and thereafter used as the basis for the preparation of the following year's budget. The budget as finally proposed may differ slightly from the MTBF figures, but the second and third year figures are not revised at that stage, and not presented in the budget documentation. If the MTBF figures are considered sufficient for this PI, the score would be B, since the projections are put forward based on administrative and economic classifications.

PI-16.2 Medium-term expenditure ceilings

Expenditure ceilings for each of the three years for each administrative unit are issued by the Mayor at the first stage of the process. Each spending unit must abide to the ceilings during budget preparation. Budgetary requests above the ceiling are recorded, discussed and eventually approved in subsequent meetings by the Group for Strategic Management headed by the Mayor. Thus the proposed score is A.

PI-16.3 Alignment of strategic plans and medium-term budgets

Due to legislative changes, the Municipality of Fier has adopted (approved by the Municipal Council) a *Territorial Development Strategy of the Municipality* in 2016, as part of the General Local Plan (expected to be approved before the end of December 2016). Accordingly, the vision and strategic objectives as provided in the TDS of the Municipality have been developed and translated in financial terms in the Capital Investment Plan for 2016-2030. In theory, the CIP contains detailed information for the prioritized investment projects, which in turn should be linked to and translated in the MTBPs. Because most municipal investment depends on unpredictable grants from central government (RDF funding or other similar programs), municipalities are not in a position to prepare strategic plans which are in alignment with budget projections. Score: D.

PI-16.4 Consistency of budgets with previous year's estimates

The documentation provided by the municipality of Fier with regard to the MTBF 2016-2018 and the 2016 budget documentation do not contain any information with regard to previous years estimates. Because of the recent municipal reorganisation there has been no question as yet of explaining the differences between one year's MTBF and the next. The score for the indicator is Not Applicable.

PI	Indicator/Dimension	Score	Justification for score
PI-16	Medium-term perspective in expenditure budgeting	B	Aggregation method (M2)
PI-16.1	Medium-term expenditure estimates	B	Revenue and expenditure projections for the following three years based on administrative and economic classifications are submitted to the Council.
PI-16.2	Medium-term expenditure ceilings	A	Ceilings for each of the three next years are issued to each administrative unit at the start of the MTBF process.
PI-16.3	Alignment of strategic plans and medium-term budgets	D	The unpredictability of investment financing precludes the preparation of

			strategic plans which can be executed over a specified time period.
PI-16.4	Consistency of budgets with previous year's estimates	NA	There has as yet been no opportunity to explain changes from a previous year's MTBF since the 2015 municipal reorganisation.

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 (covering the last annual budget submitted to the Municipal Council);
- Dimension 17.2. Guidance on budget preparation (covering the last annual budget submitted to the Municipal Council)
- Dimension 17.3. Budget submission to the legislature (covering the last three annual budgets submitted to the Municipal Council)

PI-17.1 Budget calendar

A clear annual budget calendar is issued by the Mayor early each year in accordance with the budgeting calendar guidelines provided in Law No. 9936/2008. Instructions on the annual and medium term budget preparation are issued in February of every year from the Ministry of Finance and then by all municipalities. This provides first for the development of the MTBF by the late summer, which then serves as the basis for the preparation of the following year's budget. Final instructions to each administrative unit are, however, only issued in November leaving less than four weeks before the budget is submitted to the Municipal Council. After the June 2015 elections that created the new and larger municipalities, Fier approved the new and consolidated budget for FY2015 (including the nine amalgamated Communes) on July 21st. Work on the new 2016 budget proposal started in September, with a new calendar being developed and subsequently followed. Until November spending units prepared budgetary requests which were discussed in the Strategic Management Group and publicly consulted with citizens. In November the Council approved the fiscal package including all tax and fee levels for the entire (new) territory for 2016, including revenue projections. The final 2016 draft budget proposal was presented to the Council in December 10th, one week before the date planned for its consideration and adoption, and in advance of final decisions by the Government on the amounts of unconditional transfers. Since the time available for the preparation of final submissions is very short, the score for this dimension is C.

PI-17.2 Guidance on budget preparation

Clear instructions, including expenditure ceilings are given to each of the municipality's administrative/spending units at each stage of the MTBF and budget preparation process. The Strategic Management Group composed of the heads of the budget programs and the mayor convene regularly to provide such instructions, evaluate and decide on budgetary request submitted by all spending units. Guidance, opinions and recommendations are included in the budget preparation templates fulfilled by all spending units. Instructions are provided to budgetary units also for RDF financing, whenever the central government publishes a call for proposals. Political leadership of the municipality helps in setting priorities for RDF financing. Score: A

PI-17.3 Budget submission to the Council

The draft budget and the fiscal package (i.e. the proposed fiscal policies on local taxes and fees for the coming year) have been put forward for public consultation. In general also municipal councillors participate in such events. The finalized proposals on the budget and the fiscal package are thereby made available to the Council, at least one week before the meeting scheduled for their consideration and approval, but less than one month before the start of the fiscal year. Based on the Law on Local Self-Government, municipal council decisions proposals must be submitted for consideration to the council at least one week in advance of the planned plenary session. In the last three years the draft-budget has been presented to the municipal council on 16 January 2014 for the 2014 budget proposal; 23 December 2014 for the 2015 budget proposal and December 10th, 2015 for the 2016 budget proposal. The 2016 budget proposal was adversely affected by the implications of the TAR and the delays of the central government in adopting the state budget that defines the unconditional grant and very late changes to the Law regulating the local tax systems. However, unlike many other LGUs, Fier managed to have the 2016 budget adopted before the start of the fiscal year. Because the Council has only one week to consider the proposals, score for this dimension is D.

PI	Indicator/Dimension	Score	Justification for score
PI-17	Budget preparation process (M2)	C+	Aggregation method (M2)
PI-17.1	Budget calendar	C	There is a clear budget calendar, but administrative units have less than four weeks to prepare their final submissions.
PI-17.2	Guidance on budget preparation	A	Expenditure ceilings are issued to administrative units at each stage of the MTBF and budget preparation process
PI-17.3	Budget submission to the legislature	D	For each of the 2014-16 budgets proposals have been sent to the Council one week before the plenary session which approved them.

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.

PI-18.1 Scope of budget scrutiny

The Municipal Council reviews the fiscal package with policies and rates on taxes, fees and charges, medium-term fiscal outlook on revenues and expenditures, including any revenue policy changes, and the annual budget proposal document on the basis of the MTBF which is submitted in advance of the budget proposals. The Council's Economy and Finance Committee, composed mostly of councillors with some experience of economics and finance, has convened to analyse and discuss the budget proposal at least one day before the budget proposal is presented in the plenary for final approval. The Committee prepares a report with findings and recommendations which is presented in the plenary session. Such proposals and recommendations on amendments to the budget are voted. Any proposal amending the draft-budget needs to comply with budget rules and regulations for a balanced and sustainable budget. Score: A.

PI-18.2 Council procedures for budget scrutiny

The Council's consideration of the budget proposals is preceded by public consultation meetings, and also involves review by the Council's Economy and Finance Committee before it reaches the full Council. The standard procedures for budget scrutiny and the functioning of the Economy and Finance Committee are approved by the Municipal Council itself. The executive and the administration provide technical support to the Economy and Finance Committee and all Council Members to analyse and scrutinize the budget proposal. The Council's regulation for budget scrutiny include rules for negotiation and revisions. Score: A

PI-18.3 Timing of budget approval

Based on the provisions of Law No. 9936/2008 “On the Budgeting System Management in the Republic of Albania”, Art. 32., the municipal budget shall be approved by the legislature before the start of the new fiscal year. This requirement has been met only on two of the last three fiscal years considered for assessing this dimension. Therefore, the score for this dimension is B.

Table 3.6. Budget submission and approval by the Council

Budget Year	Date of Council approval of the budget
FY2014	23 January 2014
FY2015	30 December 2014
FY2016	17 December 2015

Source: Municipality of Fier

PI-18.4 Rules for budget adjustments by the executive

The Mayor can authorise transfers within the allocations to each administrative unit, but transfers between administrative units require the approval of the Municipal Council. Budgets are formally adjusted to reflect conditional grants to finance investments, but RDF assistance towards investments has been treated as entirely outside the budget, and not subject to any supervision by the Municipal Council. Because substantial RDF funding has not been subject to any supervision by the Council included in the budget, the score for this dimension score is C.

PI	Indicator/Dimension	Score	Justification for score
PI-18	Legislative scrutiny of budgets	C+	Aggregation method (M1)
PI-18.1	Scope of budget scrutiny	A	The Council considers the MTBF before the budget is submitted.
PI-18.2	Council procedures for budget scrutiny	A	Procedures are well-established, including public consultation and review by a specialist committee.
PI-18.3	Timing of budget approval	B	Budget has been approved before the beginning of the new fiscal in two of the last three budgets.
PI-18.4	Rules for budget adjustment by the executive	C	Although budgets have been adjusted in response to the provision of conditional grants for investment, RDF grants have not been included in these arrangements.

3.6 Pillar 5. Predictability and Control in Budget Execution

PI-19 Revenue administration

This indicator assesses the procedures used to collect and monitor sub national 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 experience in 2015 and subsequently);
- Dimension 19.4. Revenue arrears monitoring (assessed on experience in 2015 and subsequently).

The composition of municipal own revenue in Albania is described in Chapter 2 above, and the details of Fier's revenue are set out in PI-3 above.

PI-19.1 Rights and obligations for revenue measures

Law No. 9632/2006 “*On Local Taxes System*” as subsequently amended provides the basis for the local taxes and fees levied by municipalities. The central government fixes the indicative rate for the main taxes levied by municipalities, but each Council has the right to vary this rate up or down by up to 30 per cent. Since 2006 this law has been subject to substantial changes, and a complete new law on local taxation is expected to be approved within the next few months. For the municipality of Fier, information about liabilities to pay taxes and fees is readily available on the city's website. The city's water utility (Water & Sewerage Company Fier) has recently taken responsibility for the collection of taxes and fees alongside the water charges in the city and in the former communes. It appears that this is resulting in an improvement in compliance rate especially for businesses.

The “tax liability notification” sent by the municipal revenue department to all taxpayers contains all relevant information with regard to rights and obligations in the case of non-payment. In the case of late payments, a penalty as a percentage of total amount per diem may be applied for a maximum of 365 days. Taxpayers can appeal to the Tax Directorate, which must respond within 5 working days. If the response is unsatisfactory, the taxpayer can appeal to the Mayor⁶ who must respond within 30 days. If the Mayor's response is unsatisfactory a further appeal can be made to the Administrative Court. Fier officials stated that there had been very few appeals to the Tax Directorate or the Mayor and none to the

⁶ <http://bashkiafier.gov.al/sq-al/Services/Pages/Kerkese-Ankese.aspx>

Court. Since information is available for taxpayers both from the water company and from the municipal revenue department, collects between them collect about 80% of municipal own revenues, the score for this dimension is B.

