ALBANIA

PUBLIC EXPENDITURE AND FINANCIAL ACCOUNTABILITY (PEFA) PERFORMANCE ASSESSMENT REPORT

Based on PEFA 2016

December 1, 2017

Successive assessment

Indicative exchange rates
1 United States Dollar = 128.17 Albanian Lek
1 Euro = 135.23 Albanian Lek
(as of December 30, 2016)

Fiscal Year
January 1 - December 31

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Abbreviations and acronyms

AFMIS	Albanian Financial Management Information System
AGFIS	Albanian Government Financial Information System
ALL	Albanian Lek
BCG	Budgetary Central Government
BI	Budget Institution
CBA	Central Bank of Albania (National Bank of Albania)
CG	Central Government
CHU	Central Harmonization Unit
CIT	Corporate Income Tax
COA	Chart of Accounts
COCS	Commissioner for the Oversight of the Civil Service
COFOG	Classification of Functions of Government
CoM	Council of Ministers
CRM	Compliance Risk Management
CSL	Civil Service Law
DoPA	Department of Public Administration
DMS	Debt Management Strategy
DPIM	Directorate of Public Investment Management
EBU	Extra Budgetary Unit
EC	European Commission
EPSAS	European Public Sector Accounting Standards
ERP	Economic Reform Programme
EU	European Union
FDI	Foreign Direct Investment
FIAA	Foreign Investors Association of Albania
FMC	Financial Management and Control
FY	Fiscal Year

GDC	General Department of Customs
GDP	Gross Domestic Product
GDT	General Department of Tax
GFS	Government Financial Statistics
HRMIS	Human Resources Management Information System
IA	Internal Audit
ICT	Information Communication Technology
IMF	International Monetary Fund
INSTAT	Institute of Statistics
INTOSAI	International Organization of Supreme Audit Institutions
IPSAS	International Public Sector Accounting Standards
IT	Information Technology
LGU	Local Government Unit
LTO	Large Taxpayer Office
MDA	Ministries, Departments and Agencies
MoE	Ministry of Economy
MoEd	Ministry of Education
MoF	Ministry of Finance
MoH	Ministry of Health
MoTI	Ministry of Transport and Infrastructure
MTBP	Medium Term Budget Program
MTDMS	Medium Term Debt Management Strategy
MTEF	Medium Term Expenditure Framework
MTFF	Medium Term Fiscal Framework
NAIS	National Agency for Information Society
NBC	National Business Center
NGOs	Non-Governmental Organizations
NSDI	National Strategy for Development and Integration
OBL	Organic Budget Law

OT	Oversight Team
PBC	Performance Based Contracts
PEFA	Public Expenditure and Financial Accountability
PE	Public Enterprises
PER	Public Expenditure Review
PFM	Public Financial Management
PIFC	Public Internal Financial Control
PIT	Personal Income Tax
PPA	Public Procurement Agency
PPC	Public Procurement Commission
PPL	Public Procurement Law
PPP	Public Private Partnerships
SAFE	Strengthening Accountability and the Fiduciary Environment
SAI	Supreme Audit Institution
SECO	Swiss State Secretariat for Economic Affairs
SIGMA	Support for Improvement in Governance and Management
SOEs	State Owned Enterprises
SPC	Strategic Planning Committee
TADAT	Tax Administration Diagnostic Assessment Tool
TDO	Treasury District Office
TIN	Tax Identification Number
ToR	Terms of Reference
TSA	Treasury Single Account
USAID	United States Agency for International Development
VAT	Value Added Tax
WB	World Bank

Acknowledgements

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Albania

Public Expenditure and Financial Accountability (PEFA)

Performance Assessment Report

Based on PEFA 2016

December 1, 2017

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

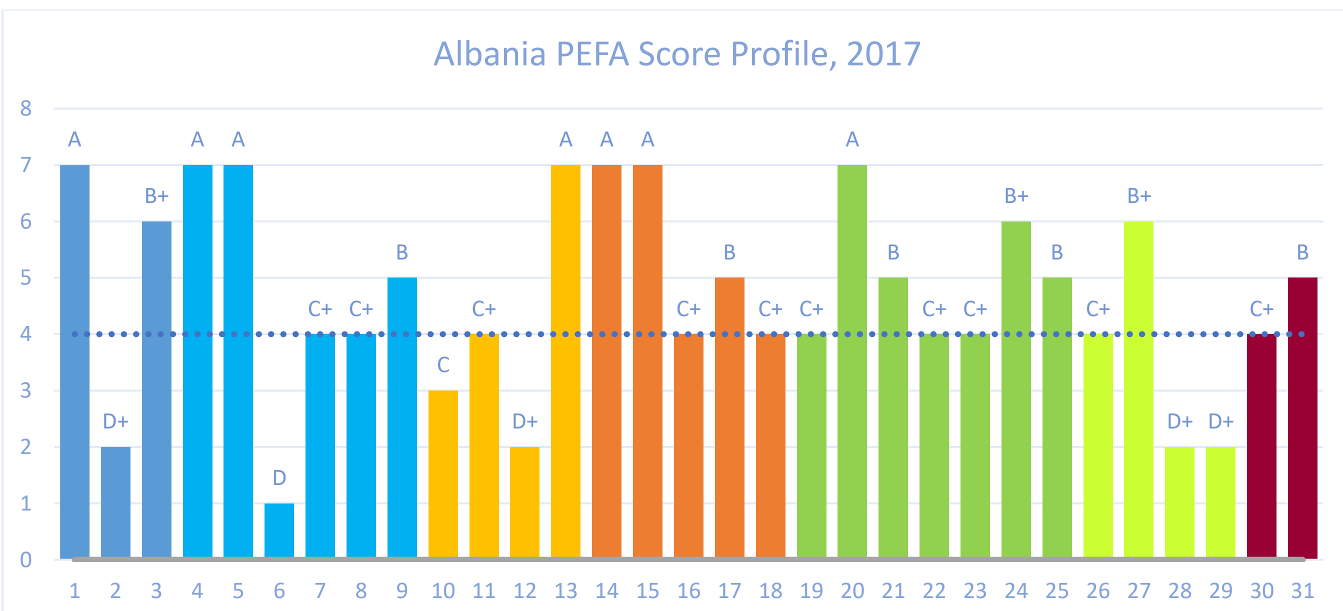
January 29, 2018

Executive summary

Purpose, coverage, and management of the assessment

The Public Expenditure and Financial Accountability (PEFA) assessment aims to provide the government of Albania with an objective up-to-date diagnostic of the national public financial management (PFM) performance based on the latest PEFA methodology. The assessment establishes a new PEFA baseline using the 2016 PEFA methodology and provides an update on changes in performance since the 2011 assessment using the earlier methodology. The process cultivated a shared understanding of PFM performance and those dimensions that require improvement. The results are expected to assist the government in monitoring the implementation and updating of its 2014-2020 Public Financial Management Reform Strategy.

The stakeholders of the PEFA assessment are the national authorities and the main development partners involved in PFM in Albania. The assessment is a joint undertaking of the Government of Albania and the World Bank. The Ministry of Finance of Albania[1] led on behalf of the government side, and the World Bank led on behalf of the development partners. The existing council for supervision of implementation of the government's PFM reform formed the core of the assessment oversight team. This included representatives of the Ministry of Finance, Council of Ministers, General Tax Directorate, General Customs Directorate, Supreme Audit Institution, Public Procurement Agency, and Public Procurement Commission. The oversight team included representatives of the World Bank, IMF, European Commission, USAID, and the Swiss Secretariat for Economic Affairs.



Budget credibility	Fiscal transparency	Management of assets and liabilities	Policy-based fiscal strategy and budgeting	Predictability and control in budget execution	Accounting and reporting	External scrutiny and audit

[1] Information on the names and functions of the ministries reflects the situation at the time of the assessment. A government reorganization in 2017 merged the Ministry of Finance with the Ministry of Economy and renamed it the Ministry of Finance and Economy. Some functions of the Ministry of Labor were transferred to the Ministry of Finance and Economy.

The assessment covers the Central Government and reflects the PFM system status as of April 2017. The indicator ratings are based on 2014-2016 data.

Integrated assessment of PFM performance

The results of the assessment indicate mixed performance across the seven pillars of the 2016 PEFA framework, as illustrated by chart 1 above. Scores for 15 out of 31 indicators are in the A-B range reflecting strong performance while scores for the other 16 indicators are in the C-D range reflecting weak performance. Each pillar has its strengths and weaknesses, a brief summary of which is presented below with more detailed analysis provided in chapter 4. Scores by indicator and dimension are presented in table 1.1.

Budget credibility. The aggregate revenue and expenditure outturn is consistent with the approved budget in the period of the assessment. However, large variance in the functional composition of expenditures undermines the credibility of the budgetary process.

Fiscal transparency. The government scores well on several indicators under the fiscal transparency pillar, including budget classification, budget documentation and public access to fiscal information. However, gaps in information on revenues and expenditures of extrabudgetary units, resources received by service delivery units, as well as a lack of transparency in a significant part of the transfers to local governments present a concern.

Management of assets and liabilities is weak and in need of attention. Debt management stands alone as an area of strong performance under this pillar. Public investment management, in contrast, is a major challenge. Weaknesses in project selection, combined with incomplete data and poor monitoring systems undermine the effectiveness and efficiency of public investment management decisions. While the government maintains basic records of financial assets, there is no comprehensive record of non-financial assets. Monitoring and reporting of fiscal risks requires improvement.

Policy-based fiscal strategy and budgeting. The medium-term prospective is well embedded in the processes for macro-fiscal planning and budgeting. The technical aspects of the budget preparation process are well developed, however strategic focus of the budget is reduced by deviations from the existing calendar, weak links to the sector strategies and the Parliament's limited focus on the Medium Term Budget Program (MTBP).

Predictability and control in budget execution. While there is solid improvement in several areas under this pillar, challenges remain. While the public procurement system has improved, non-competitive procedures still make up a significant proportion of contract awards. Work on modernizing IT systems and budget laws are positive developments but take time to be fully embedded in budget institutions, many of which still rely on manual systems and outdated procedures. While the stock of historic expenditure arrears was largely cleared, it was not possible to fully prevent new arrears and MOF does not have a systemic reporting approach to monitor arrears through the Treasury system. Significant cash balances are held outside the treasury single account and not consolidated, thus reducing possibilities for cash management. There is also significant scope to improve the revenue collection systems. Revenue agencies are in the process of implementing a structured and systematic risk assessment process and the arrears collection function of the General Department of Tax (GDT) suffers serious weaknesses.

Accounting and reporting. Accounts reconciliation and the integrity of financial data are strengths within the PFM system but weaknesses in fiscal reporting remain. Both in-year and annual budget reporting could be improved by allowing users to compare the execution of the budget with the original budget allocation.

External scrutiny and audit. External audit coverage is extensive but the implementation of SAI recommendations has fallen, while the total number of recommendations issued by the SAI increased. There is no system to track the implementation of recommendations made by the legislature, based on key audit findings.

Assessment of the impact of PFM weaknesses

An effective PFM system is essential to implement public policies and to achieve strategic national objectives by supporting aggregate fiscal discipline, strategic allocation of resources and efficient service delivery. A brief summary of the impact of the identified PFM weaknesses at these three levels of budgetary outcomes is presented below.

1. Aggregate fiscal discipline

At an aggregate level the government has met its fiscal targets but fiscal discipline is undermined through large variances in expenditure composition by function. These relate principally to the clearance of historic arrears, the unanticipated costs of implementing large investment projects and, in 2015 the failure to reach revenue targets. After revenue underperformance in 2015, improvements in revenue forecasting suggest that the government has better procedures in place for macroeconomic assumptions, and the evaluation of new policies.

Measures taken to strengthen commitment and expenditure controls were effective in clearing the stock of historic expenditure arrears but failure to fully prevent accumulation of new arrears presents a concern. Enhanced functionality of the Treasury information system provides comprehensive information on expenditure commitments and payments due. The use of such information is limited in the absence of standardized requirements for regular monitoring and reporting.

The government also remains vulnerable to fiscal shocks due to a failure to adequately monitor, report and manage fiscal risks such as the quasi-fiscal activities of public companies, public-private partnerships (PPPs) or other explicit contingent liabilities (such as, crop insurance, deposit insurance, disasters, ongoing litigation and pending court cases).

2. Strategic allocation of resources

Budget allocations reflect medium-term policy objectives and priorities as formulated in the line ministry submissions for the MTBP. However, the strategic focus of the budget is hindered by the limited attention paid by the Parliament to the MTBP review. In addition, availability and quality of the sector strategies vary and the overly ambitious nature of some of the existing sector strategies makes them aspirational documents and diminishes possibilities for their operationalization through the budget.

Weaknesses in public investment management reduce its impact in supporting the government's social and economic development objectives. Issues that require attention include the lack of overarching reviews of capital investment projects as well as monitoring and reporting.

3. *Efficient* use of resources for service delivery

The basic building blocks of the Albanian PFM framework are in place but require further to build capacity to focus on performance and the efficiency and effectiveness of service delivery. Public procurement practices are improving but high levels of direct contracting affect the efficiency of service delivery and the achievement of best value for money of government purchases. Internal audit is still focused on compliance rather than addressing systemic or performance issues. Performance audits by the Supreme Audit Institution (SAI) are only just being introduced and these reports are not published or subject to broader discussion in society. Of particular concern is management's general lack of responsiveness to recommendations by the SAI and the legislature which may mean that opportunities to improve the efficiency of the use of resources are missed.

Change in performance since the last assessment

The present assessment is the third PFM performance assessment for Albania based on the PEFA framework. When comparing the aggregated performance at the indicator level between this assessment and the last assessment in 2011, there has been no change in performance for sixteen indicators. In the case of five indicators, there is an improvement in performance and for seven indicators, a lower score was observed. Of those seven indicators, three scores did not relate to a change in performance but to an over-optimistic interpretation of the framework in 2011.

The main improvements were observed in the following areas:[2]

PI-3 - Aggregate revenue outturn compared to original approved budget: During the assessment period, revenue forecasting has been more realistic (with the exception of 2015).

PI-4 - Stock and monitoring of expenditure payment arrears: Greater emphasis on the management and reporting of commitments and expenditure arrears has resulted in an improvement in performance.

PI-6 - *Comprehensiveness of information included in the budget documentation* and PI-10 *Public Access to Key Fiscal Information*: More key documentation is being provided in the budget package and key fiscal information made available to the public.

PI-19 - Competition, value for money and controls in procurement: There have been improvements in public access to complete, reliable, and timely procurement information.

Slippages in performance were noted in the following areas:

PI-7 - Extent of unreported operations: Slippage due to less comprehensive data collection in respect of extrabudgetary units.

PI-8 - Transparency of inter-governmental fiscal transfers: Slippage due to an increase in the share of budget assigned to discretionary grants.

PI-11 - Orderliness and participation in the annual budget process: Slippage in performance due to issuance of budget ceilings after the budget circular in 2016 and late approval of the 2014 budget.