PI-19.2 Revenue risk management

Fier does not have an integrated tax management system covering both for household and non-household taxpayers. While the compliance rate is higher in the case of non-household taxpayers, the situation is considered unsatisfactory for household taxpayers. Available information indicates that there is considerable uncertainty about the amounts payable, given that enforcement is far from complete. The largest tax revenue – *the infrastructure impact tax* – shows very large proportionate shortfalls between budgets and out-turn mainly as a result of action by the central government in blocking developments, while the “*Other taxes*” line shows substantial unbudgeted receipts in 2014 which were not repeated in 2015 (see PI-3 above). The collection of fees from both households and businesses appears to have improved during the period 2013-15. More attention has apparently been paid to the collection of the larger amounts of taxes and fees due from businesses than to collection from households where both the individual amounts and the overall total due are smaller. Payment by businesses may be enforced by blocking the bank accounts of non-payers; there were said to be about 75 such cases each year. For household taxpayers other services might be withheld from non-payers, although the legal basis for this was doubtful. Since the focus on collection from business taxpayers can be seen as a response to risk, score is C.

Households that do not have a contract with the water utility pay their tax obligations in cash at municipal cash desks in the former communes and four offices in the city. Transactions are kept in excel based modules, not linked to any IT system, and lists are processed manually. Cashiers provide taxpayers with a hard copy of the cleared tax liability. The taxpayer is then cleared from its tax liabilities in the excel list for the given year. Cash is transferred then through banks in the treasury system. In total, in 2016 such revenues constituted about 2% of the overall revenues collected by Fier’s revenue administration, the water utility and the cash desks.

PI-19.3 Revenue audit and investigation

This dimension is of greater significance in relation to central government income taxes and VAT. Apart from the infrastructure impact tax, where there may be risks resulting from buildings being constructed without the tax being applied, the liability to pay taxes and fees should generally be straightforward, not requiring complex investigation. *(There remains the question of ensuring a complete and accurate register of taxable households, given the large disparity between the numbers registered in each municipality and the generally much smaller*

– except in Tirana – numbers found to be resident through the census.) It does not appear that there is any systematic approach to investigations of non-payment. Score: D

PI-19.4 Revenue arrears monitoring

No data have been provided by Fier officials about the stock and movement of revenue arrears. It appears that more attention has been paid to collections from businesses who pay three quarters of own source revenues, but in the case of households there are no consistent records of the amounts and ages of payment arrears. In the absence of information the score for this dimension is D*.

PI	Indicator/Dimension	Score	Justification for score
PI-19	Revenue administration	D+	Aggregation method (M2)
PI-19.1	Rights and obligations for revenue measures	B	Tax and fee payers have ready access to information on obligations, and procedures exist for appeals.
PI-19.2	Revenue risk management	C	The main focus of collection effort is on business taxpayers who contribute the largest share of revenue.
PI-19.3	Revenue audit and investigation	D	There is no systematic approach to the investigation of non-payment of households.
PI-19.4	Revenue arrears monitoring	D*	No data are available about the nature, amounts and ages of revenue arrears.

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 municipality. 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.

PI-20.1 Information on revenue collections

All revenue collected by municipal departments is paid immediately into the Treasury system either through banks/post offices. The amounts and type of revenue are notified by the Treasury Branch to the city administration competent office daily, and reports are compiled at least monthly. Revenue collected by the water company is fully reported on a monthly basis. The finance department exchanges information with the Tax Directorate which

prepares informational reports for the Mayor, at least on a monthly basis. The system is not automated, so that the Tax Directorate has to match the bank record of every single transaction with its own assessment records. Since the monthly reconciliations are complete, the score for this dimension is A.

PI-20.2 Transfer of revenue collections

Revenue received by Municipal departments from local taxes and fees from the business taxpayers is transferred daily to the city’s accounts in the Treasury system from the banks/post offices which receive it. Also revenue collected from municipal cash desks in the former communes and the city’s for offices are transferred daily to the treasury system from municipal officials through the banking system. But revenue collected through the water company which now collects the majority of the municipality’s own revenues is transferred only monthly to the city’s accounts in the Treasury system. The score for this dimension is D.

PI-20.3 Revenue accounts reconciliation

Banks and the water company collect the names of tax and fee payers and the amounts paid and the nature of the payments. The city revenue department then has to reconcile this information with its manual records of assessments in order to establish amounts still outstanding. While there appears to be adequate reconciliation between Treasury and city records of the total amounts received of different taxes and fees, the absence of data on payment arrears suggests that full reconciliations are not carried out at the level of the individual payers so as to provide the basis for establishing the total amounts assessed but not paid. The score for this dimension is D.

PI	Indicator/Dimension	Score	Justification for score
PI-20	Accounting for revenue	D+	Aggregation method (M1)
PI-20.1	Information on revenue collections	A	Information is available daily about the nature and amounts of receipts, and reports are made.
PI-20.2	Transfer of revenue collections	D	All revenue received by municipal departments is paid immediately into the city’s accounts in the Treasury system, but amounts collected by the water company, which now collects the majority of municipal revenues are paid into the Treasury account monthly.
PI-20.3	Revenue accounts reconciliation	D	Reconciliations do not establish total amounts outstanding or the amounts owed by individual tax and fee payers.

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).

PI-21.1 Consolidation of cash balances

The Municipality conducts all its revenue and expenditure transactions through its one official bank account, operating through the National Treasury's District Office. Score: A

PI-21.2 Cash forecasting and monitoring

Based on the guidance instructions 93 to 104, 132 and 255, from *“Standard Procedures of Application for Budget Preparation”*, issued by the Ministry of Finance, in February 2012, a cash flow forecast is produced at the beginning of the year, taking into account the agreed quarterly path for receipts of unconditional grants, and revised in the light of information about amounts of conditional grants and about revenue trends. However, it appears that in practice Fier updates the cash plan only when there are intergovernmental transfers but not to reflect actual revenue collection performance. Since there is not a regular pattern for the revision of the forecast, and there are continuing uncertainties surrounding some revenue and expenditure, the score for this dimension is C.

PI-21.3 Information on commitment ceilings

According to Art. 50, *“Organic Budget Law”*, *“Authorizing officers of general government units shall maintain information on financial commitments, and shall not allow undertaking of any new commitment if that exceeds the limit of the budget appropriation”*. The municipality's administrative units normally have information about the annual commitment ceilings right after the budget is approved by the council and allocated to spending units. Budget units may undertake commitments where there is provision in the budget, where the amount has been included in the city's procurement plan as notified to the Treasury, and where the timing of the payments is consistent with the cash flow forecast. While commitment ceilings are updated to reflect in-year-budget adjustments or conditional grants from the central government it appears they are not timely or regularly updated to reflect the effective

revenue collection. Because in practice budget units may at any time find that funds are not available to meet planned expenditures, the score for this dimension is D.

PI-21.4 Significance of in-year budget adjustments

Budgets have to be adjusted in the light of information about the prospective availability of conditional grants, which were not taken into account when the budget was first approved. (Underspending resulting from revenue shortfalls does not have to be ratified through a revised budget.) Changes are notified to the Council, but not otherwise published. Score: C

PI	Indicator/Dimension	Score	Justification for score
PI-21	Predictability of in-year resource allocation	C+	Aggregation method (M2)
PI-21.1	Consolidation of cash balances	A	All balances are held in the city's Treasury account.
PI-21.2	Cash forecasting and monitoring	C	A cash flow forecast is prepared at the beginning of the year, and may be updated to take account of the prospective availability of conditional grants but not revenue trends.
PI-21.3	Information on commitment ceilings	D	Administrative units have little assurance that funds will be available to meet planned expenditures.
PI-21.4	Significance of in-year budget adjustments	C	Budgets are adjusted to take into account the prospective availability of conditional grants.

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).

In Albania, there is no legal definition of when an outstanding invoice becomes an arrear. Arrears will generally be treated as such when payment has not been made within the normal 30 day credit period. The Treasury offices execute payments on behalf of subnational governments based on the availability of cash, generally within one month. All invoices not paid at the end of the year are considered expenditure arrears. Municipalities or budgetary institutions present received invoices from suppliers, approve them, and submit them to the Treasury District Office (TDO) for payment. In the system there are registered the date the

invoice arrived and entered the system, the date of the Treasury’s procedures, and the date the payment is executed. Currently, there is an initiative by the Ministry of Finance to establish the level of expenditure arrears for all 61 Municipalities (*Decision No. 50/2014 “Strategy for Clearance and Prevention of Arrears Accumulated by the Central Government” with the intent to apply the same for local government*). The latest evidence refers to June 2016.

PI-22.1 Stock of expenditure arrears

After the TAR, a significant concern was raised about possible expenditure arrears. At the end of 2015 the Treasury system shows that Fier had arrears (payments outstanding for more than 30 days) of ALL 138.4 million, representing about 9.2 per cent of total 2015 expenditure (of about ALL 1,501 million). Of these, about ALL 99 million, mostly inherited from the former communes recently incorporated into the municipality, were incompletely documented. Fier’s budget documentation for 2016 shows that arrears were 141.4 million ALL at the end of 2013 (31% of total expenditure in 2013 of 456.6 million ALL), and 15.3 million ALL (2.9% of total expenditure of 521.3 million ALL) at the end of 2014. Since arrears were more than 10 % of total expenditure in two of the three years, the score for this dimension is D.

Table 3.7. Information on total arrears of the Municipality of Fier (in ALL)

	2013	2014	2015
Total Budget Out-turns	456,566	521,262	621,153
Arrears with regular documentation			39,011
Arrears without regular documentation			99,406
Total arrears	141,394	15,342	138,417
Total arrears/Budget	31.0%	2.9%	22.3%

Source: Municipality of Fier & Ministry of Finance

**Data for 2013 and 2014 concern the old Municipality of Fier and are derived from the 2016 budget document. While for 2015, data concern the new Municipality of Fier and the source is the Ministry of Finance.*

22.2 Expenditure arrears monitoring

The Municipality of Fier has full records of the amounts, composition and ages of all the expenditure arrears of which it has been notified, which are available in real time (it is possible that some invoices have not been presented where contractors know that cash is not yet available to meet them). In 2016 such a register has been approved by the municipal council. A report on expenditure arrears has been prepared on a quarterly basis and shared with the municipal council and the Ministry of Finance. Information on arrears is included also in the budget documentation and budget implementation reports and the unpublished and unaudited annual financial statements. Fier has conducted an audit of the legality of payment arrears and has approved a strategy for their clearance. The score for this indicator is A.

	Indicator/Dimension	Score	Justification for score
PI-22	Expenditure arrears	D+	Aggregation method (M1)

PI-22.1	Stock of expenditure arrears	D	The stock of expenditure arrears was more than 10% of total expenditure in two of the three years 2013-15.
PI-22.2	Expenditure arrears monitoring	A	Data on the stock, age, and composition of expenditure arrears is generated quarterly within four weeks of the end of each quarter.

PI-23 Payroll controls

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

PI-23.1 Integration of payroll and personnel records

The payroll management process includes several components:

- i. Organizational structure – in accordance with Law No. 139/2015 “On Local Self-Government”, Art. 64(n), the Mayor has the right to *“Approve the organizational structure, the categories/classes of salaries for each civil service position and the basic statutes of the municipal administration, municipal budgetary units, and institutions controlled by the municipality, in accordance with the applicable law”*. In accordance with Art.54 (d) the Municipal Council has the right to *“Approve the salary and bonus payment rates for employees and other persons, elected or appointed, in accordance with the applicable law”*. In Fier, a single payroll covers all 1300 employees. Appointments and promotions are controlled by the Human Resources Directorate (HRD), with appointments approved by the Mayor, and salary levels within the nationally prescribed range are approved by the Municipal Council. About 385 employees belong to the central city administration, and the rest to the five subordinated institutions.
- ii. personnel information files – all the information is organized, updated and stored by HRD exclusively. There have been no comprehensive internal audits of payroll, and the first is scheduled for 2016;
- iii. attendance list is prepared by each director monthly and is submitted to HRD;

- iv. there is only one payroll prepared by the Finance Department based on the lists provided the HRD (validated and confirmed by the Finance Department). Calculations are made using simple excel sheets and payments are executed by the Treasury District Office as are all other transactions.

Since there is full documentation of all changes to the payroll, and HRD has exclusive control over personnel records, the score for this dimension is B.

PI-23.2 Management of payroll changes

HRD updates the payroll monthly. Salary increases based on the acquisition of new qualifications are implemented from the day HRD are notified, and there have been no cases of retroactive adjustments. Score: A

PI-23.3 Internal control of payroll

The separate roles of HRD and the Finance Directorate ensure that personnel records and payroll data are reliably controlled, and only changed when properly authorised. Based on the legal framework, changes to personnel and payroll data require a number of checks from different bodies: the municipal council, the mayor, the HRD, the Finance Department, the directorate under which the employee is employed, and the (central government) Department of Public Administration for those employees vested with civil servant status. The authority to change personnel records is restricted to the HRD; whenever there is a change the process requires separate verification steps. The HRD is responsible for maintaining and archiving all personnel records, including salary levels. The payroll is prepared on the basis of the timesheets approved by all directorates who prepare their monthly timesheets for every employee and submit them to the HRD. The HRD consolidates timesheets and prepares the payroll that is then sent to the finance department. The finance department finalizes the payroll which is paid through the treasury with the previous clearance from the executing and authorizing officers. Score; B

PI-23.4 Payroll audit

High State Control (HSC) which is Albania's Supreme Audit Institution audited the expenditure of Fier in 2013 and 2014. The audit included substantive testing of elements of the payroll. HSC consider municipal payrolls relatively low risk, and did not find problems. The city's Internal Audit Department is currently engaged in a series of payroll audits, beginning with the water utility which is to be integrated into the city's budget next year (2017). It previously audited aspects of the staff management and payrolls of the former communes as they were integrated into the city. This work can be seen as partial payroll audits, sufficient for the score C.

PI	Indicator/Dimension	Score	Justification for score
PI-23	Payroll controls (M1)	C+	Aggregation method (M1)
PI-23.1	Integration of payroll and personnel records	B	Changes in the payroll are initiated by HRD on the basis of changes in personnel records, but there are no automatic links between them.
PI-23.2	Management of payroll changes	A	The payroll is updated monthly on instructions from HRD. There have been no retroactive adjustments.
PI-23.3	Internal control of payroll	B	Procedures in HRD and the Finance Directorate provide sufficient assurance of the integrity of personnel records and payroll data.
PI-23.4	Payroll audit	C	Recent audit work by HSC and the city's Internal Audit Department constitute partial payroll audits.

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. the fiscal year 2015. 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

The procurement activity at national and sub-national level is regulated by Law No. 9643/2006 *"On Public Procurement"* which has been amended almost 10 times. The procurement law is generally in conformity with EU standards (Procurement Directive 2004/18), and with stringent requirements for the publication of information, and there is provision for independent adjudication of procurement complaints. Open tendering should be the default method for large procurements, and some form of competition should be arranged unless there are special circumstances. Competing bids must all be registered through the on-line e-procurement system. There appears, however, to be limited public trust in the system, with criticisms that contracts may be fragmented in order to avoid tendering procedures, that specifications are distorted to favour particular bidders, and that there is unjustified use of contracts negotiated with a single supplier.

PI-24.1 Procurement monitoring

In Fier a separate Directorate deals exclusively with procurement activity (with 5 employees). Municipalities are required by 20 January each year to send their *procurement plans* prepared consistently with recently approved budgets to the Public Procurement Agency (PPA), which publishes them on its website within 30 days from receiving it. They are also registered by the Treasury Office, which subsequently checks whether contracts registered and eventual payment instructions are consistent with the procurement plans. The city's Procurement Directorate keeps full records of all procurements of goods, services and works whatever the costs, and publishes all procurement opportunities, including low value procurements which do not require the full tendering procedure, on the PPA website. Subsequent contract awards are published in the same way. Municipalities are further required to submit a report on the previous year's procurements to PPA by 30 January each year. The score for this dimension is A.

PI-24.2 Procurement methods

Because of the shortage of funds for investment, relatively little procurement was undertaken by Fier in 2015. Nine contracts were let above the threshold requiring some degree of competition with a total value of 25.3 million ALL. A further 3.5 million ALL was spent on small purchases below the threshold. Since nearly 87.8 per cent of contracts by value in 2015 were placed in accordance with competitive procedures (requests for proposals, with a minimum of three bidders), the score for this dimension is A.

PI-24.3 Public access to procurement information

This dimension reviews the level of public access to complete, reliable, and timely procurement information at municipal level. It covers only procurement managed by the city. The score for this dimension depends on how many of the following elements are made available to the public:

1. Legal and regulatory framework for procurement - this is readily available from PPA website www.app.gov.al;
2. Municipality procurement plans - in principle available on PPA website (but this lacks any user-friendly search engine);
3. Bidding opportunities - available on PPA website (subject to the same qualification as (2));
4. Contract awards - available on PPA website, as for bidding opportunities;
5. Data on resolution of procurement complaints - published on the Public Procurement Commission (PPC) website, but again this lacks a user-friendly search engine;
6. Annual procurement statistics - not published.

Since five of the six elements are published, score for this dimension is B.

PI-24.4 Procurement complaints management

In this dimension the aim is to assess the existence and effectiveness of an independent administrative complaint–resolution mechanism for municipal procurements. According to the Albanian law, complaints must be registered with the Contracting Authority within seven days of the complainant becoming aware of the circumstances, and if there is no response within ten days may be submitted to the Public Procurement Commission (PPC). This suspends the procurement process unless the PPC rules otherwise. PPC should give a decision within 40 days, although it appears that this limit is exceeded in some 40 per cent of cases. A considerable number of cases are referred to the PPC; Fier alone has had four cases in 2016, one of which was determined in favour of the complainant who thereby secured a contract for which his bid had initially been rejected. Complainants must pay a fee of 0.5 per cent of the procurement amount, and possibly also other fees if the intervention is at an earlier stage in the procedure.

The score for this dimension depends on how many of the following criteria for the operation of the PPC are satisfied:

1. The procurement complaints are reviewed by a body which is not involved in procurement transactions or in the process leading to contract awards decisions – satisfied;
2. The procurement complaints are reviewed by a body does not charge fees which prohibit access by concerned parties - not satisfied, since significant costs may be incurred by complainants;
3. The procurement complaints are reviewed by a body which follows processes for submission and resolution of complaints that are clearly defined and publicly available – satisfied;
4. The procurement complaints are reviewed by a body which exercises the authority to suspend the procurement process – satisfied;
5. The procurement complaints are reviewed by a body which issues decisions within the timeframe specified in the rules/regulations - not satisfied;
6. The procurement complaints are reviewed by a body which issues decisions that are binding on all parties (without precluding subsequent access to an external higher authority) - satisfied.
7. The procurement complaints are reviewed by a body which issues decisions that are binding on all parties (without precluding subsequent access to an external higher authority) - satisfied.

Since the first criterion and three of the others are satisfied, the score for this dimension is B.

PI	Indicator/Dimension	Score	Justification for score
PI-24	Procurement	B+	Aggregation method (M2)
PI-24.1	Procurement monitoring	A	Full records are kept of all procurement contracts, including what is procured, the value, and the name of the successful contractor.
PI-24.2	Procurement methods	A	Nearly 88 per cent by value of 2015 contracts were placed through the use of competitive procedures.
PI-24.3	Public access to procurement information	B	Five of six elements of information are published.
PI-24.4	Procurement complaints management	B	PPC satisfies the requirement for independence and three of the other five criteria.

PI-25 Internal controls on non-salary expenditure

This indicator measures the effectiveness of general internal controls for non - salary expenditures. Specific expenditure controls on public service salaries are considered in PI-23. This indicator contains the following three dimensions, scored at the 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

PI-25.1 Segregation of duties

The Law No. 10296/2010 “On Financial Management and Control” distinguishes the responsibilities of the Authorising Officer and the Executing Officer, and prevents any single individual from being responsible for proposal, approval, execution, accounting and control of any commitment or transaction. The Law on the management of the budgetary system and Instructions of the Ministry of Finance ensure that there is appropriate segregation of duties. In Fier any proposal for expenditure will be initiated by the operational unit, and will require the consent of the Finance Director and the Mayor in the capacity of executing and authorizing officers. The operational unit will prepare plans and tender documents. The tendering process will be managed by the separate Procurement Directorate. The team evaluating bids is different from the team preparing the procurement documents. Any contract will require the approval of the Mayor, who is the chief Authorising Officer. Payment will be the responsibility of the operational unit, the finance directorate, authorising officer and treasury district officials. Accounting and reporting is the responsibility of the operational unit and the finance department. The signatures of both authorising and executing officers are required for any commitment or payment instruction. Since these arrangements function satisfactorily in the context of a (relatively small) city administration, although some standing

instructions may need updating following the municipal reorganisation, the score for this dimension is B.