PI-28 - Legislative scrutiny of external audit reports: Deterioration in performance due to limited actions taken by line ministries in addressing recommendations arising from audit reports.

The impact of these performance movements on the budgetary outcomes can be summarized as follows:

Aggregate fiscal discipline was strengthened through improvements in revenue forecasting and monitoring of expenditure arrears.

Strategic allocation of resources was negatively affected by deviations from the approved MTBP calendar.

The impact of performance changes on e*fficient use of resources for service delivery* was mixed. Positive impact resulted from improvements in various dimensions of transparency indicators, including budget documentation, public access to information and access to reliable and timely procurement information. Negative impact resulted from less comprehensive data collection for extra budgetary funds and deterioration in transparency of transfers allocated to local governments. Also, a lack of action in addressing weaknesses highlighted in audit reports may result in missed opportunities to make the most efficient use of resources within government.

Ongoing PFM reform agenda

Albanian authorities have made extensive efforts to implement PFM reforms through the current PFM Strategy. Initial efforts focused on laying the foundations for reform, creating institutional arrangements and drafting legislation. A monitoring and reporting framework for the implementation of PFM reforms is now fully operational. The implementation of an ambitious reform agenda is a challenge due to capacity constraints across the public

[2] The performance indicators (PI) listed refer to the PI numbering of the 2011 version of the PEFA framework.

sector. Additional challenges may arise because of the organizational changes following the latest government restructuring initiated in the fall of 2017.

Table 1.1: Overview of the scores of the PEFA indicators

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

1. Introduction

1.1. Rationale and purpose

Albania has been subject to two previous PEFA assessments in 2011 and 2006[3]. The main purpose of this PEFA assessment is to provide the Government of Albania with an objective up-to-date diagnostic of the national-level public financial management performance based on the latest internationally recognized PEFA methodology. The assessment establishes a new PEFA baseline using the 2016 PEFA methodology and provides an update of progress in PFM since the last PEFA in 2011. The assessment process sought to build a shared understanding of PFM performance and those dimensions that require improvement. The results of the assessment are expected to assist the Government in monitoring the implementation and updating of its ongoing 2014-2020 Public Financial Management Reform Strategy. The assignment has been financed by a grant provided by the EC through the SAFE (Strengthening Accountability and Fiduciary Environment) program.

1.2. Assessment management and quality assurance

The stakeholders of the PEFA assessment are the national authorities and the main development partners involved in PFM in Albania. The assessment was undertaken jointly by the Government of Albania and the World Bank. The Ministry of Finance of Albania played the lead role on the Government side, while the World Bank took the lead on behalf of the development partners. The council for supervision of implementation of the Government's PFM reforms formed the core of the assessment oversight team. It includes representatives of the Ministry of Finance, Council of Ministers, General Tax Directorate, General Customs Directorate, Supreme Audit Institution, Public Procurement Agency, and Public Procurement Commission. The oversight team also included representatives of the World Bank and interested donor partners, as described in the box below.

The concept note has been circulated to the peer reviewers during March 2017 for a virtual review. The peer reviewers included representatives of the Ministry of Finance of Albania, IMF, European Union, Swiss Government, World Bank and PEFA Secretariat. All peer reviewers submitted comments and the concept note has been finalized and approved on April 22, 2017. The approved concept note has been circulated on April 24, 2017.

The main assessment visit took place in April. Initial results were discussed during the validation visit of the assessment team to Tirana in July. The initial draft report was reviewed by the Ministry of Finance and other government agencies represented in the assessment oversight team in two rounds in July-August.

The draft assessment report was circulated to the peer reviewers during the period October 6-27, 2017. The peer reviewers' comments were discussed at the decision meeting on November 2, 2017. The report was subsequently adjusted to reflect the peer reviewers' comments.

[3] In addition, five local government PEFA assessments (Tirana, Berat, Tropoja, Kucova and Fier) were carried out in 2015-2016.

BOX 1.1: Assessment management and quality assurance arrangements

PEFA assessment management organization

- Oversight Team

Ministry of Finance	**Erjon Luci, Deputy Minister of Finance (Oversight team Chair),**
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Ministry of Finance	Vanina Jakupi, Director, Public Financial Management Reform Unit
Council of Ministers	Majlinda Dukha, Deputy General Secretary and Director, Development Programming, Financing and Foreign Aid
General Tax Directorate	Vasilika Vjero, General Director
General Customs Directorate	Belinda Ikonomi, General Director
Supreme Audit Institution	Luljeta Nano, General Secretary
Public Procurement Agency	Xhoana Ristani, Head of European Integration Unit
Public Procurement Commission	Evis Shurdha, Head
European Union Delegation	Edina Halapi, Programme Manager, Public Finance, Economic Governance
Swiss Embassy / State Secretariat for Economic Cooperation	Philipp Keller, Deputy Head of Mission
International Monetary Fund.	Jens Reinke, IMF Resident Representative
United States Agency for International Development	Dennis Wesner, Supervisory General Development Officer

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Review of concept note and/or terms of reference

- Date of reviewed draft concept note: March 07, 2017
- Invited reviewers: Ministry of Finance of Albania; PEFA Secretariat; International Monetary Fund; Embassy of Switzerland in Tirana; Antonio Blasco, World Bank; European Union Delegation to Albania
- Reviewers who provided comments: Ministry of Finance of Albania; Holy-Tiana Rame, PEFA Secretariat; Suzanne Flynn, International Monetary Fund, Sigita Stafa, Embassy of Switzerland in Tirana, Antonio Blasco, World Bank; Sybille Schmidt, European Union Delegation to Albania; review took place between March 7 and March 17, 2017. and date(s) of its review
- Date of final concept note: April 22, 2017 (circulated on April 24, 2017)

Review of the assessment report

- Date(s) of reviewed draft report(s): October 1, 2017;
- Invited reviewers: Ministry of Finance of Albania; PEFA Secretariat; International Monetary Fund; Embassy of Switzerland in Tirana; Antonio Blasco, World Bank; European Union Delegation to Albania; report circulated to external peer reviewers on October 6th; report circulated for internal review within the World Bank on October 14th; review meeting held on November 2, 2017
- Reviewers who provided comments: Holy-Tiana Rame, PEFA Secretariat; Suzanne Flynn, International Monetary Fund; Sigita Stafa, Embassy of Switzerland in Tirana; Antonio Blasco, World Bank; Sybille Schmidt, European Union Delegation to Albania

1.3 Assessment methodology

Coverage of the assessment

The assessment covers the central government and reflects the PFM system status as of the date of the assessment in April 2017. Generally, the data used for rating the indicators covers the years 2014-2016. The specific period covered for each indicator follows closely the PEFA Field Guide[4]. The assessment addresses the main ministries, departments, and agencies of the central government, including the health and social security funds. Extrabudgetary units (EBUs) are covered for the indicators where they are required to be considered. Specific coverage for each indicator follows closely the PEFA Field Guide.

Methodology

The assessment evaluates Albania's performance in accordance with the 31 indicators of the PFM Performance Measurement Framework (PEFA 2016). The 2016 methodology identifies the seven pillars of performance that are essential for an open and orderly PFM system. These include budget reliability, transparency of public finances, management of assets and liabilities, policy-based fiscal strategy and budgeting, predictability and control in budget execution, accounting and reporting, and external scrutiny and audit.

Each dimension and each indicator has been scored against the criteria set out in the PEFA Field Guide. A previous PEFA Assessment was undertaken in 2011 based on the previous PEFA methodology. In addition to using the Guidelines for Conducting a Repeat Assessment, the performance change over time has been tracked using the PEFA 2011 framework[5].

The draft assessment report was prepared by the World Bank team and sent for comments and suggested amendments from the government team. Thereafter, a final draft report was sent to the peer reviewers. The peer reviewers were Ministry of Finance of Albania, IMF, European Union, Swiss Government, World Bank and PEFA Secretariat.

A preliminary dissemination presentation to explain the initial findings has been conducted in July 2017, with a final presentation planned once the PEFA report has been finalized and approved. The final PEFA report is expected to be used by the Government in monitoring the implementation and updating of its ongoing PFM Reform Strategy.

Data collection

The sources of information for the assessment included relevant legislation, budget documentation and reports, methodology and other documentation and data provided by the MoF and other institutions involved in the assessment, information collected by the assessment team during the interviews, 2006 and 2011 PEFA reports, assessment reports for the 2016 local PEFA assessments, relevant reports produced by the World Bank, IMF, and other development partners (see Annexes 3A, 3B).

The Oversight team and the MoF assessment team played a key role in coordinating the data collection. Key members of the MoF assessment team were already familiar with the PEFA methodology from the participation in the previous assessments and associated trainings, including a recent workshop at the Center for Excellence in Finance (CEF) in Slovenia. A detailed 2016 PEFA methodology training was carried out on February 13-14, 2017 in Tirana and approximately 45 participants from Albanian agencies attended.

Interviews involved all the key PFM institutions including the High State Control (Supreme Audit Institution), Parliament, Bank of Albania (Central Bank), Public Procurement Commission, Public Procurement Agency, Institute

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[4] (https://pefa.org/sites/default/files/16_08_30%20Fieldguide_9.pdf)

[5] See supplementary annex (Annex 4).

of Statistics (INSTAT), Chamber of Commerce, General Directorate of Taxation, General Directorate of Customs, civil society, and others. These are in addition to the Government institutions involved in budget formulation, budget execution, procurement, internal audit and control and accounting and reporting. Additionally, major spending ministries were visited (such as health, education, and transport) to triangulate information obtained from the Ministry of Finance. A full list of persons interviewed for the Assessment is provided in Annex 3C.

2. Country background information

2.1 Country economic situation

Albania emerged from the collapse of isolationist communism in the early 1990s as one of the poorest countries in Europe. The country then experienced rapid growth of nearly 6 percent per annum, rising into the ranks of middle income countries by 2008. During that period, growth was largely the product of rising domestic consumption, fueled by a real estate boom on the coast, and by remittances which reached 10.8 percent of GDP; a result of high levels of out-migration. Growth was accompanied by poverty reduction with poverty rates (measured at US$5/day) falling from 62.3 percent in 2002 to 43.9 percent in 2008. Severe poverty (measured at US$2.5/day) also fell from 12 percent to 5.2 percent during the same period.

Strong economic performance during the 2000s resulted in important social gains, but the global financial crisis and subsequent Eurozone crisis interrupted the quest for shared prosperity. Immediately after the 2008 global financial crisis, Albania's growth remained relatively robust, averaging 3.2 percent between 2009 and 2011, driven by remittances-fueled consumption. However, growth decelerated in 2012 and 2013, affected by the downturns in neighboring Italy and Greece.

Economic activity has picked up since 2014, driven by strong private investment. After growing 1.0 percent in 2014 and 2.2 percent in 2015, Albania grew at 3.5 percent in 2016 as private investment remained strong and consumption continued to pick up supported by growing employment. Real GDP is expected to strengthen to 3.6 percent in 2017 led by domestic demand, including private investments (particularly in nonresidential construction) and private consumption, with a gradual recovery in the country's net external position. Positive labor market developments and easing of credit standards are expected to continue supporting private consumption during the reminder of the year.

The economic recovery has been accompanied by easing of external vulnerabilities. Albania has a structural current account deficit which has been mainly financed by remittances. The current account deficit also fluctuates depending on commodity prices. Imports (particularly of machinery and equipment) which had expanded as investment and economic activity started to pick up in 2014, declined in 2015 due to lower oil prices. Imports have picked up again in the first half of 2017 as a result of high investments needed in the energy sector. Service exports led by tourism, more than compensated for the weak results in extractives, leading to a decline in the overall trade deficit. With about 40 percent of the population living abroad (mainly in Greece and Italy), Albania has traditionally been among the top remittance receiving nations. Current transfers, including remittances declined sharply from 10.8 percent of GDP in 2009 to 6.9 percent in 2015 and are expected to reach 6.7 percent of GDP in 2017. The current account deficit has been largely financed through FDI, which remained at about 8 percent of the GDP in 2016, and the government's external financing.

While the financial sector has remained largely resilient to the global crisis, the quality of the credit portfolio is low and limits further credit expansion. Rapid credit growth pre-crisis, accompanied by a relaxing of credit standards, excessive unhedged borrowing in foreign currency and overexposure in some sectors such as construction created vulnerabilities in the balance sheets of the commercial banks. As the global financial crisis hit, the NPLs ratio increased from 6.5 percent in 2008 to a peak of 25 percent in September 2014, before falling to 17 percent in the first quarter of 2017. Cumbersome court processes and difficulties with collateral collection also contributed to NPLs, which continue to depress credit supply. Despite the large NPLs, banks remain profitable, liquid, and well capitalized. Notwithstanding the relatively high participation of Greek owned banks, the Albania financial system weathered the Greek turmoil without major consequences.

Table 2.1: Selected economic indicators

	2014	2015	2016
GDP (million lek)	**1,395,304**	**1,427,799**	**1,472,791**
GDP per capita (EURO)	**3,450**	**3,550**	**3,726**
Real GDP growth (%)	**1.8%**	**2.2%**	**3.4%**
CPI (annual average change) (%)	**1.6%**	**1.9%**	**1.3%**
Gross government debt (% of GDP)	**70%**	**73%**	**71.6%**
External terms of trade (annual percentage change)			
Current account balance (% of GDP)	**-1.8%**	**-5.6%**	**-2.2%**
Total external debt (% of GDP)	**12.9%**	**10.8%**	**9.6%**
Gross official reserves (months of import value)	**69.5%**	**74.6%**	**72.9%**
	5	**6.2**	**5.7**

Source: Instat, Ministry of Finance, Bank of Albania, WB staff calculations.

2.2 Fiscal and budgetary trends

Albania's fiscal position deteriorated after the global financial crisis and the government accumulated significant arrears to the private sector. The general government fiscal deficit, which had averaged 3.4 percent between 2005 and 2012, widened significantly to 5.2 percent of GDP in 2013. Revenues as a share of GDP, which had climbed to 26.7 percent in 2008, fell back to 23.7 percent in 2013 due to a reduction in the corporate income tax rate, increases in VAT exemptions and declining revenue collection. Public debt surged from about 55 percent of GDP in 2008 to about 71 percent by 2013. This was the result of the expansionary fiscal policy in the run-up to the 2013 elections, lower economic growth, lower revenue collection, rising fiscal pressures related to energy shortages, as well as the accumulated stock of government's arrears to the private sectors at about 70.7 billion (about 5.2 percent of GDP in 2013).

Prudent fiscal policy supported fiscal stabilization in the recent years. Since 2014, Albania embarked on a fiscal consolidation program which was supported by external partners and included measures both on the revenue and expenditure side, reforms to tackle structural vulnerabilities such as in the energy and pensions sectors, as well as clearance of arrears to the private sector. The revenue measures included an increase in the corporate income tax (CIT), excise tax rates on tobacco products, alcoholic drinks and coffee, and circulation tax, as well as anti-evasion efforts. The expenditure measures included capping the wage bill, some savings generated through interest expenditures and a gradual reduction in budget support for the energy sector. General government fiscal deficit declined to 1.8 percent of GDP in 2016 (compared to 4.9 percent in 2015) in line with the country's fiscal consolidation efforts. Similar trends were observed for the central government, as illustrated by table 2.2.