PI-25.2 Effectiveness of expenditure commitment controls

Expenditure commitment controls apply to all expenditure other than on the employment of staff and the payment of benefits where administration has been delegated to the municipality. Procurement plans have to be registered with the Treasury system at the beginning of each year as well as with the PPA. Treasury confirmation of the availability of funds is required under the Organic Budget Law (OBL) before any tendering process (for a one year or multiyear contract) is launched. Thereafter contracts have to be registered when placed, and would be rejected if incompatible with the plan, with the provision on the relevant line in the approved budget, or with the cash flow projection, all of which are already in the system. However, as municipalities do not regularly update projected budget and cash availability (to which commitment limits are linked) following the actual revenue collection performance, there are risks of incurring expenditure arrears, score for this dimension is C.

PI-25.3 Compliance with payment rules and procedures

All payments are made after checks and procedures from the operational unit, the finance department, the authorising officer and the Treasury System, ensuring that any errors are eliminated before payments are made. There was no sign of any payments being made without complying with regular procedures. Score: A

PI	Indicator/Dimension	Score	Justification for score
PI-25	Internal controls on non-salary expenditure	B	Aggregation Method M2.
PI-25.1	Segregation of duties	B	Appropriately provided for in accordance with the law on Financial Management and Control, although some local instructions may need review following the municipal reorganisation.
PI-25.2	Effectiveness of expenditure commitment controls	C	Controls are in place and limit commitments to projected cash availability and approved budget provision, but the latter are not updated to reflect actual revenue performance.
PI-25.3	Compliance with payment rules and procedures	A	The Treasury system ensures that all payments are in accordance with established rules and procedures.

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).

Internal audit (IA) in Albania is based on the Law No. 114/2015 “On Internal Auditing in the Public Sector” which introduced some further refinements as compared with the previous version Law No. 9720/2007 “On Internal Audit in the Public Sector”. The law requires that IA meets international standards in terms of professional independence of the structures, sufficient access to information and power to report (breadth of mandate), and use of professional audit methods (including risk assessment techniques). Work should be focused on systemic issues related to the reliability and integrity of financial and operational information, the efficiency and effectiveness of operations, the safeguarding of assets, and compliance with laws, regulations and contracts. The head of the IA unit should report directly to the Mayor, and (since 2015) work should be overseen by an independent Audit Committee (this latter requirement introduced with Law No. 114/2015 appears not yet to be operational). An annual report on IA activities should be made to the Central Harmonisation Unit⁷ at the Ministry of Finance.

PI-26.1 Coverage of internal audit

In Fier internal auditing has been operational throughout the city’s units, including the former communes newly integrated into the city in 2015. A particular concern has been to ensure the correctness of the former communes’ closing financial statements. The municipal reorganisation and the election of a new Mayor required a revision of the audit plan. Seven of ten planned audits were carried out, with two of the remainder undertaken by HSC. The unit has three qualified staff, and considers that two further auditors are needed to achieve sufficient coverage of the enlarged municipality: the Mayor has agreed to appoint one additional auditor. The unit considers that it needs new capacity in order to be able to audit IT-based systems, particularly the operation of e-procurement, in order to achieve internal audit and management objectives. Because of the change of the audit plan from the territorial reorganization, in 2015 audits were conducted in entities that covered only 50% of revenues

⁷ <http://www.financa.gov.al/en/the-ministry/departments/general-regulatory-and-controlling-department/joint-reports-for-chu-fmc-and-chu-ia>

and expenditures of the municipality. Given that audit coverage is incomplete, the score for this dimension is C.

PI-26.2 Nature of audit and standards applied

In Fier work is carried out in accordance with professional standards, with particular attention given to the operation of internal controls in high risk areas such as the circumstances of the integration of nine communes into the city's administration. It is difficult to organise a fully effective quality assurance process in the context of a relatively small municipal operation. Audit activities focused on financial compliance and effectiveness of internal controls. Recommendations have been provided to develop and improve the internal regulations of audited entities. On the four communes it was mostly financial compliance audit with recommendations to improve accounting and financial reporting. Proposed score for this dimension is B.

PI-26.3 Implementation of internal audits and reporting

There is an annual audit plan, which may be amended when there is a change of Mayor. Most planned audits were completed in 2015 (with two taken over by HSC). Reports are sent to the audited entity before submission to the Mayor, and also submitted to the Central Harmonisation Unit at MoF. There appears to be good cooperation with HSC, although that body does not automatically receive copies of reports. Score: B

PI-26.4 Response to internal audit

IA units are responsible also for monitoring the implementation of their recommendations. According to the head of the IA unit, they have provided about 31 recommendations and appropriate responses have been made to 20 of them within six months of the report being produced whereas the other 11 are under implementation. However, some identified deficiencies (absence of job descriptions, inadequate personnel records in the former communes) may take time to remedy. The score for this dimension is B.

PI	Indicator/Dimension	Score	Justification for score
PI-26	Internal audit	C+	Aggregation Method M1
PI-26.1	Coverage of internal audit	C	IA is operational in all the city's departments, but coverage in 2015 was limited. Resources need to be increased to take account of the enlarged field following the municipal reorganisation.
PI-26.2	Nature of audits and standards applied	B	Audit meets professional standards and is focused on the operation of systems in high risk areas.

PI-26.3	Implementation of internal audits and reporting	B	Most planned audits are completed, with reports sent to audited units before submission to the Mayor.
PI-26.4	Response to internal audit	B	Most recommendations are appropriately addressed by responsible managers.

3.7 Pillar 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 for the previous 12 months)
- Dimension 27.2. Suspense accounts (as at time of assessment and for the previous 12 months)
- Dimension 27.3. Advance accounts (as at time of assessment and for the previous 12 months)
- Dimension 27.4. Financial data integrity processes (as at time of assessment)

PI-27.1 Bank account reconciliation

This dimension evaluates the timeliness and regularity of the reconciliation of bank accounts under municipal control (where these are managed by the municipal treasury or its equivalent). Based on the information provided by Fier officials, all the city's revenue and expenditure pass through its accounts in the Treasury system, and there are monthly (discrete and progressive) and annual reconciliations in aggregate and in detail at the 7 digit-level for revenues and 3 digits for expenditures (following economic, administrative and functional classification) between city and Treasury records. The score for this indicator is B.

PI-27.2 Suspense accounts

This dimension evaluates the timeliness and regularity of the reconciliation and clearance of suspense accounts under municipal control. Suspense accounts are used temporarily to register revenues not yet classified. In the case Fier, revenues received through the banking system include the identity of the payer, but not always the nature of the payment, which has to be reconciled manually on a monthly basis with information held by the city's revenue Directorate. Score: A

PI-27.3 Advance accounts

No use is made of advance accounts, thus the score for this dimension is Not Applicable.

PI-27.4 Financial data integrity processes

The execution of all transactions through the Treasury system provides a substantial measure of security for these operations. But the execution of many operations through stand-alone IT systems (e.g. revenue and procurement) which are not consistently linked to the Treasury system and to which access is not fully controlled, represents a significant risk. Action is now being taken address this, for example by insisting on the retention of hard copies of revenue receipts to ensure the maintenance of an audit trail for these operations. The score for this dimension is D.

PI	Indicator/Dimension	Score	Justification for score
PI-27	Financial data integrity	B	Aggregation Method M2
PI-27.1	Bank account reconciliations	B	There are monthly reconciliations between city and Treasury records.
PI-27.2	Suspense accounts	A	There are monthly reconciliations between Treasury and revenue Directorate records of individual payments.
PI-27.3	Advance accounts	NA	No use is made of advance accounts.
PI-27.4	Financial data integrity processes	D	Many operations are carried out through unlinked IT systems to which access is not restricted, and which do not ensure adequate audit trails.

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

PI-28.1 Coverage and comparability of reports

Monthly reports are made of budget execution prepared by the administration and sent for information to the mayor. These reports are shared also with the Prefect. When asked they are shared also with the municipal council. The reports are made with the same breakdown by administrative unit, economic and functional classification as in the revised budget which follows the same structure as the original budget. Quarterly and half-yearly reports are

prepared and shared with the Council. The reports are also shared on a quarterly basis with the deconcentrated structures of INSTAT. Score: A

PI-28.2 Timing of in-year budget reports

Reports are produced within 5 working days of the end of each month. Score: A

PI-28.3 Accuracy of in-year budget reports

In year budget reports cover only payments and not commitments, and do not include analysis of changes from the budget originally foreseen but instead from the revised budget. Information regarding payment stages, revisions and re-allocation among budget programs are not included in the document. The reliance on unlinked systems (see PI-27.4) undermines the quality of some of the data. Score: C

PI	Indicator/Dimension	Score	Justification for score
PI-28	In-year budget reports	C+	Aggregation Method M1
PI-28.1	Coverage and comparability of reports	A	Reports are produced with the same breakdown by administrative unit and economic nature as the original budget.
PI-28.2	Timing of in-year reports	A	Reports are produced within 5 working days of the end of each month.
PI-28.3	Accuracy of in-year budget reports	C	Payments only are covered, not commitments. There are serious concerns about data accuracy.

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).

PI-29.1 Completeness of annual financial reports (M1)

Law No. 139/2015 "On Local Self-Government", Art. 44 on the Annual Report provides that: *"The head of the local self-government unit shall be responsible for submitting to the council an annual written report about the financial activity and the implementation of the budget in the local self-government unit and the subordinate institutions thereof. Such report shall be submitted to the council no later than March 31 of the succeeding year."* Annual financial

reports are made in accordance with the MoF's Standard Instructions on Budget Execution (2012), and include information on operating revenue and expenditure, cash balances, debt and short-term liabilities⁸. The reports should follow the same format as the original budget, but comparisons are only given with the previous year's out-turn. They include a cash flow statement, assets, liabilities, changes in assets, depreciation, revenues and expenses, cash flow and a table showing the fund utilization that shows funds to be carried over the coming fiscal year; payment arrears and tax arrears, including a list of all non-compliant taxpayers and a list of creditors to whom the municipality owes any amount. Because no comparison is provided between the out-turn and the original budget, the score for this dimension is D.

PI-29.2 Submission of reports for external audit

There is no legal obligation in Albania to have an annual audit of financial statements by an external auditor. Audits by HSC have generally been undertaken every second year; the 2015 audit covered expenditure in 2013 and 2014 and looked at the functioning of systems as well as at compliance with applicable laws and regulations. But while it cannot be considered a formal audit of financial statements, the HSC reviews and comments on them in the course of its work. The score for this dimension is D.

PI-29.3 Accounting standards

Reports are produced in accordance with national accounting standards⁹, which are disclosed and ensure comparability from one year to the next. But the standards are not in conformity with International Public Sector Accounting Standards (IPSAS), and differences are not explained. The score for this dimension is C.

PI	Indicator/Dimension	Score	Justification for score
PI-29	Annual financial reports	D+	Aggregation Method M1
PI-29.1	Completeness of annual financial reports	D	Financial reports are prepared annually, and include a cash flow statement. But they do not provide for a comparison between the actual out-turn and the originally approved budget. Information about financial assets and liabilities is incomplete.
PI-29.2	Submission of reports for external audit	D	Reports are not submitted for external audit.
PI-29.3	Accounting standards	C	Standards are disclosed, and applied consistently from year to year. But they are not consistent with IPSAS, and differences are not explained.

⁸ Law No. 9928/2004, Art. 12 (Components of Financial statements) require that, "Subject to any exceptions or exemptions specified in national accounting standards, the financial statements of an entity shall include the following documents: (i) balance sheet, (ii) income statement, (iii) statement of changes in equity, (iv) cash flow statement, and (v) Notes to financial statements, containing disclosure of accounting policies, as well as other explanatory material."

⁹ Law No. 9928/2004 "On Accounting and Financial Statements".

3.8 Pillar 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).

PI-30.1 Audit coverage and standards

The audit coverage and standards dimension refers to financial reports of the subnational budgetary and extra budgetary institutions. The High State Control (HSC, the Supreme Audit Institution) has a section of 25 auditors devoted to the audit of local governments. The Municipality of Fier has been audited every two years, with the most recent audit in 2015 reviewing revenue and expenditure in 2013 and 2014. The work included both compliance audit (testing transactions for compliance with applicable laws and regulations) and aspects of the performance of systems (notably the poor performance of the revenue department in collecting outstanding amounts of property taxes and fees). But it has not hitherto included the provision of an Opinion on the annual financial statements, although reports make comments on these. HSC makes recommendations for improving the way in which the legal framework is applied, for making the administration more efficient, and for recovering the economic damage resulting from administrative and other errors. It follows up the extent to which its recommendations have been implemented as the first stage of its next audit. Since the audit covered both 2013 and 2014, it can be considered that audit coverage exceeded 50 per cent for the period 2013-15, resulting in the score C.

PI-30.2 Submission of reports to the Municipal Council

Audit Reports for the Municipality of Fier have not been submitted to the Municipal Council, so the score for this dimension is D.

PI-30.3 External audit follow-up

It is up to the Mayor and the city administration to follow up the HSC recommendations, although they are published on the HSC website. In the course of its 2015 audit, HSC found

cases where the recommendations of its previous audit had not been implemented; the necessary action should have been taken by June 2016. (The city administration noted that the HSC's recommendations did not take into account the city's limited resources for their implementation; for example, the recommendation to register all the city's property in the national register, in order to facilitate their exploitation, could only be achieved over a number of years, given the costs and administrative procedures required.) Since it appears that the municipality makes some response to the audit recommendations, and implements some of them, the score for this dimension is C.

PI-30.4 HSC independence

HSC operates independently from the central government in the conduct of its work and the execution of its budget (mandate and organization are established and protected by the Constitution of the Republic of Albania). The head of HSC is appointed by the National Assembly on the proposal by the President of the Republic for a 7-year term. Although the audit law provides for HSC's budget to be set by the National Assembly, in practice HSC is constrained within expenditure ceilings set by the Government. HSC has unrestricted access to records and information. Score: C

PI	Indicator/Dimension	Score	Justification for score
PI-30	External audit	D+	Aggregation Method M1
PI-30.1	Audit coverage and standards	C	Audit coverage exceeds 50%, and international standards are observed.
PI-30.2	Submission of audit reports to the legislature	D	HSC's audit reports of the Municipality of Fier are not submitted to the Municipal Council.
PI-30.3	External audit follow-up	C	A formal response was made by the executive or the audited entity on audits for which follow up was expected, during the last three completed fiscal years.
PI-30.4	Supreme Audit Institution independence	C	The HSC has its functional and operational independence, and its Head is appointed for a 7-year term by the National Assembly on the proposal of the President of the Republic. It has unrestricted and timely access to records, documentation and information, but its budget is constrained within expenditure ceilings set by the Government.

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;

PI-31.1 Timing of audit report scrutiny

Audit reports have not been submitted to the Municipal Council by the Mayor, and the Municipal Council has taken no initiative to discuss them, although the recommendations are published on the HSC website. This is a matter of regret for HSC. Score: D

PI-31.2 Hearings on audit findings

Since the reports have not been submitted to or discussed by the Municipal Council, there has been no question of hearings to consider audit findings. Score: NA

PI-31.3 Recommendations on audit by the legislature

Since the Municipal Council has not considered the reports, the question of recommendations in the light of them does not arise. Score: NA

PI-31.4 Transparency of legislative scrutiny of audit reports

While the public are admitted to Municipal Council meetings where the budget or the budget execution report are discussed, there have been no occasions when the Municipal Council discussed audit reports, so again the dimension is Not Applicable.

PI	Indicator/Dimension	Score	Justification for score
PI-31	Council scrutiny of audit reports	D	Aggregation Method M2
PI-31.1	Timing of audit report scrutiny	D	The Council has not discussed any audit reports.
PI-31.2	Hearings on audit findings	NA	No hearings have taken place.
PI-31.3	Recommendations on audit by the Council	NA	The Council has not discussed any audit reports.
PI-31.4	Transparency of Council scrutiny of audit reports	NA	There has been no scrutiny.

Chapter 4 Conclusions on the analysis of PFM systems

4.1 Integrated analysis of PFM performance

The findings from the assessments of each Indicator are summarised in terms of each of the seven pillars of the PFM performance measurement framework.

4.1.1 Reliability of the Budget

Because much of the funding from central government is not notified to the municipality before the budget for the following year has to be set, original budgets give an incomplete picture of the municipality's operations (PI-1). Nevertheless broadly consistent figures have been compiled for original budgets and out-turns linked to them broken down by administrative, functional and economic classifications, so enabling variance calculations to be made (PI-2.1 and 2.2). Expenditure net of conditional grants was well below plan each year, reflecting the fact that own revenues fell substantially short (PIs 1 and 3). There were substantial variances in revenue collection, mainly reflecting deviations from forecasts of amounts of infrastructure impact tax, the small business tax, local service fees, and other revenues. Once determined, amounts of central government grants, conditional and unconditional, were in the main actually paid according to a predetermined schedule (HLG-1). Very little expenditure was charged to contingency and reserve funds, so the functional allocation of the expenditure out-turn should be reliable.

4.1.2 Transparency of public finances

3. The Treasury system through which all municipal revenue and expenditure pass should contain enough information about each transaction to make possible consistent comparisons of budget and out-turn by reference to administrative, economic and functional (the 10 main COFOG functions) classifications. But neither municipal nor Treasury sources retain the necessary information in a way which makes such comparisons readily accessible (PI-4). The budget information presented to the Council is fairly comprehensive (PI-5), but the information available to the general public (PI-9) is incomplete. Conditional grants excluded from the municipality's original budgets and expenditure financed from them are fully reported (PI-6). No standards have been set for the delivery of public services, and there has been no consistent reporting on actual service delivery; no independent reports have been made about public service performance (PI-8). Apart from the water utility there are no operations under the city's control which are not reported as part of the budget (PI-6), and no subordinate government units (PI-7).

4.1.3 Management of assets and liabilities

Fier has received prompt audit reports from the water utility it owns. The city's Finance Director sits on the management board of the utility, whose operations are to be integrated into the city budget for 2017. The city has no shareholdings in other industrial or commercial enterprises (PI-10, PI-12). The city has a Strategic Development Plan within which it plans its infrastructure investment projects, and has appropriate arrangements for the preparation and execution of projects, but project selection is in practice dependant on the central government through the Regional Development Fund outside the city's budget process (PI-11). Fier has a register of the land and buildings it owns, but there is no recent valuation of the assets, and they are not recorded in the national property register in the way needed for their most effective exploitation. Asset disposals require the approval of the Council, and are done by public auction (PI-12). Apart from expenditure arrears, the city currently has no debts, although the sewage works currently being undertaken by the water utility are financed by an external loan channelled through the central government; for the time being the question of debt management does not arise (PI-13).

4.1.4 Policy-based fiscal strategy and budgeting

In Albania municipal budget planning lacks substance because a substantial part of the budget is determined by central government through the Regional Development Fund, and cannot be planned locally. That said, aggregate forecasts of those elements of revenue and expenditure which can be predicted by the city, together with the budget balance, are produced for the three years ahead (PI-14.2). There are also detailed medium-term projections of revenue and expenditure allowing for any local initiatives in terms of tax or fee rates, and any clear decisions about future current expenditure on the services which can be financed from own revenues and unconditional grants (PI-15.1 and 16.1). The provision of medium-term projections of balanced budgets represents a sort of fiscal strategy (PI-15.2), but there has been no analysis of the reasons for changes between one year and the next (PI-15.3). The formal processes to produce medium-term revenue and expenditure projections are undertaken, but because of the impossibility of overall budget planning the results have little foundation in reality (PI-16). Budget preparation is orderly, so far as it goes, although the officials concerned may have less than 4 weeks between receipt of the final budget Circular and the deadline for submissions (PI-17). The Council's procedures are sufficiently established, and the budget normally approved before the beginning of the year to which it relates (PI-18).

4.1.5 Predictability and control in budget execution

Own revenue-raising is seriously deficient. There is inadequate control over amounts owing, particularly by households, and considerable uncertainty about registries of property and

taxpayers (PI-19). The refusal by the national registry of property to exchange information with municipal revenue departments constitutes an important obstacle to the compilation of full records of property which should be liable to tax. Aggregate revenues are reported and reconciled monthly. But there are no automatic reconciliations at the level of the individual tax- or fee-payer through municipal IT systems and the Treasury System (PI-20). All cash balances are consolidated in the city's account in the Treasury system, and a cash flow forecast is made at the beginning of the year and updated to take account of receipts of conditional grants (but not reviewed in the light of actual revenue performance). City departments in principle have three months' notice of cash availability, in line with the scheduled receipt of central government grants, but revenue shortfalls undermine these expectations. Budgets are amended to take account of some but not all such grants (PI-21). There are significant expenditure arrears following the municipal reorganisation; the city has their amounts and ages, but some are inadequately documented (PI-22).