Table 2.2: Aggregate fiscal data (budgetary central government)

Actual (in percent of GDP)			
	FY2014	**FY2015**	**FY2016**
Total revenue	25.39	25.88	26.65
—Own revenue	24.66	25.17	25.66
—Grants	0.73	0.70	0.99
Total expenditure	30.56	30.38	28.43
—Non-interest expenditure	27.69	27.68	25.97
—Interest expenditure	2.87	2.71	2.46

Aggregate deficit (incl. grants)	-5.17	-4.51	-1.78
Primary deficit	-2.30	-1.80	0.68
Net financing**	5.56	3.79	1.81
—External	2.14	4.52	1.19
—Domestic	3.41	-0.74	0.62

Source: Ministry of Finance, WB staff calculations.
Note: ** Net financing refers to net financing of the general government, which includes local government's net position.

In terms of the functional breakdown of the central government expenditures between 2014 and 2016, consolidation was accompanied by the reduction of spending on economic affairs, general public services, defense, while the shares of social protection and health increased, as did spending on public order and safety. Special allocations were made to clear the historic stock of arrears and these explain a surge in other expenses in 2015.

Table 2.3: Budget allocations by function (budgetary central government)

Actual budgetary allocations by sector (as a percentage of total expenditures)			
	FY2014	**FY2015**	**FY2016**
General Public Services	6.34	0.94	5.87
Defense	3.31	2.69	2.70
Public Order and Safety	6.29	6.37	6.65
Economic affairs	13.22	14.68	11.71
Environmental protection	0.24	0.35	0.71
Housing and community amenities	7.95	7.07	7.29
Health	10.88	9.76	10.93
Recreation, culture, and religion	1.57	1.65	1.66
Education	12.16	11.31	12.05
Social protection	34.13	33.51	36.40
Other expenses	3.91	11.67	4.02

Source: Ministry of Finance, WB staff calculations.
Note: Excludes Interest expenditures and contingencies.

Regarding economic breakdown of the central government spending, a nominal freeze of public wages and pensions resulted in lower spending on wages and salaries, while a shift to external long term borrowing led to a reduction of interest rate spending[6].

Table 2.4: Budget allocations by economic classification (budgetary central government)

Actual budgetary allocations by economic classification (as a percentage of total expenditures)			
	FY2014	**FY2015**	**FY2016**
Current expenditures			
—Wages and salaries	16.80	16.71	16.13

[6] In 2016, some conditional transfers to local governments on capital projects are reclassified from capital spending to transfers.

—Goods and services	7.79	9.78	10.59
—Interest	9.43	8.91	8.66
—Transfers	43.30	44.96	49.11
—Others	8.37	5.44	1.31
Capital expenditures	14.31	14.21	14.20

Source: Ministry of Finance, WB staff calculations.

2.3 Legal and regulatory arrangements for PFM

The legal and regulatory framework for PFM in Albania has origins in the Constitution (1998). Most laws governing PFM were revised in the recent years to support fiscal consolidation efforts. The main PFM law is the Law on the Management of the Budgetary System (2008, amended in 2016) which defines the elements of the budgetary system and main PFM processes, and regulates management of public finance for all levels of government. Detailed procedures for budget preparation and budget execution are documented in the standard instructions for these processes approved in 2012 and amended in 2016. New legislation regulating expenditure controls and internal audit has been adopted in the last two years, adjusting or improving the previous laws in financial management and control, procurement, internal and external audit. The framework law in tax management is the 2008 Law on Tax Procedures, amended in November 2016. Separate laws regulate the main types of taxes, including the law on VAT, law on income tax, law on excises, and laws on national and local taxes, all amended in the last three years. Renewed emphasis has been placed by the government on ensuring stability and predictability of local finances through amendments to the local finance law, approved in late 2015.

Table 2.5 presents an overview of the main laws and regulations that guide the PFM systems in Albania. The main guidance of the legal framework in respect to specific areas is discussed in more detail in the narrative of the respective performance Indicators.

Table 2.5: Overview of the main laws and regulations governing PFM in Albania

Area	Description
General	• The Constitution (1998) sets the basis for PFM. • Law "On the management of the Budgetary System in the Republic of Albania" (2008, as amended in June 2016) defines the elements of the budgetary system and main PFM processes
Budget preparation and execution	• Standard Instruction on the Medium Term Budget Preparation (2012, as amended in 2016); • Standard Instruction on Budget Execution (2012, as amended in 2016)
Debt	• Law No. 9665, dated 18.12.2006, "On State Borrowing, State Debt and State Loan Guarantees in the Republic of Albania" (amended by the Law No. 181/2014); defines the authorities and procedures for debt administration
Tax administration	• Law No.9920, dated 19.5.2008, "On Tax procedures in the Republic of Albania", last amended with Law No. 112/2016, dated 03.11.2016 and entered into force in 2017 • *General laws for direct and indirect taxes*: - Law No. 8438, dated 28.12.1998, "On Income tax" last amended with Law No.156/2014, dated 27.11.2014 and, entered into force in 2015

	- Law No. 92/2014, "On Value Added Tax in the Republic of Albania", last amended with Law No.71/2017, dated 27/04/2017 - Law No.9975, dated 28.7.2008, "On National Taxes" last amended with Law No.127/2016, dated 15.12.2016 - Law No.9632, dated 30.10.2006, "On the system of local taxes", last amended with Law No.142/2015, dated 17.12.2015 - Law No. 61/2012 dated 24.05.2012, "On excises in the Republic of Albania", last amended in 2016
Local finances	• Law no. 68 /2016 "On self-governance local finances"
Procurement	• Law No. 9643 dated 20.11.2006, "On Public Procurement", last amended in April 2017
Financial management control and internal audit	• Law "On Financial Management and Control" (2010), defines management responsibilities for execution and control of budgets. • Law "On Internal Auditing in the Public Sector" (2015).
External Audit	• The Constitution (1998) Articles 162-165 • Law "On the Organization and Functioning of the High State Control" (2015).
Legislative oversight	• The Constitution (1998) Articles 155-160. • Rules of Procedure of the National Assembly • Law "On Organization and Functioning of the Council of Ministers".

2.4 Institutional arrangements for PFM

The Republic of Albania is a unitary and indivisible state. The unicameral Parliament (National Assembly, Kuvendi) represents the legislative branch. The executive branch is represented by the President as the Head of State, Prime Minister as the Head of Government, and the Council of Ministers. The judicial branch is composed of the Constitutional Court, the Supreme Court and multiple Appeal Courts and District Courts. The current constitution was adopted by referendum in 1998. The parliament consists of 140 members elected by proportional representation from 12 regional lists. Parliament members serve a four-year term.

The judicial system includes district courts, six courts of appeal and a Supreme Court (also known as the Court of Cassation). The district courts are trial-level courts from which appeal can be taken to the court of appeals and then to the Court of Cassation. The Court of Cassation consists of 14 judges, including the chief justice. There is also a Constitutional Court (also known as the High Court) with jurisdiction to resolve questions of constitutional interpretation that arise during any case on appeal. Constitutional Court consists of 9 judges, including a chairman. Parliament appoints the seven members of the Court of Cassation and five of the nine judges on the Constitutional Court, with the rest appointed by the president. A Supreme Judicial Council appoints all other judges.

The function of the public external audit is performed by the High State Control (State Supreme Audit Institution). The Law 154/2014 dated November 27, 2014 on the organization and functioning of the state supreme audit institution established the legal basis for ensuring that the High State Control operates as a modern SAI. Law

154/2014 prescribes the types of audit that can be undertaken by the SAI, such as financial audits, compliance audits, performance audits and IT audits. In practice, most of the SAI audits are compliance audits with a focus on determining irregularities as well as highlighting any relevant material issues and systematic and control risks. The audits of FY 2013-2015 of the central government entities have been conducted mostly as compliance audits.

Government sectoral policy and regulation at the national level is the responsibility of 16 line ministries subordinated to the Prime Minister[7]. Policies are implemented and public services are delivered by agencies, services, and inspections, accountable to line ministries.

The lead role in public financial management is assigned to the Ministry of Finance[8]. This includes formulating and monitoring fiscal policy, preparation and implementation of the budget, public internal financial control, managing the internal and external public debt, integrating fiscal and monetary policies in the national economy in cooperation and coordination with the Central Bank and related institutions. The Ministry consists of several General Departments – Treasury, Budget, Public Debt, Fiscal Policy, and Central Harmonization Units for Public Financial Management and Control and for Internal Audit. Institutions subordinate to the MOF include the General Directorates of Taxation, Customs, Anti Money Laundering.

The Institute of Social Insurance is responsible for administration of the social insurance fund, while health insurance institute administers health insurance fund. Both social security funds have the status of budgetary funds.

The principal revenue administration authority is the Tax Agency, which is responsible for collection of personal and corporate income taxes, VAT, social insurance levies and other national level taxes (gaming taxes, etc.). The Customs Agency administers the customs and excise duties.

Line Ministries have functional responsibilities and are also responsible for the maintenance of internal controls within their ministries. They originate the ministry budget proposals, execute the approved budget, incur expenditure, procure goods and services and report on their performance to MoF and other interested parties on a regular basis.

Following the 2012 amendments made to the Public Procurement Law (PPL), there are two main entities involved in regulating public procurement. The central body responsible for public procurement policy is the Public Procurement Agency (PPA), which has also formally been given responsibility for concessions. The Public Procurement Commission (PPC) is responsible for providing the complaints review mechanism.

Local governments constitute the second level of government and include 12 regions and 61 municipality. The organization of the local governments changed recently as part of the 2015 new territorial and administrative reform. Municipalities are the basic units of local government, performing financial management and all other duties of self-government not otherwise assigned in accordance with national government laws and regulations. They prepare budgets, execute the approved budgets, enter into contracts, and conduct procurements and all other aspects of government administration. Local government councils are elected for a four-year term, as is their chairperson. Where there are several local governments with common interests, traditions, and economic ties, they may be represented by a regional government, administered by an elected regional council. All local governments' revenues and expenditures are consolidated into the General Government financial statements at year-end.

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[7]Data on the number of ministries reflects situation at the time of the assessment. The government went through a major reorganization in the fall of 2017, in result of which the functions of many ministries and their total number has changed.

[8] Information on the names and functions of the ministries reflects situation at the time of the assessment. In result of the government reorganization that took place in the fall of 2017, the Ministry of Finance was merged with the Ministry of Economy and renamed Ministry of Finance and Economy. Some of the functions of the Ministry of Labor were also transferred to the Ministry of Finance.

Table 2.6: Structure of the public sector (number of entities and financial turn-over)

Public Sector										
Year 2016	Government subsector					Public corporation subsector				
	Budgetary units		Extrabudgetary units			Nonfinancial public corporations			Financial public corporations	
	Number of Units	Turnover, mln lek	Number of Units	o/w units for which information is available	Turnover, mln lek	Number of Units	o/w units for which information is available	Turnover, mln lek	Number of Units	Turnover, mln lek
Central Govern-ment	53 institutional units (including 16 ministries, 12 prefect's offices), 1469 spending units	295,490	63	28	9,926					
Local Govern-ments	12 regions and 61 municipality	16,954	90	67	6,263					
Social Security Funds	2 (social insurance fund, health insurance fund)	77,090								
Public corpor-ations						16	11	n/a	2	n/a

Source: Ministry of Finance, INSTAT.

Table 2.7: Financial structure of central government[9] (million ALL)

Year 2016	Central Government			
	State budget		Social security funds	
	Budget	Actual	Budget	Actual
Revenue	323,891	312,917	78,501	79,153
Expenditure	251,163	237,526	152,593	152,591
Transfers to (-) and from (+) other units of general government's	- 29 917	1,886	74,092	73,438

Source: Ministry of Finance.

[9] Full data required for the recommended format of table 2.7. is not available, therefore the format was modified.

2.5 Other key features of PFM and its operating environment

The institutional arrangements in Albania for management of budget resources could be described as moderately centralized, with certain degree of devolution of operational controls to the line ministries and subnational governments. The overarching regulatory framework is set centrally. PFM procedures used at the central and local level are largely uniform and determined by the central authorities. Budget planning combines top down and bottom up elements with the line ministries formulating their sector objectives and priorities within the centrally determined resource envelope. Ministries and other spending units do have some flexibility to determine detailed spending plans, however, once set, these become hard budget execution controls in the centralized treasury system, which can only be amended with the approval of the Ministry of Finance. Spending units are also responsible for their internal financial management controls.

The main IT system operated by the MoF at present is the treasury information system (officially called Albanian Government Information System, AGFIS[10]). The functions automated through this system include budget execution, commitment management, cash management, accounting, and reporting. Implemented in 2010, the system was initially used by the GD Treasury, the Treasury District Offices, and GD Budget. However, it was recognized that the system would be more effective if the spending units were also granted access. Piloting the provision of direct access to the system has revealed major technical and financial constraints to implementing the solution (due to software customization needs and high licensing cost). It was subsequently decided to establish a web portal to provide (free/low cost) access for the spending units to the system functionality that is required at their level. Currently, the MoF is developing, on the basis of AGFIS, ICT solutions for the integrated financial management information system (AFMIS) and two interlinked information system modules to be administered by the Cabinet of Ministers office (CoM will administer the integrated planning module, IPSIS, and the external assistance module, EAMIS).

Institutional arrangements for PFM have been undergoing significant changes after the arrival of the new government in 2013. The responsibilities for public investment management were shifted to the Ministry of Economy but then returned back to the MoF in 2016. MoF capacity was also significantly affected by the major personnel cuts that took place in 2015. In 2016, the Ministry was able to restore the number of personnel positions, however filling in the vacancies proved difficult and took very long time, so that at the time of the assessment the Ministry was still operating with multiple vacancies.

The Government structure has undergone another radical change in the fall of 2017, following the recent Parliamentary elections. In result of this latest reorganization, the Ministry of Finance was merged with the Ministry of Economy and received some functions from the Ministry of Labor. This was accompanied by another round of staff retrenchment with the total number of staff positions in the new Ministry of Finance and Economy significantly lower that than the total staff of the predecessor ministries.

Government's fiscal consolidation efforts as well as PFM reforms have benefited from a strong support by Albania's development partners. During the period covered by the assessment Albania had an active program with the IMF and benefited from budget support and technical assistance from the multiple development partners, including the IMF, World Bank, EU, SECO, SIDA.

[10] Registered in the state database list through CoMD Nr. 352 dated 11.05.2016 which defines data, responsible institutions, access levels and administrative for each institution.

3. Assessment of PFM performance

3.1 PILLAR ONE: Budget reliability

PI-1. Aggregate expenditure outturn

This indicator measures the extent to which aggregate budget expenditure outturn reflects the amount originally approved, as defined in government budget documentation and fiscal reports. There is one dimension for this indicator – Dimension 1.1. Aggregate expenditure outturn (Time period: the last three completed fiscal years-2014, 2015 and 2016, coverage - BCG).