Payroll controls appear adequate, with changes to the payroll made only when authorised by the Human Resources Directorate, and monthly updating avoiding any need for retroactive adjustments. The external auditor (High State Control) considers payroll control systems to be relatively strong, although audit coverage has been relatively limited (PI-23). The centrally prescribed aspects of the procurement system appear satisfactory (PI-24) and contracts are let by competition. The law on Financial Management and Control and the actual division of responsibilities in the municipal administration should ensure sufficient segregation of duties, with the signatures of both authorising and executing officers required for all commitments and payments. As to commitments, the requirement to register procurement plans and contracts in the Treasury system should prevent the future accumulation of expenditure arrears, and there are no signs of irregularity in the actual payment process (PI-25). Internal audit has been functioning effectively, although it needs more resources to respond to the new situation consequent on the absorption of nine former communes into the city (PI-26).

4.1.6 Accounting and reporting

8. Bank reconciliations are made daily and monthly, and revenue suspense accounts cleared monthly. But the reliance on unlinked electronic systems without consistent controls over access to the systems implies a serious risk to the quality of financial data (PI-27). In-year budget executions reports are made monthly, but the reports cover payments only, and not commitments (PI-28). Annual financial reports provide only limited information, and do not include a comparison with the original budget for the year in question. The reports are not submitted for external audit each year; while accounting standards are consistent from year to year, divergences from international standards are not explained (PI-29).

4.1.7 External scrutiny and audit

9. The city's annual financial reports have not been audited each year by High State Control (HSC) or any other external auditor. The HSC's biennial reports which are published on the HSC website, have not been submitted to, or reviewed by, the Council, although responses are made to some of the recommendations by the city administration.

4.2 Effectiveness of the internal control framework

The internal control system should contribute towards four objectives: (i) the execution of operations in an orderly, ethical, economical, efficient and effective manner; (ii) fulfilment of accountability obligations; (iii) compliance with applicable laws and regulations; and (iv) safeguarding of resources against loss, misuse and damage. The analysis of the performance of the internal control system looks at the five internal control components: (1) the control environment; (2) risk assessment; (3) control activities; (iv) information and communication; and (5) monitoring. Annex 2 sets out specific observations relevant to the performance of internal controls.

The control environment depends on the legal and regulatory framework, and the way it is applied in practice. The Organic Budget Law (2008 as updated in June 2016), the law on Financial Management and Control (2010) and the High State Control law (2015) set out the overall framework for internal control across government. Specific laws on public procurement (2006) and internal audit (2015) apply across central and local government, while municipalities' activities are regulated by the law on Local Self Government (2015), the law on the System of Local Taxes (2006) and the law on Local Government Borrowing (2008). In the local government context the performance of the municipality will depend on the integrity of the management and staff, the management style of the organisation, the organisational structure (including appropriate segregation of duties and reporting arrangements), the management of human resources, and the professional skills of the staff. It is the responsibility of the Mayor to set the tone of the municipal organisation, and to adopt a strategy to minimise the risks of damage to the provision of good services.

The main risks faced by Fier are that revenue from the Municipality own taxes and fees will not be collected, that expected revenue-producing developments will not take place, and that procurements will not secure best value. A continued focus on maximising local revenues will be important in sustaining the local services which are the responsibility of the municipality.

The internal controls within the municipal administration appear to work reasonably well. Internal audit functions effectively, although more resources are required to meet the challenges posed by the integration of nine communes into the city. External audit has

provided regular reports on compliance with applicable laws and regulations, although this has not covered the annual financial statements.

The municipal website contains some information about the municipality's financial management, although there remain important gaps in what is published. The problems for medium-term planning resulting from the central government's failure to provide funds on a predictable basis beyond the current year cannot be resolved by any action by the municipality. Little attention has so far been paid to monitoring the performance of the municipal service delivery.

4.3 PFM strengths and weaknesses

4.3.1 Aggregate financial discipline

15. The restraints on borrowing, and the requirement to balance the budget mean that the risks of uncontrolled overspending are low. Overoptimistic budget forecasts coupled with the indifferent performance of the city's own revenue collection results in possible needs to cut back on normal service delivery in order to avoid expenditure arrears.

4.3.2 Strategic allocation of resources

16. Although the Municipality of Fier has a strategic development plan within which it seeks to plan the investments necessary for its economic and social development, the absence of any assured funding for investment from central government largely prevents the municipality from implementing any medium-term prioritising its allocation of resources. A more predictable basis for the distribution of central government funds is needed, which would enable the Fier municipality to manage improvements in its infrastructure more efficiently. At the same time increased attention would need to be paid to the planning of investments, so as to ensure that priority was given to projects which yield the greatest economic and social benefit from available funding. The nationally imposed limit on the potential revenues from annual property taxes, even if all such revenues could actually be collected, restricts the range and level of services the municipality can provide.

4.3.3 Efficient use of resources for service delivery

17. The recent municipal reorganisation presents a challenge to all the new municipalities to adapt their organisations so as to provide services efficiently throughout their enlarged territories. This is only likely to be achieved over a period of time, and will be constrained by the availability of staff with the necessary qualifications and experience. Much of the recent activity of the municipality's internal audit unit has had to be devoted to ensuring there is a sound basis for future financial reporting, taking into account the closure of the books of the former communes now integrated into the city. Recent changes in the responsibilities

allocated to municipalities for the delivery of particular services represent a further challenge to the municipal organisation. The continuing shortage of resources resulting from the limited potential of local revenue sources, and limits on unconditional grants, constitute a spur to making the best of a difficult situation; but living from hand to mouth is not really compatible with longer term efficient planning. Criticisms by HSC of the fragmentation of contracts and the inadequacies of technical specifications suggest that best value may not be achieved. Little attention has so far been paid to establishing and reporting on the standards of services to be delivered.

Chapter 5 Government PFM reform process

5.1 Approach to PFM reform

In Albania, the Ministry of Finance takes the lead in seeking improvements in PFM, notably through the institution of medium-term fiscal planning throughout central and local government, and through the development of Public Internal Financial Control (PIFC) to the standards required for membership of the European Union. The Government's December 2014 PFM Strategy looked to achieve a prudent macroeconomic framework in which expenditure arrears would be paid off and the public debt/GDP on a downward trend; effective commitment controls as part of an enhanced financial control system which also includes well-functioning internal audit; effective medium-term fiscal planning; improvements in revenue collection and public procurement; and increased transparency combined with better accountability mechanisms. Although these improvements mainly look to the central government, in principle they apply also at the municipal level.

So far as initiatives at municipal level are concerned, the 2015 territorial reorganisation was followed by the December 2015 new law on Local Self-Government which specifies the (enlarged) functions and competences of the reconstituted municipalities. MoF is currently (December 2016) working on a new law on Local Finances which will (1) strengthen financial discipline and regularise budget planning and internal control procedures; (2) fix the formula governing the distribution of unconditional grants, and determine other aspects of relations between central and municipal governments; (3) establish criteria for the management of current and capital expenditure, also covering accountability and transparency; and (4) prescribe the role of MoF. Meanwhile municipalities are required to report annually to the Central Harmonisation Unit at MoF on their performance in terms of internal financial control and internal audit.

5.2 Institutional considerations

As is clear from the preceding analysis, improvements in the PFM performance of Albanian municipalities are crucially dependent on expanding municipal revenue sources and establishing arrangements for the predictable flow of central government grants (conditional and unconditional) to municipalities, so that they are enabled to make realistic medium-term fiscal plans covering their investment as well as their current expenditures.

Annex 1. Performance Indicator Summary

PI	Indicator/Dimension	Score	Justification for score
HLG-1	Predictability of transfers from Higher Level Government (M1)	C+	
HLG-1.1	Difference between planned and actual transfers	B	Unconditional transfers were paid in full, but the full amounts of conditional transfers were not paid.
HLG-1.2	Grant composition variance	C	Variance in conditional transfers was more than 5% in two of the three years 2013-15.
HLG-1.3	In-year timeliness of transfers from central government	A	A quarterly disbursement plan for unconditional grants is prepared by MoF, and implemented as scheduled. Delays in the payment of shared taxes and conditional grants were of minor significance.
PI-1	Aggregate expenditure out-turn (M1)	D	Actual expenditure fell more than 15% short of budget in each of the three years 2013-2015.
PI-2	Expenditure composition out-turn (M1)	D+	
PI-2.1	Expenditure composition out-turn by function	D	The variance was less than 15% in only one of the three years 2013-15.
PI-2.2	Expenditure composition by economic classification	D	The variances were more than 15% in all three years.
PI-2.3	Expenditure from contingency reserves	A	The average amount charged to contingency was 0.67% of total expenditure in 2013-15
PI-3	Revenue out-turn	D	Aggregation Method M2
PI-3.1	Aggregate revenue out-turn	D	Own source revenue was less than 92% of budget in all three years 2013-15. Despite the facts that data for 2013 - 2014 represent the pre-TAR municipality and that 2015 data is not completely comparable due to TAR, the differences are so significant that a score can be assigned with confidence.
PI-3.2	Revenue composition out-turn	D	Variance in revenue composition exceeded 15% in all three years 2013-15.
PI-4	Budget classification (M1)	C	The 2015 budget classifications and Chart of Accounts are based on economic and administrative classification but consistent comparisons between budget and out-turn require additional efforts.
PI-5	Budget documentation (M1)	B	Four basic elements, and five others, are satisfied.
PI-6	Operations outside financial reports (M2)	A	Scoring Method M2
PI-6.1	Expenditure outside financial reports	A	All expenditure, including conditional grants not included in the original budget, is fully reported.

PI-6.2	Revenue outside financial reports	A	All revenue, including amounts of conditional grants excluded from the original budget, is fully reported.
PI-6.3	Financial reports of extra-budgetary units	NA	There are no extra-budgetary units
PI-7	Transfers to lower tier governments (M2)	NA	Since there are no government units subordinate to the city of Fier, this Indicator is Not Applicable.
PI-8	Performance information for service delivery	D+	Aggregation Method M2
PI-8.1	Performance plans for service delivery	D	No plans are published at any frequency about the levels of service to be provided.
PI-8.2	Performance achieved for service delivery	D	Reporting of service levels achieved against targets is not yet established.
PI-8.3	Resources received by Service delivery units (SDUs)	B	Reports have been produced about resources received by individual SDUs.
PI-8.4	Performance evaluation for service delivery	D	No reports have been produced about the resources received by individual SDUs.
PI-9	Public access to fiscal information (M1)	D	Only one out of the five applicable basic elements are satisfied.
PI-10	Fiscal risk reporting	A	Aggregation Method M2
PI-10.1	Monitoring of public corporations	A	The water utility has submitted audited annual financial reports within 6 months of year-end.
PI-10.2	Monitoring of subordinate governments	NA	Not applicable at municipal level
PI-10.3	Contingent liabilities and other fiscal risks	NA	Fier has not guaranteed any borrowing by subordinate institutions, or participated in any PPP operations.
PI-11	Public investment management	D+	Aggregation Method M2
PI-11.2	Economic analysis of investment proposals	C	Projects are put forward to central government taking into account some analysis of the costs and the likely beneficiaries.
PI-11.2	Investment project selection	C	Prior to their inclusion in the budget, some of the major investment projects are prioritized by a central entity. Most projects are selected by central government through the RDF.
PI-11.3	Investment project costing	D	Decisions on project implementation are generally taken after municipal budgets have been set, with no information in budget documentation about the total capital costs of projects.
PI-11.4	Investment project monitoring	C	Project implementation is regularly monitored by the Public Works Directorate, but the reports are not published.
PI-12	Public asset management	C	Aggregation Method M2
PI-12.1	Financial asset management	D	Data in the unpublished financial statements about revenue arrears is very uncertain.

PI-12.2	Non-financial asset management	C	There is a register of fixed assets, but it is not published.
PI-12.3	Transparency of asset disposal	B	There are procedures regulating asset disposals, and reports contain partial information on disposals.
PI-13	Debt management	A	
PI-13.1	Debt recording and reporting	NA	Fier has not contracted any debts
PI-13.2	Approval of debt and guarantees	A	All borrowing is controlled by MoF
PI-13.3	Debt management strategy	NU	Excluded by terms of reference
PI-14	Macro-economic and fiscal forecasting	B	Aggregation Method M2
PI-14.1	Macroeconomic forecasts	NU	Excluded by the terms of reference for the assessment.
PI-14.2	Fiscal forecasts	B	The city administration prepares forecasts of the main fiscal indicators, including underlying assumptions, revenues (by type), aggregate expenditure, and the budget balance, for the budget year and two following fiscal years. These projections are submitted to the Council and published, but there are no explanations of differences from previous projections.
PI-14.3	Macro-fiscal sensitivity analysis	NU	As 14.1
PI-15	Fiscal strategy	B+	Aggregation Method M2
PI-15.1	Fiscal impact of policy proposals	A	MTBF includes estimates of revenue and expenditure, taking account of any changes in policy. But most investment is excluded.
PI-15.2	Fiscal strategy adoption	B	Balanced budgets represent a kind of fiscal strategy. But there are no qualitative objectives associated with it.
PI-15.3	Reporting on fiscal outcomes	D	No explanations have been given for differences between one year's MTBF and that for the following year.
PI-16	Medium-term perspective in expenditure budgeting	B	Aggregation Method M2
PI-16.1	Medium-term expenditure estimates	B	Revenue and expenditure projections for the following three years based on administrative and economic classifications are submitted to the Council.
PI-16.2	Medium-term expenditure ceilings	A	Ceilings for each of the three next years are issued to each administrative unit at the start of the MTBF process.
PI-16.3	Alignment of strategic plans and medium-term budgets	D	The unpredictability of investment financing precludes the preparation of strategic plans which can be executed over a specified time period.
PI-16.4	Consistency of budgets with previous year's estimates	NA	There has as yet been no opportunity to explain changes from a previous year's MTBF since the 2015 municipal reorganisation.

PI-17	Budget preparation process	C+	Aggregation Method M2
PI-17.1	Budget calendar	C	There is a clear budget calendar, but administrative units have less than four weeks to prepare their final submissions.
PI-17.2	Guidance on budget preparation	A	Expenditure ceilings are issued to administrative units at each stage of the MTBF and budget preparation process.
PI-17.3	Budget submission to the Council	D	For the 2014-16 budgets proposals have been sent to the Council only one week before the plenary session which approved them.
PI-18	Legislative scrutiny of Budgets	C+	Aggregation Method M1
PI-18.1	Scope of budget scrutiny	A	The Council considers the MTBF before the budget is submitted.
PI-18.2	Council procedures for budget scrutiny	A	Procedures are well-established, including public consultation and review by a specialist committee.
PI-18.3	Timing of budget approval	B	Budget has been approved before the beginning of the new fiscal year for two of the three fiscal years considered.
PI-18.4	Rules for budget adjustment by the executive	C	Although budgets have been adjusted in response to the provision of conditional grants for investment, RDF grants have not been included in these arrangements.
PI-19	Revenue administration	D+	Aggregation Method M2
PI-19.1	Rights and obligations for revenue measures	B	Tax and fee payers have ready access to information on obligations, and procedures exist for appeals.
PI-19.2	Revenue risk management	C	The main focus of collection effort is on business taxpayers who contribute the largest share of revenue.
PI-19.3	Revenue audit and investigation	D	There is no systematic approach to the investigation of non-payment of households.
PI-19.4	Revenue arrears monitoring	D*	No data are available about the nature, amounts and ages of revenue arrears.
PI-20	Accounting for revenue	D+	Aggregation Method M1
PI-20.1	Information on revenue collections	A	Information is available daily about the nature and amounts of receipts, and reports are made.
PI-20.2	Transfer of revenue collections	D	All revenue collected by municipal departments is paid immediately into the city's accounts in the Treasury system, but revenue collected by the water company is paid into the Treasury accounts monthly.
PI-20.3	Revenue accounts reconciliation	D	Reconciliations do not establish total amounts outstanding or the amounts owed by individual tax and fee payers.
PI-21	Predictability of in-year resource allocation	C+	Aggregation Method M2
PI-21.1	Consolidation of cash balances	A	All balances are held in the city's Treasury account.

PI-21.2	Cash forecasting and monitoring	C	A cash flow forecast is prepared at the beginning of the year, and may be updated to take account of the prospective availability of conditional grants but not revenue trends.
PI-21.3	Information on commitment ceilings	D	Administrative units have little assurance that funds will be available to meet planned expenditures.
PI-21.4	Significance of in-year budget adjustments	C	Budgets are adjusted to take into account the prospective availability of conditional grants.
PI-22	Expenditure arrears	D+	Aggregation Method M1
PI-22.1	Stock of expenditure arrears	D	The stock of expenditure arrears was more than 10% of total expenditure in two of the three years 2013-15.
PI-22.2	Expenditure arrears monitoring	A	Data on the stock, age, and composition of expenditure arrears is generated quarterly within four weeks of the end of each quarter.
PI-23	Payroll controls	C+	Aggregation Method M1
PI-23.1	Integration of payroll and personnel records	B	Changes in the payroll are initiated by HRD on the basis of changes in personnel records, but there are no automatic links between them.
PI-23.2	Management of payroll changes	A	The payroll is updated monthly on instructions from HRD. There have been no retroactive adjustments.
PI-23.3	Internal control of payroll	B	Procedures in HRD and the Finance Directorate provide sufficient assurance of the integrity of personnel records and payroll data.
PI-23.4	Payroll audit	C	Recent audit work by HSC and the city's Internal Audit Department constitute partial payroll audits.
PI-24	PI-24 Procurement	B+	Aggregation Method M2
PI-24.1	Procurement monitoring	A	Full records are kept of all procurement contracts, including what is procured, the value, and the name of the successful contractor.
PI-24.2	Procurement methods	A	Nearly 88 per cent by value of 2015 contracts were placed through the use of competitive procedures, although the total amount was small.
PI-24.3	Public access to procurement information	B	Five of six elements of information are published.
PI-24.4	Procurement complaints management	B	PPC satisfies the requirement for independence and three of the other five criteria.
PI-25	Internal controls on non-salary expenditure	B	Aggregation Method M2
PI-25.1	Segregation of duties	B	Appropriately provided for in accordance with the law on Financial Management and Control, although some local instructions may need review following the municipal reorganisation.

PI-25.2	Effectiveness of expenditure commitment controls	C	Controls are in place which should limit commitments to projected cash availability and approved budget provision, but these are not updated to reflect actual revenue performance.
PI-25.3	Compliance with payment rules and procedures	A	The Treasury system ensures that all payments are in accordance with established rules and procedures.
PI-26	Internal audit	C+	Aggregation Method M1
PI-26.1	Coverage of internal audit (IA)	C	IA is operational in all the city's departments, but coverage in 2015 was limited. Resources need to be increased to take account of the enlarged field following the municipal reorganisation.
PI-26.2	Nature of audits and standards applied	B	Audit meets professional standards and is focused on the operation of systems in high risk areas.
PI-26.3	Implementation of audits and reporting	B	Most planned audits are completed, with reports sent to audited units before submission to the Mayor.
PI-26.4	Response to internal audits	B	Most recommendations are appropriately addressed by responsible managers.
PI-27	Financial data integrity	B	Aggregation Method M2
PI-27.	Bank account reconciliations	B	There are monthly reconciliations between city and Treasury records.
PI-27.2	Suspense accounts	B	There are monthly reconciliations between Treasury and revenue Directorate records of individual payments.
PI-27.3	Advance accounts	NA	No use is made of advance accounts.
PI-27.4	Financial data integrity processes	D	Many operations are carried out through unlinked IT systems to which access is not restricted, and which do not ensure adequate audit trails.
PI-28	In-year budget reports (M1)	C+	Aggregation Method M1
PI-28.1	Coverage and comparability of reports	A	Reports are produced with the same breakdown by administrative unit and economic nature as the original budget.
PI-28.2	Timing of in-year reports	A	Reports are produced within 5 working days of the end of each month.
PI-28.3	Accuracy of in-year budget reports	C	Payments only are covered, not commitments. There are serious concerns about data accuracy.
PI-29	Annual financial reports	D+	Aggregation Method M1
PI-29.1	Completeness of annual financial reports	D	Financial reports are prepared annually but no comparison is provided with the originally approved budget. Information about financial assets and liabilities is incomplete, and there is no cash flow statement.
PI-29.2	Submission of reports for external audit	D	Reports are not submitted for external audit.