Summary of scores and performance table

Indicator/Dimension	Score	Brief justification for score
PI-1. Aggregate expenditure outturn	Overall score A	
1.1. Aggregate expenditure outturn	Dimension score A	Aggregate expenditure outturn was between 95% and 105% of the approved aggregate budgeted expenditure in 2016 and 2014 and 94.5% in 2015.

Table 3.1: Aggregate expenditure outturn

Total budget and actual expenditure (million of Lek)			
	2014	**2015**	**2016**
Budget	445,731	459,134	436,822
Actual	426,447	433,790	418,746
Deviation (%)	4.3%	5.5 %	4.1%

Data used are budget projections as approved by the parliament and published by the Ministry of Finance, and audited final data for 2014 and 2015[11]. Calculations for this dimension are done in compliance with the methodology provided in a spreadsheet on the PEFA website, www.pefa.org, and are included in the assessment report in Annex 5.

The overall expenditure outturn was between 95 percent and 105 percent of the budget in years 2014 and 2016. This outcome has considerably improved from past years and the previous assessment. In 2015 the outturn was at 94.5 percent of the budgeted expenditure. The dimension is calculated using modified cash-based accounting.

[11] 2016 was in the process of being audited at the time of the Assessment.

Expenditures include transfers and subsidies of any kind, including to local government, and payment of arrears. Transfers to entities outside of BCG, but still part of the originally approved budget are included.

Based on the analysis and supporting evidence, the score for this dimension is A.

PI-2. Expenditure composition outturn

This indicator measures the extent to which reallocations between the main budget categories during execution have contributed to variance in expenditure composition. It contains the following three dimensions and uses the M1 (WL) method for aggregating dimension scores.

- *Dimension 2.1. Expenditure composition outturn by function (Time period: last three completed fiscal years-2014, 2015 and 2016, coverage - BCG);*
- *Dimension 2.2. Expenditure composition outturn by economic type (Time period: last three completed fiscal years-2014, 2015 and 2016; coverage - BCG);*
- *Dimension 2.3. Expenditure from contingency reserves (Time period: last three completed fiscal years-2014, 2015 and 2016; coverage - BCG).*

Summary of scores and performance table

Indicator/Dimension	Score	Brief justification for score
PI-2. Expenditure composition outturn	D+	Scoring method M1 (WL)
2.1 Expenditure composition outturn by function	Dimension score D	The composition variance between the expenditures outturn by function and the budgeted expenditure exceeds 20 percent in all the three years of assessment.
2.2 Expenditure composition outturn by economic type	Dimension score A	Variance in expenditure composition by economic classification was less than 5% in 2014 and 2016. The variance in expenditure composition exceeds 5% in 2015.
2.3 Expenditure from contingency reserves	Dimension score A	Actual expenditure charged to a contingency vote was on average at 0.1 % of the original budget.

2.1. Expenditure composition outturn by function

This dimension measures the difference between the originally approved budget and end-of-year outturn in expenditure composition, by functional classification, during the last three years, excluding contingency items, and interest on debt.

Calculations for this dimension are done in compliance with the methodology provided in a spreadsheet on the PEFA website and are included in the assessment report as Annex 5.

Expenditure composition outturn by function shows a large variance, between 26.7 percent in 2014 and 21 percent in 2015. Part of this large variance is attributed to the process of clearing the stock of expenditure arrears. During 2014 and 2015, the government cleared central government arrears which had accumulated prior to 2013 in the total amount of 51,516 million lek and initially planned at 55,000 million lek. Part of arrears were netted off, since budget institutions had mutual obligations versus each other. The remaining part of the historic stock of arrears was cleared via the normal budget process.

Calculating the variance in expenditure composition required a few adjustments to the published budget and factual data. The particular problem was that the functional classification used in the budget documents did not completely match that used in the published accounts in the part related to clearance of arrears. These expenditures in the actual execution data were reported under general public services, while in the budget projections these were shown as other expenditures. The adjustments were made to factual data to match the classification used by the budget projections at the beginning of each year.

Table 3.2: Results Matrix - Composition Variance

Year	For PI-2.1 Composition Variance
2014	26.7%
2015	21.0%
2016	22.7%

Based on the analysis and supporting evidence, the score for this dimension is D.

2.2. Expenditure composition outturn by economic type

This dimension measures the difference between the original approved budget and end-of-year outturn in expenditure composition by economic classification during the last three years including interest on debt but excluding contingency items.

The composition of the budget by economic classification is important for showing the movements between different categories of inputs—for example, capital and recurrent expenditures. Calculation for this dimension is done in compliance with the methodology provided in a spreadsheet on the PEFA website www.pefa.org. and is included in the assessment report as Annex 5.

The calculated variance in expenditure composition by economic classification was less than 5 percent in 2014 and 2016. The variance in expenditure composition exceeds 5 percent in 2015, and is to a large extent the result of variance in grants to the local governments. In June 2015, Albania had local elections while implementing a territorial reform; 61 local government units replaced the previous 373 communes and municipalities. Since 2015 the country started pursuing an ambitious fiscal decentralization strategy, including devolving certain functions, transferring personnel, and providing new financing sources for local governments. After these elections, the authorities started the process of auditing the new units and preparing annual surveys of local government arrears. These activities brought significant pressures on the execution of spending at the local level.

Table 3.3: Expenditure Composition Variance

Year	Composition Variance
2016	4.7%
2015	5.6%
2014	5.0%

Based on the analysis and supporting evidence, the score for this dimension is A.

2.3. Expenditure from contingency reserves

This dimension measures the average amount of expenditure actually charged to a contingency vote over the last three years.

The Government has a reserve fund and a contingency fund. Allocations for these funds are approved as single line items under the budget. Spending from these funds takes place based on special decisions of the Cabinet of Ministers approved during the respective budget year. For the period 2014 - 2016, spending from the reserve and contingency funds amounted on average to 0.6 percent of total actual expenditure, as shown in Table 3.4 below. The spreadsheet provided on the PEFA website for dimension 2.1 was used to assist with calculations for this dimension (see Annex 5*).*

Table 3.4: Contingency share of the actual expenditures

Year	Contingency Share	Contingency Share average
2014	0.3%	0.6%
2015	0.6%	
2016	0.9%	

Based on the analysis and supporting evidence, the score for this dimension is A.

PI-3. Revenue outturn

This indicator measures the change in revenue between the original approved budget and end-of-year outturn. It contains the following two dimensions and uses the M2 (AV) method for aggregating dimension scores.

- *Dimension 3.1. Aggregate revenue outturn (Time period: the last three completed fiscal year-2014, 2015 and 2016; coverage - BCG);*
- *Dimension 3.2. Revenue composition outturn (Time period: the last three completed fiscal year-2014, 2015 and 2016; coverage - BCG).*

Summary of scores and performance table

Indicator/Dimension	Score	Brief justification for score
PI-3. Revenue outturn	B+	Scoring method M2 (AV)
3.1 Aggregate revenue outturn	Dimension score A	Actual revenue was between 97% and 106% of budgeted revenue in 2014 and 2016.
3.2 Revenue composition outturn	Dimension score B	Variance in revenue composition was less than 10% in 2014 and 2016.

3.1. Aggregate revenue outturn

This dimension measures the extent to which revenue outturns deviate from the originally approved budget.

Calculations for this this dimension are done in compliance with the methodology provided in a spreadsheet on the PEFA website and included in the assessment report as Annex 5.

For the period under assessment the revenue outturn was between 97 percent and 106 percent of budgeted revenue in two out of three years, at 97.5 percent of the budgeted revenue in 2016 and 100.1 percent of the budgeted revenue for 2014.

Tax revenues underperformance in 2015 was broad-based including excises, PIT, and oil-related taxes. The tax shortfalls reflected several factors, including problems in revenue administration and coordination among the responsible institutions. Forecasting issues in the 2015 budget also played a role, with the stock of tax credits in the system underestimated, and with lower than expected GDP growth, interest rates, and oil prices. The problem was also likely exacerbated by behavioral responses to tax increases that took effect in January 2015, including front-loading of activity in late 2014, as well as increased tax evasion and informal domestic production.

Table 3.5: Total Revenue Outturn

Year	Total Revenue Deviation
2016	97.5%
2015	92.2%
2014	100.1%

Based on the analysis and supporting evidence, the score for this dimension is A.

3.2. Revenue composition outturn

This dimension measures the variance in revenue composition during the last three years. This dimension attempts to capture the accuracy of forecasts of the revenue structure and the ability of the government to collect the amounts of each category of revenues as intended.

The data for the indicator was assembled from two sources.

- A table on “Fiscal Indicators” with estimates of revenue and expenditure produced by Ministry of Finance as part of the package of budget documentation sent for Parliamentary approval.;
- A similar table with actuals produced monthly by the Treasury Department of the MoF and posted on the Ministry of Finance website. The latter tables also include the latest budget data, after mid-year changes and reallocations.

For the period under assessment, the variance in revenue composition was less than 10 percent in 2014 and 2016, while in 2015 lower than planned VAT collections led to a larger variance in revenue composition.

Table 3.6: Revenue Composition Variance

Year	Composition Variance
2016	5.8%
2015	10.3%
2014	9.3%

Based on the analysis and supporting evidence, the score for this dimension is B.

3.2 PILLAR TWO: Transparency of public finances

PI-4. Budget classification

This indicator assesses the extent to which the government budget and accounts classification is consistent with international standards. There is one dimension for this indicator - Dimension 4.1. budget classification (Time period: the last completed fiscal year-2016; coverage - BCG).

Summary of scores and performance table

Indicator/Dimension	Score	Brief justification for score
PI-4. Budget classification	Overall score A	
4.1 Budget classification	Dimension score A	The budget classification and Chart of Accounts are based on every level of economic, administrative, and functional (and sub-functional) classification using GFS/COFOG standards and can produce information compatible with the GFS 2011 standards.

4.1. Budget classification

The chart of accounts used for the preparation, execution, and reporting (including accounting) of the 2016 budget through the Treasury system is based on the Law 9936/2008 "On the Management of the Budgetary System in the Republic of Albania" which is consistent with GFS 2011 and is based on the following classifications:

- Administrative classification, which reflect the general government units by type (central government unit, local government unit, extrabudgetary funds); as well as sub-classifications to the level of spending unit. Line Ministry and institution dimensions together make up the institutional (administrative) classification;
- Economic classification, which classifies transactions by the economic nature (including codes for current expenditures, capital expenditures, as well as revenues, to the 7-digit level);
- Functional (and sub-functional) classification, which reflects the expenditure in line with the functions or objectives it aims to achieve. The system is based on 10 main functions, in line with COFOG classification;
- A program classification identifies budgetary programs, sub-programs, and projects. Functional classification is detailed to a 5-digit level, where the last 2 digits are used to identify programs within functions and sub-functions. Lastly, the "Project" dimension is used to provide accounting information for time-bound projects. The codes include information on the nature of the financing, grant or loan, and the responsible entity.

The above dimensions are implemented in the Oracle Financials-based treasury information system (AGFIS). The chart of accounts approved by decision of CoM no.25 date 20.01.2001 used for the classification can be bridged through a table into GFS classification and is consistently used in budget formulation, management, and reporting. Albania reports to the IMF data using the GFS2014 and is planning the full transition to GFS 2014.

Based on the analysis and supporting evidence, the score for this dimension is A.

PI-5. Budget documentation

This indicator assesses the comprehensiveness of the information provided in the annual budget documentation, as measured against a specified list of basic and additional elements. There is only one dimension for this indicator. The assessment of performance on this indicator is based on the contents of the budgetary central government (BCG) budget sent to the parliament for the year 2017.

Summary of scores and performance table

Indicator/Dimension	Score	Brief justification for score
PI-5. Budget documentation	Overall score A	
5.1 Budget documentation	Dimension score A	For the BCG, Albania fulfills 10 elements, including every basic element (1–4) of the budget documentation

5.1. Budget documentation

In Albania, the government formulates and approves its budget, and monitors its fiscal framework through the general budget which includes central government (line ministries and central government institutions), social insurance and health funds and local governments. Detailed plans which are provided in administrative, functional, and economic classification in the budget tables are initially sent to the legislature at the general government level at the end of each year (for the following year and 2 years forward). The same classification is used for the monthly budget execution; the resulting deficit is linked to the overall fiscal rule approved in the Organic budget law. In the above tables the revenues from and expenditures related to local government and social insurance and health fund is identifiable since these are classified under separate categories. For expenditures, all central government grants, and expenditures of local governments out of their own funds are classified together under current expenditures, regardless whether they relate to capital projects. Thus, BCG accounts can easily be identified from these tables.

In addition, the legislature receives information on:

- Deficit financing, describing its anticipated composition;
- Macroeconomic assumptions, including estimates of GDP growth, inflation, interest rates, and the exchange rate;
- Public and publicly guaranteed debt stock;
- A summary information of fiscal risks, including contingent liabilities such as guarantees;
- 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.

In the annual budget package sent to the legislature, information on the budgetary central government includes (i) aggregate information on expenditure, revenues for the proposed year (ii) forecast of the fiscal deficit or surplus for the proposed year and the two forthcoming years, (iii) the estimate for main categories of expenditure, revenues and the overall balance for the current year and (iv) the main categories of expenditure, revenues and the overall balance for two years preceding the current year. Aggregated budget data for both revenue and expenditure according to the main heads of the classifications used, with data for the previous year with a detailed breakdown of revenue and expenditure estimates, are also presented in the GFS 2014 consistent tables published at the MoF website and reported to the IMF. Current fiscal year's budget in the same format as the budget proposal is presented to the legislature together with the annual budget package.

A summary table below presents the evidence used and the results of the assessment for PI-5.

Table 3.7: Summary of evidence and results of the assessment for PI-5

Element/ Requirements	Met (Y/N)	Evidence used/ Comments
Forecast of the fiscal deficit or surplus or accrual operating result	Y	The forecast of the fiscal deficit or surplus for BCG is provided in the annual budget law for year 2017.
Previous year's budget outturn, presented in the same format as the budget proposal.	Y	The BCG budget outturn for year 2015 was part of the 2017 budget package and was presented in the same format as the budget proposal.
Current fiscal year's budget presented in the same format as the budget proposal.	Y	Estimated outturn of the current fiscal year for BCG is presented in the same format as the budget proposal.
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. (Budget classification is covered in PI-4.)	Y	The annexes to the Budget Law include information for year 2015 and 2016 on consolidated General Government out of which BCG expenditures and revenues are separately identified. The supplement to the budget proposal contains information and a narrative on main heads of classifications for the BCG revenues and expenditure estimates.
Deficit financing, describing its anticipated composition.	Y	Deficit financing and anticipated composition as per the Medium Term Debt Strategy is provided in the annex to the budget law.
Macroeconomic assumptions, including at least estimates of GDP growth, inflation, interest rates, and the exchange rate	Y	Macroeconomic assumptions, covering a 3 year horizon are provided in the annex to the budget law and discussed in the supplement to budget proposal sent to the legislature.
Debt stock, including details at least for the beginning of the current fiscal year presented in accordance with GFS or another comparable standard.	Y	GFS compatible debt stock, including details for the beginning of the current fiscal year is given in the supplement to the Budget proposal submitted to the legislature.
Financial assets, including details at least for the beginning of the current fiscal year presented in accordance with GFS or another comparable standard.	N	This information is not presented or published before the budget proposal is submitted to the legislature.
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.	N	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 with a direct implication on the budget is presented in the supplement to budget proposal sent to the legislature for each sector. Fiscal risks on PPPs without

		a direct explicit implication for the budget are not presented to the legislature.
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.	Y	The explanation for the budget implications of new policy initiatives is given in the supplement to the budget proposals submitted to the legislature for every major revenue and expenditure policy separately.
Documentation on the medium-term fiscal forecasts.	Y	Documentation on the medium-term fiscal forecasts with detailed classifications of revenues and expenditures is presented for each level of Government.
Quantification of tax expenditures.	Y	Quantification of tax expenditures is given in the supplement to the budget proposal submitted to the legislature.

Based on the analysis and supporting evidence, the score for this dimension is A.

PI-6. Central government operations outside financial reports

*This indicator measures the extent to which government revenue and expenditure are reported outside central government financial reports. It contains the following three dimensions and uses the **M2 (AV)** method for aggregating dimension scores:*

- *Dimension 6.1. Expenditure outside financial reports (Time period: the last completed fiscal year-2016; coverage - CG);*
- *Dimension 6.2. Revenue outside financial reports (Time period: the last completed fiscal year-2016; coverage - CG);*
- *Dimension 6.3 Financial reports of extrabudgetary units (Time period: the last completed fiscal year-2016; coverage - CG).*

Summary of scores and performance table

Indicator/Dimension	Score	Brief justification for score
PI-6. Central government operations outside financial reports	D	Scoring method M2 (AV)
6.1 Expenditure outside financial reports	Dimension score D*	Information on expenditure outside financial reports is incomplete as it covers only 17 of 63 EBUs currently listed by INSTAT; while available evidence suggests that the total unreported amount is less than 5% of BCG expenditure, it cannot be confirmed.
6.2 Revenue outside financial reports	Dimension score D*	Revenues of active EBUs not reported cannot be confirmed.

6.3 Financial reports of extrabudgetary units	Dimension score D	Active extrabudgetary units do not provide regular financial reports to GoA.

In principle, all operations using government revenues (as opposed to commercial revenues earned by SOEs) should be included in budget reports to ensure transparency, public disclosure, more efficient allocation and use of resources, and budget sustainability. A complete picture of government revenue and expenditure requires extrabudgetary units and expenditure and revenue related to extrabudgetary activities of budgetary units to be included in central government *ex post* financial reports (unless they are insignificant): this is essential for aggregate fiscal discipline.

This indicator uses three dimensions to measure the extent to which government revenue and expenditure are reported outside central government financial reports.

6.1. Expenditure outside financial reports

This dimension assesses expenditure incurred by budgetary and extrabudgetary units but excluded from the government's financial reports; for example, expenditure met from fees and charges collected and retained by budgetary and extrabudgetary units outside the approved budget.

The organic budget law requires all revenues, expenditures, and financing of both central and municipal governments to be included in the State Budget presented to the National Assembly. The law allows for a contingency fund (which may not exceed 3 percent of the total approved funds), and also for 'Special Funds' proposed by the Minister of Finance: all are included in the state budget and reported.

In addition, municipal budgets must be balanced, except in cases where borrowing is approved for investment projects. Any municipal 'special funds' are presented to the local government council as part of the local budget.

An IMF review[12] in 2016 identified 64 extrabudgetary units of central government, a significant number of which are dormant and are under liquidation. At the time of the assessment, INSTAT listed 63 EBUs. GoA exercises a considerable a degree of control over those entities which remain active, for example, via appointing the board of management (often comprised of representatives of MoF, MoE, and MoEd); by setting remuneration rate of employees, etc.; or, by providing grants to finance their operations.

Of the 64 entities:

- Eight are universities;
- Seven are 'student enterprises' linked to universities;
- Several are non-market producers performing regulatory functions and are funded via earmarked compulsory fees and fines;
- Others appear to be typical corporations, such as "Industrial Enterprise Nr. 1", but revenue is primarily through government grants;
- 33 entities are active, although not all provide data to INSTAT and/or the National Business Centre.

At the request of the PEFA mission, INSTAT examined the information in the IMF review and have identified 17 entities that are active and are part of AGFIS reporting, although they have a certain level of independence and are classified as extrabudgetary units.

[12] Report on GFS Mission, June 2016.

As the magnitude of the expenditure of the active units cannot be determined – although not all of it is outside government financial reports, this dimension is rated as D*.

Based on the analysis and supporting evidence, the score for this dimension is D*.

6.2. Revenue outside financial reports

This dimension assesses the magnitude of revenues received by budgetary and extrabudgetary units (including social security funds) not reported in government's financial reports (e.g., revenues received from donor-funded projects; fees and charges outside the type or amounts in the budget).

Article 8 of the organic budget law requires all receipts from taxes and other sources of General Government revenue to be paid into the Treasury Single Account. The law appears to be followed, as there are no exceptions mentioned in the 'High State Control' (the Supreme Audit Institution) reports. However, for the reason set out in 6.1 above, the magnitude of unreported revenue cannot be determined and hence the dimension is rated 'D*'.

Based on the analysis and supporting evidence, the score for this dimension is D*.

6.3. Financial reports of extrabudgetary units

This dimension assesses the extent to which ex-post financial reports of extrabudgetary units are provided to central government, and are sufficiently detailed and timely to yield a full picture of government financial operations when combined with the financial reports for budgetary central government.

In order to have a comprehensive view of central government operations, the consolidated annual financial statements should capture all revenues and expenditure of both budget entities and extrabudgetary units as defined by GFS 2014.

Of the 33 extrabudgetary units found to be 'active' by the INSTAT data, there is no evidence that they routinely submit financial reports to government within 9 months of the end of the FY.

Based on the analysis and supporting evidence, the score for this dimension is D.

PI-7. Transfers to subnational governments

This indicator assesses the transparency and timeliness of transfers from central government to subnational governments with direct financial relationships to it. It considers the basis for transfers from central government and whether subnational governments receive information on their allocations in time to facilitate budget planning. It contains the following two dimensions and uses the ***M2 (AV)*** *method for aggregating dimension scores:*

- *Dimension 7.1. System for allocating transfers (Time period: the last completed fiscal year-2016; coverage – CG and the subnational governments with direct financial relationship to CG);*
- *Dimension 7.2. Timeliness of information on transfers (Time period: the last completed fiscal year-2016; coverage – CG and the subnational governments with direct financial relationship to CG).*

Summary of scores and performance table

Indicator/Dimension	Score	Brief justification for score
PI-7. Transfers to subnational governments	C+	Scoring method M2 (AV)

7.1 System for allocating transfers	Dimension score C	The horizontal allocation of unconditional and specific grants to subnational governments from central government is determined by transparent, rule based systems. These represent 60.8 percent of total transfers to LGUs. The criteria for allocation of conditional transfers exist, but they are not transparent and verifiable.
7.2 Timeliness of information on transfers	Dimension score B	By beginning of December each year, LGUs know the amounts of unconditional and specific transfers they are going to receive.

Albania is divided into 12 administrative counties (districts). Since 2015 these counties include 61 municipalities. Albania went through a territorial and administrative reform which consolidated 373 municipalities and communes into 61 larger municipalities which function based on the Law "On Local governments in the Republic of Albania" no.139 date 17.12.2015 and Law "On Finance of the Local Governments" no.68 dated 21 May 2017. The first year the reform with the new structural arrangements was implemented was 2016.

The municipalities are the first level of local governance, responsible for local services and law enforcement. Each district has a council composed of representatives from its constituent municipalities. Prefects are appointed by central Government to oversee the legality, efficacy, and efficiency of the operations of districts but have no role in actual service delivery. Local Government Units (LGUs) carry out a) exclusive ('own') functions, such as water supply, public transportation, public lighting, and garbage collection; b) shared functions, such as pre-school and pre-university education, health care, public order, and civil protection; and c) delegated functions. The latter are broken down into mandatory and non-mandatory functions such as land administration and carrying out the civil census.

7.1. System for allocating transfers

This dimension assesses the extent to which transparent, rule-based systems are applied to budgeting and the actual allocation of conditional and unconditional transfers.

Transfers of funds to the Local Government Units (LGUs) are done through a series of mechanisms that have changed over the years. Some of these mechanisms relate to transfers to municipalities, others to the transfers to districts.

The volume and relative importance of transfers from the central government to the LGUs are shown in Table below.

Table 3.8: Transfers from the central government to the LGUs

Transfers to Local governments for Year 2016 **(in percent of total transfers)**	**Budgeted transfers at the time the budget is sent to Parliament**	**Outturns**
Unconditional transfers	43.5	41.8
Specific transfers	26.4	19.0
Conditional transfers	30	39.2

Source: Ministry of Finance.

The Central Government provides financial resources to the municipalities through two types of transfers: unconditional and conditional grants. The conditional grants are either competitive grants or relate to earmarked financial resources that can only be used for a specific purpose. During the budget preparation for the year 2016 the total funds to be allocated to local governments under each category was specified. The allocation to each local government unit was done through a formula for the unconditional grant (see below), through transparent specification in the budget documents for the specific transfers and through a competitive process for competitive grants. The criteria of selecting the winners of competitive grants were not transparent as they were not published or known in advance by competition participants. For this reason, in the calculation of the share of grants received under transparent criteria only unconditional transfers and specific transfers are included.

Unconditional transfers

The unconditional grants are allocated as per the new formula that was applied for the first time in 2016. This formula is based on relative population, population density for every LG unit and number of pupils in elementary and secondary education in each LGU. Besides the equalization of costs which is done through the density component, the new formula of allocation of unconditional transfer also introduces fiscal capacity equalization which is captured by shared taxes between central government and local government including factual revenues from the small business tax, annual tax on used cars and juridical persons' property transfer tax.

The allocation of these funds to the municipalities and districts is determined in three steps. Firstly, the total fund of unconditional grants to be transferred to the districts is determined. In 2016 the amount of unconditional transfer was set at 4.67 percent of the tax and customs revenue in 2014. Through the second step the shares of unconditional grants to be allocated to municipalities and the districts are determined. In 2016, these shares were 96.3 percent and 3.7 percent respectively.

In a third step the allocation to each individual municipality is determined. 80 percent of the total transfer to municipalities is allocated based on relative population. Since the Albanian National Census in 2011 revealed large discrepancies of population compared to civil registry data, the population data used are those based on the Census adding 30 percent of the difference between the census and the civil register for every municipality. A second share (15 percent of the total transfer) is allocated to the municipalities based on the population density; eligible municipalities are those with population density below 110 percent of the national average of 118 habitants per km2. The third criteria used for unconditional transfer allocation between municipalities is the number of pupils in public elementary and secondary education.

Through a relatively complex mechanism, funds are reallocated from better endowed to poorer municipalities. The redistribution is based on data on the collection by the municipalities of two types of local taxes: small business taxes and vehicle registration taxes. Municipalities with higher than average per capita collections of these two taxes will contribute 35 percent of the difference to those municipalities with lower than average collections.

The municipalities at the receiving end are guaranteed a minimum transfer. The remainder of the redistributed funds are allocated in such a way that the receiving municipalities receive 35 percent of the gap between their collection and the average per capita collection of the two taxes.

The LGUs know in December what they will receive as unconditional grants in the next year.

Specific transfers

These transfers are allocated to Local Government units to cover specific new functions defined by Law "On Local governments in the Republic of Albania" no.139 date 17.12.2015, including:

- Pre-university dormitories (funds to cover salaries and social insurance contributions, operation and maintenance related expenses and capital spending);
- Social services centers for 5 municipalities in which these centers are located (funds covering perconel salaries and social insurance contributions and operation and maintenance related expenses);

- Fire protection services (funds covering personnel salaries, social insurance contributions and operation and maintenance related expenses);
- Salaries and social insurance contributions for teaching and non-teaching personnel in pre-school education and non-teaching personel in the pre-university education;
- Rural roads (funds to cover salaries and social insurance contributions, operation and maintenance related expenses and capital spending);
- Management of forests (funds to cover salaries and social insurance contributions and operation and maintenance related expenses);
- Irrigation and drainage (funds to cover salaries and social insurance contributions and operation and maintenance related expenses).

Since these functions were initially performed by the central government (line ministries) In budgeting these expenditures the existing legal and regulatory framework used by respective Ministries was used to define salaries and other expenditures.

Competitive grants

The competitive grant can finance projects on a competitive basis in three main pillars: local infrastructure, economic development, and Digital Albania. The first pillar consists of local infrastructure, basic, pre-university and university education, health, cultural objects and cultural heritage, water and sanitation facilities, construction facilities, agro-food markets and slaughterhouses, irrigation and drainage, and forestation. The second pillar consists in financing local economic development through small and medium enterprises. The objectives this fund tries to achieve are central government objectives. Despite the explicit reference to sectors, the idea behind this grant is that a coordinated territorial perspective guides the selection of projects to be financed.

Regions apply for funding to different line ministries depending on the sector nature of the proposal. These requests are evaluated by the respective line ministry and then passed on to a technical secretariat located in the Prime Minister's Office, which then prepares the dossier for the consideration of the Committee for the Regional Development.

In addition to approving or rejecting the specific requests, the Committee decides on criteria for allocating funds among regions, and the actual distribution of funds among the different regions. In result, a set of criteria exist for the allocation of the funds, but they are less rule based compared to the unconditional grants.

In summary, the horizontal allocation of unconditional and specific grants to subnational governments from central government is determined by transparent, rule-based systems. These represent 60.8 percent of total transfers to LGUs.

Based on the analysis and supporting evidence, the score for this dimension is C.

7.2. Timeliness of information on transfers

This dimension assesses the timeliness of reliable information provided to subnational governments on their allocations from central government for the coming year.

As part of the regular budget process, LGs receive clear and sufficiently detailed information in the beginning of December of each year (4 weeks before the beginning of the year) on how much they will receive as unconditional grants in the next year. Also, as these grants to the local level are part of the three-year MTBP process and given the fact that the allocation criteria have remained quite stable, they have an indication early in the yearly budgeting process of how much they are likely to receive for the coming year.

The LGUs also know four weeks in advance how much they are going to receive in the form of specific transfers, since this is part of the annual budget package approved by Parliament. In the case of competitive grants LGUs know for certain only that portion of the competitive grant which was part of a previously approved project (i.e. old projects, since these projects can extend to two years).

Based on the analysis and supporting evidence, the score for this dimension is B.