PI-29.3	Accounting standards	C	Standards are disclosed, and applied consistently from year to year. But they are not consistent with IPSAS, and differences are not explained.
PI-30	External audit	D+	Aggregation Method M1
PI-30.1	Audit coverage and standards	C	Since the audit covered both 2013 and 2014, it can be considered that audit coverage exceeded 50 per cent for the period 2013-15.
PI-30.2	Submission of reports to the legislature	D	HSC's audit reports of the Municipality of Fier are not submitted to the Municipal Council.
PI-30.3	External audit follow-up	C	A formal response was made by the executive or the audited entity on audits for which follow up was expected, during the last three completed fiscal years.
PI-30.4	Supreme Audit Institution (SAI) independence	C	The HSC has its functional and operational independence, and its Head is appointed for a 7-year term by the National Assembly on the proposal of the President of the Republic. It has unrestricted and timely access to records, documentation and information, but its budget is constrained within expenditure ceilings set by the Government.
PI-31	Legislative scrutiny of audit reports	D	Aggregation Method M2
PI-31.1	Timing of audit report scrutiny	D	The Council has not discussed any audit reports.
PI-31.2	Hearings on audit findings	NA	No hearings have taken place.
PI-31.3	Recommendations on audit by the legislature	NA	The Council has not discussed any audit reports.
PI-31.4	Transparency of legislative scrutiny of audit reports	NA	There has been no scrutiny.

Annex 2. Summary of observations on the Internal Control Framework

Internal control components and elements	Summary of observations
1. Control environment	
1.1 The personal and professional integrity and ethical values of management and staff, including a supportive attitude towards internal control constantly throughout the organisation.	The attitude of the organisation towards internal control depends heavily on the leadership of the Mayor. The fact that internal audit has been functioning in Fier for 10 years is an indication that attention has been paid to internal control.
1.2 Commitment to competence	The city employs staff with appropriate professional qualifications.
1.3 The “tone at the top”	A new Mayor has only recently taken office.
1.4 Organisation structure	The head of the Internal Audit unit reports direct to the Mayor. The external auditor has questioned whether all the current Director posts are fully justified.
1.5 Human resources policies and practices	Posts requiring professional qualifications are filled by competitive processes and the holders have the status of civil servants. Other staff are employed on labour contracts without the same employment protection rights. However, the Mayor has a high degree of discretion in the making of appointments, and there is a lack of confidence in the judicial system in assuring the protection of rights.
2. Risk assessment	
2.1 Risk identification	Risks are recognised of non-collection of revenues due, and of procurements failing to secure best value.
2.2 Risk assessment	Although the Mayor is formally expected to submit a report of the strategy to minimise damage to public services from risks to which they are subject, there is apparently little awareness of this.
2.3 Risk evaluation	It appears that more attention should be given to the measures needed to improve the assessment and collection of the revenues under the control of the city.
2.4 Risk appetite assessment	Other problems associated with the municipal reorganisation seem to have commanded more attention in recent months than actions to contain risks.
2.5 Responses to risk	Action is needed to improve revenue collection and the specification of projects.
3. Control activities	

3.1 Authorisation and approval procedures	The Finance Directorate ensures that commitments and payments are consistent with budgetary provision as registered in the Treasury system, the procurement plan as notified to MoF, and available cash having regard to the cash flow forecast.
3.2 Segregation of duties	Sufficiently provided for in the law on Financial Management and Control and through the allocation of responsibilities within the structure of the municipal administration
3.3 Controls over access to resources and records	This is a major area of weakness, with operations in many cases dependent on unlinked IT systems where no systematic controls are in place to control access to records and ensure the retention of an audit trail.
3.4 Verifications	The Treasury system should ensure that commitments are not entered into, or payments made, unless all appropriate procedures have been followed.
3.5 Reconciliations	Municipality and Treasury records are reconciled daily, and details of individual revenue amounts are reconciled monthly between revenue collection and banking records.
3.6 Reviews of operating performance	Little attention has so far been paid to this.
3.7 Reviews of operations, processes and activities	Some work is done on this by both internal and external audit.
3.8 Supervision	Appropriately provided for in the municipal organisation
4. Information and communication	Annual reports on the functioning of internal control and internal audit should be made to MoF CHU. Reports are made to the Council when required, and some budget information is on the city website.
5. Monitoring	
5.1 Ongoing monitoring	Municipal directorates (Finance, Education, Public Works, etc) monitor different aspects of budget execution.
5.2 Evaluations	No significant action hitherto
5.3 Management responses	Adequate responses are generally made to internal and external audit findings.

Annex 3A. List of documents consulted

1. Albania Public Finance Management Strategy 2014 – 2020, Government of Albania, 2014;
2. Budget Execution Data 2010 – 2015 on five selected municipalities, PLGP/USAID;
3. National Crosscutting Strategy on Decentralisation and Local Self Governance 2015 – 2020, Government of Albania, 2015;
4. Public Financial Management Strategy 2014-2020 2015 Monitoring Report, Ministry of Finance, March 2016;
5. PLGP Profile of Municipal Finance System in Albania, 2016;
6. IMF Country Report 16/289;
7. EU Albania Progress Report, September 2016 (SWD (2016) 364 (final));
8. Law 115/2014 “On the Administrative-Territorial Organisation of Local Self-Government Units in the Republic of Albania”, 2014;
9. Law no. 9936 dated 26.06.2008, “On the Management of the Budgetary System in the Republic of Albania” (as amended July 2016);
10. MOF (2012) – Standard Instruction on the Medium Term Budget Preparation; and Standard Instruction on Budget Execution;
11. MOF Annual budget preparation and execution instruction;
12. Law on Financial Management and Control (2010);
13. Law on State Debt, and State Guarantees in the Republic of Albania (2006);
14. Law on local government borrowing (2008);
15. Law on the System of Local Taxes and Fees (2006);
16. Law on Public Procurement (2006);
17. Law on Internal Auditing in the Public Sector (2015);
18. Law on the Organisation and Functioning of the High State Control (2014);
19. The Constitution (1999);
20. Law on Organisation and Functioning of the Council of Ministers;
21. Law 139/2015 “On Local Self-Government”, Republic of Albania;
22. Draft law on Local Self-Government Finances (November 2016);
23. Law on the right to information (2014);
24. Law on Public Notice and Consultation;
25. Ministry of Finance, March 2016: Public Financial Management Strategy 2014-2020, 2015 Monitoring Report.

Annex 3B List of people interviewed

	NAME	POSITION	INSTITUTION
1	Florian Mucaj	Administrator and Deputy Mayor	Municipality of Fier
2	Enkelejda Peshkopia	General Economic Director	Municipality of Fier
3	Armida Saliaj	Head of Revenue Collection Office	Municipality of Fier
4	Aurel Shanka	Tax Office Senior Expert	Municipality of Fier
5	Besmir Dhana	Procurement Specialist	Municipality of Fier
6	Denisa Skenderaj	Procurement Specialist	Municipality of Fier
7	Dorela Dollakaj	Assistant to Administrator	Municipality of Fier
8	Evrinomi Zhezhi	Budget and Finance Specialist	Municipality of Fier
9	Enkelejda Ziu	Inspection Senior Expert	Municipality of Fier
11	Mukades Dano	Internal Audit Director	Municipality of Fier
12	Nevila Cala	Procurement Director	Municipality of Fier
13	Renilda Hyseni	Urban Planning Director	Municipality of Fier
14	Albina Behaj	Human Resources Director	Municipality of Fier
15	Edmond Leka	Public Service Directorate	Municipality of Fier
16	Gazmira Plesati	Public Service Directorate	Municipality of Fier
17	Entela Kola	Irrigation Service Directorate	Municipality of Fier
17	Neritan Bocova	Public Relations Director	Municipality of Fier
18	Erald Filipi	Asset management Director	Municipality of Fier

Annex 3C Sources of information for each Performance Indicator

- HLG-1 and PI-1 to 3: 2013-15 Budget documentation from Fier municipality, and actual expenditure data from central Treasury system, Ministry of Finance
- PI-4: Budget documentation and budget execution statements for 2013-15 from Fier municipality
- PI-5: Documentation provided by Fier municipality, Fier website (insert ref.), discussion with Fier officials
- PI-6: Discussion with Fier officials
- PI-7: Not applicable
- PI-8: Budget documentation and discussion with Fier and HSC officials
- PI-9: Documentation provided by Fier officials, Fier website
- PI-10: Discussion with Fier officials
- PI-11: Discussion with Fier officials
- PI-12: Consolidated Financial Statements of Fier municipality
- PI-13: Discussion with Fier officials
- PI-14: Documentation provided by Fier officials, Fier MTBF 2015-17
- PI-15: Fier MTBF 2015-17
- PI-16: Fier MTBF 2015-17, Fier Territorial Development Strategy 2016
- PI-17: Discussion with Fier officials, MoF Annual Budget Preparation Instructions
- PI-18: Discussion with Fier officials
- PI-19: Discussion with Fier officials, Consolidated Financial Statements of Fier municipality for 2014 and 2015 (Dimension 4)
- PI-20: Discussion with Fier officials
- PI-21: MoF Treasury system, discussion with Fier officials
- PI-22: Documentation provided by Fier municipality
- PI-23: Discussion with Fier officials, HSC report on Fier for 2013-14, discussion with HSC officials
- PI-24: Data provided by Fier officials
- PI-25: Law on Financial Management and Control, discussion with Fier and HSC officials
- PI-26: Discussion with Fier officials
- PI-27: Law on the management of the Budgetary System, MoF Treasury system, discussion with Fier officials
- PI-28: Documentation provided by Fier officials
- PI-29: 2015 Budget execution statement, discussion with Fier officials
- PI-30: Discussion with HSC and Fier officials, information from HSC website (insert ref.)
- PI-31: Discussion with Fier officials

Annex 4. Disclosure of quality assurance arrangements

Composition of the Oversight team	
Ministry of Finance	Fran Brahimi
Ministry of Local Issues	Enea Hoti
High State Control	Bajram Lamaj
FIER Municipality	Florian Muçaj
SECO/Swiss Embassy	Philipp Keller
USAID/PLGP	Kevin McLaughlin
World Bank	Hilda Shijaku
EU Delegation	Edina Halapi
UNDP	Vladimir Malkaj
SDC/DLDP	Valbona Karakaçi

Composition of the Assessment Team	
PLGP Project Director	Kevin McLaughlin
International PFM Expert – Team Leader	John Wiggins
Local PFM Expert	Elton Stafa
Local PFM Expert	Merita Toska

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

Review of Draft Report		
Draft report distributed December 14th, 2016		
Reviewer	Comments received	Date of USAID response
Municipality of Fier	Comments made orally in February and March 2017	Amendments to text discussed as necessary
SECO/ECORYS	January 16 th , 2017	March 30 th , 2017, (following oral discussions)
PEFA Secretariat	February 1 st , 2017 and follow-up comments on March 24 th	March 16 th , 2017 and further response on March 30 th .
Ministry of Finance	January 25 th , 2017	Oral discussions of small number of comments in February and March 2017.