PI-8. Performance information for service delivery

Good practice indicates that performance indicators for the planned outputs and outcomes of programs or services financed through the budget should be included in the executive's budget proposals, as well as in the year-end report, audit reports and performance evaluation reports, to promote greater operational efficiency in service delivery. Service delivery units should also know what resources they can expect to be available to enable them to discharge their responsibilities and achieve annual and medium-term performance targets as well as strategic sector objectives. Hence this indicator contains four dimensions to examine the service delivery information in the executive's budget proposal or its supporting documentation, and in year-end reports or performance audits or evaluations, as well as the extent to which information on resources received by service delivery units is collected and recorded. It contains the following four dimensions and uses the ***M2 (AV)*** *method for aggregating dimension scores:*

- *Dimension 8.1. Performance plans for service delivery (Time period: performance indicators and planned outputs and outcomes for the next fiscal year; coverage - CG);*
- *Dimension 8.2. Performance achieved for service delivery (Time period: outputs and outcomes of the last completed fiscal year; coverage - CG);*
- *Dimension 8.3. Resources received by service delivery units (Time period: the last three completed fiscal years; coverage - CG);*
- *Dimension 8.4. Performance evaluation for service delivery (Time period: the last three completed fiscal years; coverage - CG).*

Summary of scores and performance table

Indicator/Dimension	Score	Brief justification for score
PI-8. Performance information for service delivery	**C+**	Scoring method M2 (AV)
8.1 Performance plans for service delivery	Dimension score B	Each program in the Ministries of Education and Health has specified objectives, output targets, and expenditure allocations for the medium-term, and these are reported quarterly and annually.
8.2 Performance achieved for service delivery	Dimension score B	Information on outputs produced is published annually for most Ministries.
8.3 Resources received by service delivery units	Dimension score D	One large ministry (Education) has information on central government resources received by frontline service delivery units (schools), for salaries and other investment expenditures: however, other school expenditures are covered by local governments, so there is no comprehensive report.

8.4 Performance evaluation for service delivery	Dimension score B	The SAI has undertaken 'Performance Audits', as follows: FY2014-7; FY2015-11; FY2016-13, and the reports are available on their website.

The Ministries of Education and Health were used to assess this indicator, as the services they deliver are directly related to the quality of people's lives, and they also account for a substantial proportion of the annual budget. In each case, there are a very large number of performance targets; for outcomes and outputs to be achieved, and progress is monitored quarterly.

8.1. Performance plans for service delivery

This dimension assesses the extent to which key performance indicators for the planned outputs and outcomes of programs or services that are financed through the budget are included in the executive's budget proposal or related documentation, at the function, program, or entity level.

As noted in the recent IMF "Fiscal Transparency Evaluation", detailed targets for the outcomes and outputs to be achieved in almost all policy programs are produced at ministry, program, and output levels.

The Assessment Team undertook a detailed analysis of the data held in the Ministry of Education, which revealed that for each of the six programs, there are a number of annual targets, which are further divided into several outputs: each output has specified objectives, output targets, and expenditure allocations for the medium-term. Discussions at various levels in the Ministry of Health (the Ministry itself, a District Office, and the University Hospital of Tirana) revealed a similar level of detailed planning and all this data is published on the GoA website. In both these cases – as well as for other Ministries – implementation of budgeted expenditure and discussion of performance against these targets is reported in quarterly monitoring reports published on the MoF website, then annually in the Report on the Implementation of the Budget.

Based on the analysis and supporting evidence, the score for this dimension is B.

8.2. Performance achieved for service delivery

This dimension examines the extent to which performance results for outputs and outcomes are presented either in the executive's budget proposal or in an annual report or other public document, in a format and at a level that is comparable to the plans previously adopted within the annual or medium-term budget separately by each ministry.

Each ministry has a 'Monitoring and Evaluation Department' that collects and analyses statistical data, working in close collaboration with the Institute of Statistics (INSTAT). The INSTAT issues reporting templates to line ministries for data collection and analysis, and once these have been completed, the data is routinely published on the INSTAT website: the data allows comparison with the detailed plans referred to in 8.1, above. In addition, the year-end annual budget report captures information on performance results achieved by Ministries; this has been the case for some years. The amount of disclosure is sufficient to understand what has been delivered.

Based on the analysis and supporting evidence, the score for this dimension is B.

8.3. Resources received by service delivery units

This dimension measures the extent to which a system is in place to monitor whether service delivery units receive the funds allocated to the sector/services as planned, and covers the last three FYs.

The MoF sets the investment budget, based on decisions of the Regional Fund committee. For recurrent expenditure, salaries of all front-line health and education staff are controlled by the responsible ministry, so, for example, the Ministry of Education manages teachers' salaries. For health, salaries for doctors and nurses are administered by the Health Insurance Institute, although salaries of other staff are administered by Ministry of Health regional offices, as are reports on the consumption of non-financial resources (such as medical supplies).

Municipal governments budget for maintenance and utility expenses of facilities within their jurisdictions through their own annual processes.

While the Ministry of Education has data on central government expenditure at the level of the 3,000+ public schools, the Ministry of Health does not have similar disaggregated data. Overall, there is no consistent and regular upward flow of complete information on the utilization of resources to accountable ministries.

Based on the analysis and supporting evidence, the score for this dimension is D.

8.4. Performance evaluation for service delivery

This dimension assesses the extent to which the design of service delivery programs and the efficiency and effectiveness of those programs is assessed in a systematic manner through independent performance evaluations.

The High State Control (HSC) is still in the early stages of undertaking 'Performance Audits', and continues to receive support from sister institutions in Sweden and the Netherlands in this area. However, in the past three years, more than thirty performance audits have been undertaken, covering most the line ministries. While not all these audits have resulted in individual reports (and as noted elsewhere, there is no PAC in place) they have been published on the HSC website.

Based on the analysis and supporting evidence, the score for this dimension is B.

PI-9. Public access to fiscal information

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

- *Dimension 9.1. Public access to fiscal information (Time period: the last completed fiscal year; coverage - BCG).*

Summary of scores and performance table

Indicator/Dimension	Score	Brief justification for score
PI-9. Public access to fiscal information	Overall score B	

9.1 Public access to fiscal information	Dimension score B	The government makes available to the public seven elements, including five basic elements in accordance with specified timeframes.

9.1. Public access to fiscal information

Table 3.9: Summary of evidence and results of the assessment for PI-9

Element/ Requirements	Met (Y/N)	Evidence used/ Comments
Basic elements		
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 legislature.	Y	The executive budget proposal documentation for financial year 2017, including draft annual budget law was approved by the Council of Ministers on November 4, 2016 and subsequently submitted to the legislature. The package was published on November 9, 2016 on the Ministry of Finance webpage http://www.financa.gov.al/al/legjislacioni/buxheti-thesari-borxhi/buxheti/buxheti-ne-vite/projektbuxhet/projektbuxheti-2017
Enacted budget. The annual budget law approved by the legislature is publicized within two weeks of passage of the law.	Y	The Law Nr. 130/2016 "On the Budget for the year 2017", dated December 15, 2016 was published on the Ministry of Finance website on December 28, 2016. http://www.financa.gov.al/al/raportime/buxheti/buxheti-ne-vite
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.	Y	In year budget execution reports are prepared monthly and quarterly and published in the Ministry of Finance website. The publication of the consolidated monthly reports is done within four weeks. The preparation of the more extended quarterly reports takes generally more time and has been published no later than 3 months after the end of the reporting period. Monthly: http://www.financa.gov.al/al/raportime/thesari/treguesit-fiskal-sipas-buxhetit-te-konsoliduar Quarterly: http://www.financa.gov.al/al/raportime/thesari/buletini-fiskal
Annual budget execution report. The report is made available to the public within six months of the fiscal year's end.	Y	The amended Law on Management of Budget System requires that the annual consolidated budget execution report (ABER) is prepared and submitted for approval to the Council of Ministers not later than 5 months from the end of the fiscal year[13]. The report consists of: a) annual consolidated financial statements, b) annual budget execution report and narrative analysis, c) annual public debt report, d) report on the use of contingency and reserve fund, e) annual PIFC report and f) any other financial report requested by the PIFC Board. The annual consolidated budget execution report approved by the Council of Ministers is published in the official website of the Ministry of Finance[14]. ABER as described above is a new requirement introduced by the 2016 amendment,

[13] Article 62 Law 9936 dated 26.6.2008 on the Management of Budget System as amended by Law 114/2012, dated 7.12.2012 and Law 57/2016 dated 2.6.2016

[14] Article 63 Law 9936 dated 26.6.2008 on the Management of Budget System as amended by Law 114/2012, dated 7.12.2012 and Law 57/2016 dated 2.6.2016.

		therefore would be applied for the first time for the FY 2016. At the time of the assessment the report as described above was not prepared, however it is noted that individual elements have been prepared and published. Presently, the end year budget execution report is centered only on deviations from the appropriation approved by the annual budget against line items by economic classification, and lacks harmonization with line ministries' monitoring reports. The budget execution report for the year 2016 has been published on the MoF website within 3 months from the fiscal year's end. http://www.financa.gov.al/al/raportime/thesari/buletini-fiskal.
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.	Y	The full annual audit findings report is posted on State Audit Institution (SAI) web-site. The audit report on the budget execution for the year 2015 is published as the report is adopted by the legislature on October 20, 2016. (http://www.klsh.org.al/web/RAPORT_P_R_ZBATIMINEBUXHETIT_T_SHTETIT_T_VITIT_2015_2367_1.php. The report indicates that no annual financial statements for the year ended December 31, 2015 are prepared and as a result an adverse opinion has been issued by the auditor on the annual financial statements.
Additional elements		
Pre-budget statement. The broad parameters for the executive budget proposal regarding expenditure, planned revenue, and debt is made available to the public at least four months before the start of the fiscal year	Y	Ministry of Finance instruction for preparation of 2017-2019 MTBP (and the 2017 annual budget) is dated February 29th, 2016 and contains the detailed calendar. In 2016, the Council of of Ministers approved the final expenditures ceilings for MTBP 2017-2019 on July 13. The final MTBP 2017 -2019 is approved and was published in February 2017. The final MTBP 2016 -2018 has been approved and published in February 2016. Parameters for executive budget proposal regarding expenditure, planned revenue, and debt are made available to the public well before the timeframe required by this element.
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.	N	The 'citizens' budget' for the year 2017 was only published on the Ministry of Finance website on December 28, 2016, ie within two weeks from the budget's approval by the legislature. There is no evidence that the citizens' budget was published when budget proposal was submitted to legislature as required by the PEFA Framework. (http://www.financa.gov.al/al/raportime/buxheti/buxheti-i-qytetarit)
Macroeconomic forecasts. The forecasts, as assessed in PI-14.1, are available within one week of their endorsement	Y	These forecasts are updated annually and formalized by a CoM Decision and published in Ministry of Finance website. http://www.financa.gov.al/al/raportime/programimi-ekonomiko-fiskal/kuadri-makroekonomik-dhe-fiskal

		The forecast for FY 2018-2020 was approved by CoMD nr 47 dated January 25, 2017 and published within one week in MoF webpage and official gazette. The forecast for FY 2017-2019 was approved by CoMD nr 80 dated February 3, 2016 and published within one week in MoF webpage and official gazette.
Other external audit reports. All non-confidential reports on central government consolidated operations are made available to the public within six months of submission.	N	Regularity Audit reports conducted by the SAI on the individual public sector entities are made public in the SAI website. The audit report consists of a summary of recommendations provided.

Based on the analysis and supporting evidence, the score for this dimension is B.

3.3 PILLAR THREE: 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 extrabudgetary units. They can also arise from other implicit and external risks such as market failure and natural disasters. This indicator contains the following three dimensions and uses the M2 (AV) method for aggregating dimension scores.

- *Dimension 10.1. Monitoring of public corporations (Time period: last completed fiscal year-2016; coverage – CG-controlled public corporations);*
- *Dimension 10.2. Monitoring of subnational governments (Time period: last completed fiscal year-2016; coverage – subnational government entities that have direct fiscal relationship with CG;*
- *Dimension 10.3. Contingent liabilities and other fiscal risks (Time period: last completed fiscal year-2016; coverage - CG).*

Summary of scores and performance table

Indicator/Dimension	Score	Brief justification for score
PI-10. Fiscal risk reporting	Overall score C	Scoring method M2 (AV)
10.1 Monitoring of public corporations	Dimension score C	Government receives financial reports from most public corporations within nine months of the end of the fiscal year.
10.2 Monitoring of subnational governments	Dimension score C	Financial statements for all subnational governments are published each month on a consolidated basis for all LG and quarterly on a unit level. Auditing of LGUs is conducted once in two years by the Supreme Audit.
10.3 Contingent liabilities and other fiscal risks	Dimension score C	Central government entities and agencies quantify some significant contingent liabilities in their financial reports including the Debt Statistics, the Economic Reform Program, and the supplement to the budget proposal. However, there is no comprehensive report which includes all PPPs and concessions which may at the moment not have direct implications for the budget but may represent a contingent risk.

Fiscal risks are discussed in several reports as presented in table 3.10 below:

Table 3.10: Albania - Selected reports discussing fiscal risks

Title	Fiscal Risks Discussed	Author
National Economic Reform Program 2015–2017	Macroeconomic risks, including sensitivity analysis, specific fiscal risks, financial-sector risks	Ministry of Finance and Ministry of Economy
Budget Report	Specific fiscal risks, including contingencies	Ministry of Finance and Ministry of Economy
Pension Policy Paper, 2014	Long-term risks of pension scheme	Ministry of Social Welfare and Youth
Medium Term Debt Strategy, 2015–2017	Debt risks related to refinancing, interest rates, exchange rates, and operations.	Public-Debt Department, Ministry of Finance
Debt Indicators	Debt and guarantees	Public-Debt Department, Ministry of Finance
Financial Stability Report	Financial-sector risks	Bank of Albania
Annual Report	Guaranteed bank deposits	Deposit Insurance Agency

Source: All documents can be found on the websites of the respective agencies.

10.1. Monitoring of public corporations

This dimension assesses the extent to which information on the financial performance and associated fiscal risks of the central government's public corporations is available through audited annual financial statements. It also assesses the extent to which the central government publishes a consolidated report on the financial performance of the public corporation sector annually.

For the definition of the public corporations as per the GFS 2001 the Assessment used the list of entities included in the IMF Report on the Government Finance Statistics (June 2016) and classified as public corporations, and traced the publication of financial reports in their respective websites, or the National Business Registration Centre. The budget documents show transfers to public corporations and the accounts of each major corporation are publicly available, but the government does not publish a report on the liabilities or financial performance of the sector, even though it has often had to subsidize many of the companies, including those in the electricity and water-supply sectors. There is no report on the finances of the public-corporations sector. The audited financial statements of individual public corporations, like other joint-stock companies, are published by the National Business Registration Centre. For the year 2015, audited financial statements were not published for most public corporations by June 30, 2016.

The Ministry of Economy oversees administering public property, but it does not prepare consolidated financial statements for the government's portfolio of companies or report quasi-fiscal activities. Transfers between the government and public corporations are published in the budget. Public corporations create significant fiscal risks. The governance and financial performance of the companies is weak. They operate under commercial law, but several run losses, receiving direct or indirect support from the budget.

Table 3.11: Financial reports of public corporations

Public corporations	*Date of audited financial statements*	*Total expenditure*	*As a % of total expenditure of public corporations*	*Are contingent liabilities of the public corporation disclosed in the financial report? (Y/N)*
Public corporation	Date of audited financial statement	Total expenditure	Total expenditure as a % of total expenditure of public corporations	Are contingent liabilities of the public corporation included in the financial report? (Y/N)
OSHE	21.07.2016	40,829,083	54%	No
Kesh	30.07.2016	18,688,703	25%	No
Albanian Post	30.06.2016	5,348,319	7%	No
OST	30.07.2016	5,146,870	7%	No
Albpetrol	11.01.2017	3,361,071	4%	No

First Investment Company FAF	14.12.2016	177,193	0%	No
Porti Vlore	27.12.2016	141,299	0%	No
Porti Shengjin	-	95,696	0%	No
Porti Sarande	30.07.2016	68,969	0%	No
Dinamo JSC, Tirane	28.07.2016	34,032	0%	No
Fruit Market of Lushnje	2014	29,446	0%	No
Fruit Market of Shkoder	2008	11,074	0%	No
Durres Port authority	2016	1,781,827	2%	No
Albanian Football Federation	na	340,000	0%	No
Fruit Market of Kukes***	na	na	0%	No
Fruit Market of Berat***	na	na	0%	No
Fruit Market of Vlore***	na	na	0%	No
National Exhibition Centre	na	na	0%	no

Note: *Data are a forecast in the budget projections of the Durres port authority and are included only for comparison of the size in the total public nonfinancial corporation.
**The figure is an estimate based on media reports.
***These are small enterprises, the capital of which is less than 20.000 USD, and considered to be marginal for this calculation.

For most (materiality by value as defined by PEFA 2016 framework) public corporations (as defined by PEFA framework pg.36) the government receives financial reports within nine months of the end of the fiscal year.

Based on the analysis and supporting evidence the score for this dimension is C.

10.2. Monitoring of subnational governments

This dimension assesses the extent to which information on financial performance, including the central government's potential exposure to fiscal risks, is available through the audited annual financial statements of subnational governments.

Reports on the revenue and spending of local governments are published monthly on a consolidated basis and quarterly on a unit level, including spending by function, in the Ministry of Finance's quarterly fiscal statistics. Data on the assets and non-debt liabilities of local governments are not systematically published, although the government is undertaking an inventory of arrears through quarterly surveys and publishing the arrears at the MoF website.

Presently the financial activities and the execution of the annual budget of the local self-government units are subject to external audit every two years, performed either by the Supreme Audit Institution or other legal auditors[15].

The Minister of Finance and Chairman of the Supreme Audit Institution determine by joint instruction the cases when auditing is performed by other legal auditors, including procedures, terms, and external auditing standards to be followed by such auditors. The Chairman of the local self-government unit submits the external audit report to the council as part of the consolidated annual report on budget execution. A copy of the report is submitted to the Supreme Audit Institution and the Ministry of Finance. The Chairman of the local self-government unit prepares an

[15] Under the new Law the auditing of LGUs will be conducted annually.

action plan for the implementation of the recommendations of all external audit reports, and reports regularly to the Council on implementation progress made.

Unaudited reports on the revenues and liabilities and performance of the majority (materiality by value as defined by PEFA 2016 Framework) of subnational governments are published monthly on a consolidated basis and quarterly on a unit level, including spending by function, in the Ministry of Finance's quarterly fiscal statistics in the following link: http://www.financa.gov.al/al/raportime/thesari/treguesit-fiskal-sipas-buxhetit-te-konsoliduar.

Based on the analysis and supporting evidence, the score for this dimension is C.

10.3. Contingent liabilities and other fiscal risks

This dimension assesses monitoring and reporting of the central government's explicit contingent liabilities from its own programs and projects, including those of extrabudgetary units.

Explicit contingent liabilities in the form of state guarantees for various types of loans—are monitored by the General Directorate of Public Debt Management within MoF, and are published quarterly on the website of the MoF as part of the debt statistics. At the end of 2016 publicly guaranteed debt for BCG was at 53.468 million lek or 3.6 percent of GDP. Guarantees in the domestic market represent 56.8 percent of the total guaranteed debt stock, while the guarantees provided by foreign creditors represent 43.2 percent of the guaranteed debt stock. Most of the guarantees have been issued in favor of the energy sector.

The Economic Reform Program 2017-2019 contains information on other contingent liabilities such as Public Private Partnerships (PPP) which create direct liabilities for the budget. The Ministry of Finance estimates and approves, in advance, all concession projects and PPP, and any changes from the perspective of implications, individually or in groups, for budget expenditures, budget deficit, sustainability of public debt and potential contingent liabilities. Recent changes to the organic budget law, with the aim of managing the possible extra budgetary risks, have determined among other things that "The total amount of net annual payments, performed by general government units, which result from concession contracts or public private partnership (PPP), as a rule should not exceed the limit of 5 percent of the actual tax revenue of the previous budget year." If this limit is exceeded, the Council of Ministers takes corrective measures in the revenue side of the budget, "necessary and sufficient to get back within allowed limit during the next 2 budget years". Currently, there are six concession contracts or public private partnership (PPP), which incur budget support and during 2017 the ERP expects starting two new contracts, which will be arranged by the Ministry of Environment and Ministry of Health. Details of the active PPP contracts and the respective annual payment as published in the ERP are shown in the table below:

Table 3.12: Summary of the active PPP contracts and respective annual payments

Line Ministries	Name of concession/PPP	Duration	Total cost (000/ALL)	The average annual cost (000/ALL)
Ministry of Health	Offering the basic control services (Check-Up)	10 year (2015-2024)	7,872,000	787,200
	Offering the Integrated service to provide the personalized set of surgical instruments,material supply in single-use sterile medical surgical rooms , and biological waste treatment and disinfection of surgical rooms	10 year (2015-2025)	12,300,000	1,230,000
	Offering the Dialysis services	10 year (2016-2025)	9,471,000	947,100
	Offering the hospital laboratory services*	10 year (2017-2026)	8,863,000	886,300
Ministry of Environment	Construction, operation and transfer the incinerator of urban waste processing of the Municipality of Elbasan	7 year (2015-2022)	3,338,220	476,186
	Construction, operation and transfer the incinerator of urban waste processing of the Municipality of Fier*	6 year (2017-2022)	4,059,000	676,500
Ministry of Energy and Industry	Construction, Operation and The transfer (BOT) on the river Devoll hydropower, substitute road construction refunds.	5 year (2015 – 2019)	6,765,000	1,291,500
Ministry of Finance	Scan service in the customs	15 year (2014-2029)	13,530,000	897,900
TOTALI			**66,198,220**	**7,192,686**

**The request for financial support for these projects by the Ministry of Environment and Ministry of Health approved by the Ministy of Finance and the contracts are expected to be relevant in 2017*

Source: Economic Reform Program.

Except for the ERP there is no regular comprehensive report on PPPs including projected receipts and payments over the lifetime of the contracts. The 2015 IMF report on Fiscal Transparency estimated signed contracts create total fiscal costs of at least 7 percent of GDP in 2013, while more contracts have been signed since 2013. All individual contracts are published by ATRAKO, the central government agency in charge of supervising concession contracts.

Explicit contingent liabilities in the form of deposit insurance, disasters, crop insurance, ongoing litigation and court cases are not quantified, although these are discussed in the ERP together with the measures the government has taken in the form of reserved allocations in the budget.

Overall, central government entities and agencies quantify some (materiality by value as defined by PEFA 2016 Framework) significant contingent liabilities in their financial reports.

Based on the analysis and supporting evidence, the score for this dimension is C.

PI-11. Public investment management

*This indicator assesses the economic appraisal, selection, costing, and monitoring of public investment projects by the government, with emphasis on the largest and most significant projects. The indicator contains the following four dimensions and uses the **M2 (AV)** method for aggregating dimension scores:*

- *Dimension 11.1. Economic analysis of investment projects (Time period: last completed fiscal year-2016; coverage - CG);*
- *Dimension 11.2. Investment project selection (Time period: last completed fiscal year-2016; coverage - CG);*
- *Dimension 11.3. Investment project costing (Time period: last completed fiscal year-2016; coverage - CG);*
- *Dimension 11.4. Investment project monitoring (Time period: last completed fiscal year-2016; coverage - CG).*

Summary of scores and performance table

Indicator/Dimension	Score	Brief justification for score
PI-11. Public investment management	C+	Scoring method M2 (AV)
11.1 Economic analysis of investment projects	Dimension score C	Economic analyses are conducted to assess **all** major investment projects. However, no documented publication of the results of economic analysis of those major investment projects was provided to the assessment team.
11.2 Investment project selection	Dimension score D*	Prior to their inclusion in the budget, **some** of the major investment projects are prioritized by a central entity, although the proportion cannot be determined.
11.3 Investment project costing	Dimension score C	Projections of the total capital cost of major investment projects, together with the capital costs over a three-year horizon, are included in the budget documents.
11.4 Investment project monitoring	Dimension score B	The total cost and physical progress of major investment projects are monitored by the implementing government unit. Standard procedures and rules for project implementation are in place, and information on implementation of major investment projects is published annually.

Background

For this indicator, major investment projects are defined as projects meeting the following criteria:

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

Projects meeting both PEFA criteria belong to the Ministry of Transport and infrastructure (MoTI). There are around 102 major investment projects (49 domestically funded and 52 externally funded major investment projects) for which the total investment cost of the project amounts to 1 percent or more of total annual budget expenditure. The largest 10 major investment projects belong to the MoTI targeting construction, upgrading, rehabilitation and maintenance of the national road network. MoTI is the line ministry with the largest public investment program, with about 60 percent of the state investment budget. This is followed by the social sector with about 34.6 percent of the state investment budget, with a considerable investment in water supply and community development.

Externally funded investment projects are included in the budget documentation, while PPPs are included only in the cases when explicit budgetary payments are required. A central registry to track all the existing PPP projects has not yet been established, however the authorities estimate that about 170 PPPs have been signed, and so far, the budget is subsidizing only six PPPs[16].

The National Strategy for Development and Integration 2015-2020 (NSDI-II) defines a long-term vision for Albania's transport as "An efficient transport system, integrated in the region and in the EU network, which promotes economic development and the citizens' quality of life". In line with the vison and the main objectives, the new National Transport Strategy and Action Plan 2016-2020 sets up the strategic priorities for Albania's transport system.

11.1. Economic analysis of investment projects

This dimension assesses the extent to which robust appraisal methods, based on economic analysis are used to conduct feasibility or prefeasibility studies for major investment projects based on an analysis of its economic, financial, and other effects; whether the results of analyses are published, and whether the analyses are reviewed by an entity other than the sponsoring entity.

The economic analyses of the major public investments are conducted as established in the document on Public Investment Management Procedures. The procedures are equally applicable to all projects whether they are externally or domestically funded. According to the PIM procedures, there are three levels of assessment/appraisal, including: (i) basis appraisal (*first category of projects*- with total investment costs of up to 100 million lek for infrastructure sector and up to 50 million lek for other sectors; (ii) standard appraisal (*second category projects*- with total investment costs of more than 100 million lek for infrastructure sector and more than 50 million lek for other sectors); and (iii) full appraisal (*third category of projects*[17]-threshold varies by sector; requirements and appraisal specification to be determined on case-by case basis).

The document on PIM procedures provides clear guidance on the requirements and detailed information to be included in the investment project form. For instance, for a *standard appraisal* the cost benefit analysis should include at least two investment alternatives (options) based on identification of three equivalent scenarios- "no investment", "minimum investment" and "significant investment". Large public investment projects belonging to the third category would require a more rigorous cost-benefit analysis. In addition to a full cost-benefit analysis, the procedures require a full or partial feasibility study, scenarios of cash flow and financing, project design alternatives, procurement plan, social and environmental assessments and other assessments as needed[18]. However, the requirements for cost-benefit analysis may be circumvented with the continuing practice of proliferation of smaller projects, many of which should be part of larger projects

Economic analyses are not reviewed by an entity other than the sponsoring entity, nor the Directorate of Public Investment Management (DPIM) at the MoF. Project appraisal is primarily the responsibility of the concerned line ministries (budget institutions) while in the case of donor-funded projects, the task is often performed by external consultants hired under the project. DPIM at the MoF does not review the economic analysis of the major investment project proposals. Their review usually focuses on the extent to which the investment project proposals comply with the MTBP approved ceilings. Staff were not transferred along with the responsibility for PIM to the MoF[19]. Hence, there is a general shortage of staff with the necessary project appraisal skills in the DPIM at the MoF.

[16] PPPs have resulted in a relatively high level of capital stock at 6.1 percent of GDP. PPP projects have been largely concentrated in roads, ports, and energy.

[17] Under this category usually fall projects with a total investment costs of more than 700 million lek, and they are defined as priority projects.

[18] The document on Public Investment Management Procedures, pages 5-8.

[19] The public investment management (PIM) function was transferred from the Ministry of Economic Development (MED) to the MoF, based on the decision of the Council of Ministers (CoM) no.171 dated 3.3.2016.

For instance, an average ministry would submit around 20 new proposals, which would have to be reviewed within two weeks by a unit with less than 10 specialists.

The SAI highlighted in its report[20] that even externally funded projects were not ready for implementation, as reflected by no withdrawal of funds for up to four years. The underlying reason for this is a general shortage of staff with the necessary project appraisal skills in the line ministries, and the lack of real interest in value-for-money at senior management and political levels. Furthermore, the significant delays in project implementation raise questions over the continued validity of the original cost-benefit analysis, where this has been done.

For **all major investment projects** (materiality by value as defined by PEFA 2016 framework) belonging to the MoTI (as per PEFA criteria for this indicator), the technical assessments and cost benefit analyses have been conducted. However, no documented evidence of publication of the results of economic analysis of those major investment projects was provided to the assessment team.

Based on the analysis and supporting evidence, the score for this dimension is C.

11.2. Investment project selection

This dimension assesses the extent to which the project-selection process prioritizes investment projects against clearly defined criteria to ensure that selected projects are aligned with government priorities.

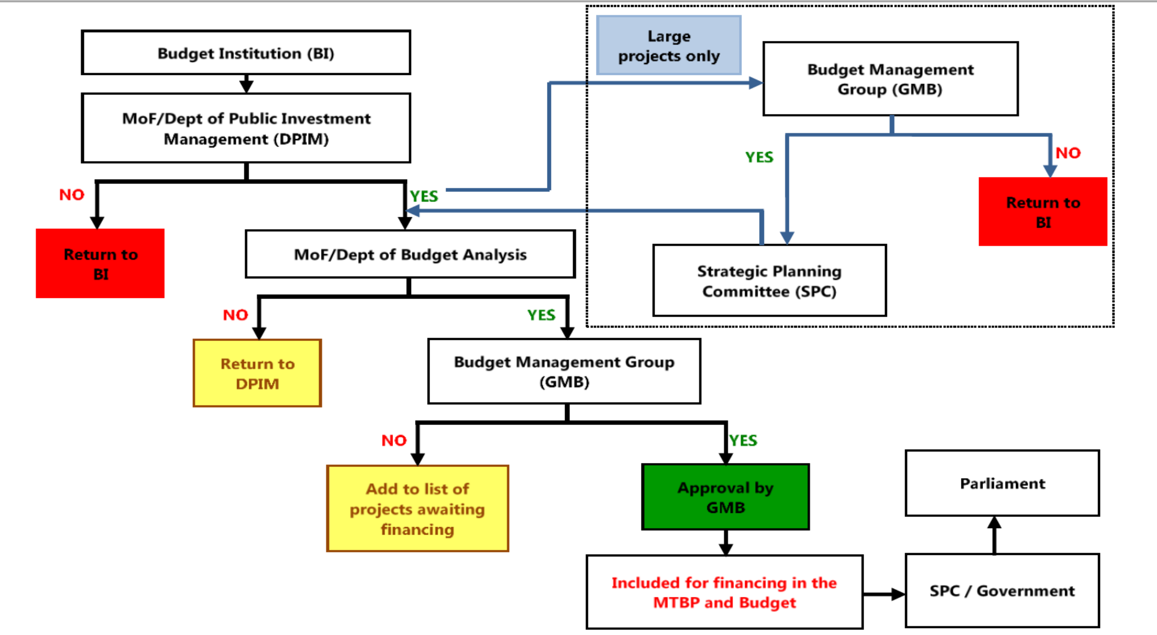
The established procedures for PIM include a structured review and approval process for project appraisals. The document on PIM Procedures establishes the procedures which are equally applicable to all projects whether they are externally or domestically funded. As illustrated in the diagram below, the procedures include identification and preliminary screening, where consistency with policy objectives and project logic are first assessed, and a decision point on whether it is worth proceeding. If the projects pass the preliminary screening, then the procedures also provide for an appraisal to assess whether a project is likely to offer value for money, as well as a requirement to examine project alternatives.

The review process of the major public investment projects includes the following steps: (i) investment project proposals submitted by the budget institutions to be reviewed by the DPIM at the MoF; (ii) review of proposals for large projects by the Budget Management Group (BMG); (iii) review of selected projects with high cost and impact by the Strategic Planning Committee (SPC) chaired by the Prime Minister; (iv) review of investment proposals through the MTBP review from the Department of Budget Analysis and BMG (small projects); and (v) approval and included for financing in MTBP and budget.

The Integrated Planning System (IPS) establishes central responsibility for the review of projects to be included in the MTBP. The DPIM is responsible for the revision of the major investment projects prior to their inclusion in the budget. The established procedures set out project selection criteria for the central unit to apply, but they are not systematically applied and often waived under pressure to maintain capital spending. There were also some comments from government officials that the investment project selection process is somehow politicized. In practical terms, this means that project selection is effectively taking place at the level of line ministries, which prioritize between competing projects proposed by their subordinate units. Project selection criteria are not published.

[20] Supreme State Audit Institution, Budget Execution Report 2014.

Diagram 3.1: Review and Approval Process for Public Investment Projects



Source: Budget Instruction 8, Annex 6: Investment Procedures (as amended), 20/02/2014.

Some major investment projects are prioritized by a central entity prior to their inclusion in the budget, although the proportion cannot be determined.

Based on the analysis and supporting evidence, the score for this dimension is D*.

11.3. Investment project costing

This dimension evaluates whether the budget documentation includes medium-term projections of investment projects on a full-cost basis and whether the budget process for capital and recurrent spending is fully integrated.

The budget includes information on current and capital expenditures classified by programs, but it doesn't include information on total project costs nor a breakdown by subprograms or projects. Although Article 29 of the Organic Budget Law (OBL) stipulates that the budget shall present detailed data on capital projects, including: the full value of the contract, the amount already spent on the project up to the budget year, budget year allocation, estimates for the two outer years and the sources of financing, this information is not provided in the budget documentation. The lack of transparency on total project costs is further undermined by the multitude of projects, many of which are in practice components of what should be larger projects—for example project supervision and land acquisition are routinely identified as separate projects from the main construction component, making it difficult to calculate the full cost of the project.

Upon the Parliament's adoption of the budget, all budget institutions provide a breakdown of capital appropriations by projects that are approved by the MoF and entered as project ceilings in AGFIS. Thus, capital spending is executed and controlled at the level of projects. The MTBP includes the projections of capital spending disaggregated by ministry and program over a three-year horizon. However, the MTBP does not disclose new projects separately and budget, loan, and grant financed projects are within the same ceiling, allowing reallocation from donor financed to domestic financed projects.

In conclusion, projections of the total capital cost of major investment projects, together with the capital costs over a three-year horizon, are included in the budget documents.

Based on the analysis and supporting evidence, the score for this dimension is C.

11.4. Investment project monitoring

This dimension assesses the extent to which prudent project monitoring and reporting arrangements are in place to ensure value for money and fiduciary integrity.

The regulation on reporting, monitoring and evaluation of public investments prescribes a system of reporting and monitoring of capital projects during project implementation. According to the regulations, total project costs as well as physical progress are centrally monitored during project implementation. The regulation aims at providing a standardized form of reporting by the line ministries including the following information: basic information about the projects, total costs, timeframes, financial and physical progress, implementation problems, as well as the extent to which these projects contribute to achievement of sectorial objectives.

All line ministries are obliged to report on the implementation of the capital projects to the MoF, monthly on budget financed and weekly on foreign financed. More specifically, projects with a total investment costs of more than 700 million lek (equivalent of EUR 5 million), which are defined as priority projects will be monitored and reported on in "real time". All line ministries and budgetary institutions implementing those projects will report on weekly basis. Projects with a total investment costs of less than 100 million lek, will be monitored and reported on in block and in accordance to the programs. Subordinated spending units report to the line ministries and subsequently line ministries to the MoF. Then, the MoF prepares a report on the projects' implementation that is submitted to the Board of Investments, a body chaired by the Prime Minister in charge of monitoring the progress and addressing problems hampering project implementation. Once a year, the ministry prepares an annual report on the implementation of the capital projects that is published on its website.

While the regulations for monitoring and reporting is in place, the system for monitoring is not fully comprehensive and the quality of the data has not always been adequate. The assessment team met with representatives from the Albanian Road Authority (ARA), which is the main asset manager of the national road network, and responsible for the construction, upgrading, rehabilitation, and maintenance of the national road network[21]. Some of the main challenges encountered by ARA include: resources for project supervision are severely stretched-a supervisor may monitor 5-10 contracts (in the case of domestically funded contracts) because of the high number of contracts; insufficient experience in procuring and implementing Performance Based Contracts (PBS); insufficient project management team capacities and knowledge on multilateral procurement guidelines; implementation delays and insufficient PBC experience of construction industry[22]. Another important challenge is the lack of sufficient funds and impossibility to finance on time. Hence, it is important to ensure that future spending is aligned with revenues to prevent accumulation of arrears to contractors. This requires a commitment to not start rehabilitation and construction work unless adequate funding has already been committed to it. Due to the above, it could not be stated with confidence that there is a high level of compliance with the standard procedures and rules for project implementation that have been put in place.

As a result, the total cost and physical progress of major investment projects are monitored by the implementing government unit. Standard procedures and rules for project implementation are in place, and information on implementation of major investment projects is published annually.

Based on the analysis and supporting evidence, the score for this dimension is B.

PI-12. Public asset management

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

- *Dimension 12.1. Financial asset monitoring (Time period: last completed fiscal year-2016; coverage - CG);*

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[21]ARA was created by Law nr. 10164 of 15 October 2009. ARA is accountable to the MoTI and is overseen by the ARA Management Board, which consists of seven members: four are governmental representatives from the Ministries of transport, finance, economy, local government, and three are representatives from private sector organizations.

[22] Report No: 91351-AL about Results-Based Road Maintenance and Safety Project (RRMSP), International Bank for Reconstruction and Development. World Bank, March 2015.

- *Dimension 12.2. Nonfinancial asset monitoring (Time period: last completed fiscal year-2016; coverage - BCG).*
- *Dimension 12.3. Transparency of asset disposal (Time period: last completed fiscal year-2016; coverage – CG for financial assets and BCG for nonfinancial assets)*

Summary of scores and performance table

Indicator/Dimension	Score	Brief justification for score
PI-12. Public asset management	**D+**	Scoring method M2 (AV)
12.1 Financial asset monitoring	Dimension score **C**	The government maintains a record of its holdings in **major** categories of financial assets.
12.2 Nonfinancial asset monitoring	Dimension score **D**	Performance is less than required for a C score.
12.3 Transparency of asset disposal	Dimension score **C**	Procedures and rules for the transfer or disposal of nonfinancial assets are established. Information on transfers and disposals is included in budget documents, financial reports, or other reports.

12.1. Financial asset monitoring

This dimension assesses the nature of financial asset monitoring, which is critical to identifying and effectively managing the key financial exposures and risks to overall fiscal management.

The government has a recording of its major financial assets held by the central government. GoA has the following types of financial assets: (i) deposits managed by the Treasury and reported on monthly basis; (ii) loans recorded and managed by the Debt Department at the MoF; (iii) equities, for which Central Bank has done recently an assessment. All financial assets are listed at fair value. Information on the performance of the portfolio of financial assets is not published. As a result, the government maintains a record of its holdings in major (materiality by value as defined in the PEFA 2016 framework) categories of financial assets.

Based on the analysis and supporting evidence, the score for this dimension is C.

12.2. Nonfinancial asset monitoring

This dimension assesses the features of nonfinancial asset monitoring for BCG.

There is no complete and current register of non-financial assets. The MoF's Instruction on Asset Management at Public Sector Units requires that all budget institutions establish a system for proper management of assets, including: clearly assigning responsibilities within the institution for assets management, establishing and regularly updating a register of assets, documenting all purchases, sales, or disposition of assets, and undertaking a complete survey of the assets at least once a year. The register of assets should contain information on the financial and nonfinancial assets, including: description of assets, purchase value, subsequent capital investment that increased asset value, accumulated depreciation, and accumulated maintenance costs.

According to Article 62 of the OBL line ministries are responsible for preparing financial statements, including a balance sheet that comprises financial and nonfinancial assets. Line ministries keep aggregate records, but not detailed ones. The financial statements are subsequently submitted to the Treasury. The Treasury prepares a consolidated government balance sheet that for the fiscal year 2016 is neither audited nor published. The most recent financial statement published at the MoF's website is of year 2014 http://www.financa.gov.al/al/raportime/thesari/pasqyrat-financiare. The balance sheets are not comprehensive, excluding units for implementation of foreign financed projects and self-financed institutions, as well as some units outside treasury single account (TSA) operations. Although the depreciation of fixed assets is not captured in the government operating statement, the consolidated government balance sheet covers depreciation.

The MoF's Public Finance Management Strategy 2014–20 includes a project to implement EPSAS/IPSAS to improve the quality of reporting on assets and a project to establish a complete and current asset registry.

Based on the analysis and supporting evidence, the score for this dimension is D.[23]

12.3. Transparency of asset disposal

This dimension assesses whether the procedures for transfer and disposal of assets are established through legislation, regulation, or approved procedures.

Procedures and rules for the transfer or disposal of nonfinancial assets are well established. The legal and regulatory framework for transfer and disposal of nonfinancial assets include the following: Law No. 7980, dated 27.07.1995 "On the sale of land"; Law no. 10270, dated 22.04.2010 "On the Right of Privatization of State Land in Use and Taxation on the Right to Use it", amended by law 24/2012, dated 15.03.2012; CoM's Decision No. 413, dated 25.06.2014 "On defining criteria and procedures for the sale of land in use, necessary areas and additional functionalities of enterprises, commercial companies, privatized state-owned enterprises, privatized buildings or buildings sold by the former Agricultural Cooperatives as well as buildings constructed on the basis of building permits"; CoM's No.603, dated 31.08.2016 "On some additions to CoM'sD no.413, date 25.06.2014; Instruction no. 5, dated 20.01.2015 pursuant to Law no. 10270, dated 22.04.2010; Law no. 9967, dated 24.07.2008 "On the adoption of the Normative Act with the Law No. 4, dated 09.07.2008" On the privatization and the use of commercial companies and state institutions of special enterprises or facilities, main means and means of turnover Of these enterprises"; CoM'sD No. 926, dated 29.12.2014 "On the criteria for the evaluation of state property, which is privatized or transformed and for the sale procedure"; and Guideline No. 5222, dated 26.06.2015, on the implementation of CoM's D No. 926, dated 29.12.2014 "On the criteria for the evaluation of state property, which is privatized or transformed and for the sale procedure".

During fiscal year 2016, pursuant to CoM's D no. 413, date 25.06.2014, 129 procedures have been finalized for the privatized facilities of former state-owned enterprises and functional land in the total amount of 64,400,000 lek. The Directorate of Public Property conducts periodic reconciliations (every 3 months) with the Ministry of Economic Development, Tourism, Trade and Entrepreneurship, with the Privatization Directorate for the realization of proceeds from the sale of premises and performs periodic reconciliations (each Months) with the Finance Department at the Ministry of Finance for privatized facilities and lands. Information on proceeds from privatization are available within the budget documentation[24].

As a result, procedures and rules for the transfer or disposal of nonfinancial assets are established. Information on transfers and disposals is included in budget documents, financial reports, or other reports.

Based on the analysis and supporting evidence, the score for this dimension is C.

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. It contains three dimensions and uses the M2 (AV) method for aggregating scores.

- *Dimension 13.1. Recording and reporting of debt and guarantees (Time period: at time of assessment; coverage - CG);*
- *Dimension 13.2. Approval of debt and guarantees (Time period: the last completed fiscal year; coverage - CG);*
- *Dimension 13.3. Debt management strategy (Time period: at time of assessment with reference to the last three completed fiscal years; coverage - CG).*

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[23] According to the clarification 12.2:4 of the PEFA Fieldguide, scores above D should only be given where the registers are considered to be comprehensive and current for all material assets covered by the requirements.

24 http://www.financa.gov.al/al/raportime/programimi-ekonomiko-fiskal/raporte-dhe-statistika-fiskale-mujore/statistika-fiskale-mujore

Summary of scores and performance table

Indicator/Dimension	Score	Brief justification for score
PI-13. Debt management	Overall score A	Scoring method M2 (AV)
13.1 Recording and reporting of debt and guarantees	Dimension score B	Domestic and foreign debt and guaranteed debt records are complete, accurate, and updated quarterly. Most information is reconciled quarterly. Comprehensive management and statistical reports covering debt service, stock, and operations are produced on a quarterly basis.
13.2 Approval of debt and guarantees	Dimension score A	Primary legislation grants authorization to borrow, issue new debt, and issue loan guarantees on behalf of the central government to a single responsible debt management entity. Documented policies and procedures provide guidance to borrow, issue new debt and undertake debt-related transactions, issue loan guarantees, and monitor debt management transactions by a single debt management entity. Annual borrowing must be approved by the government or legislature
13.3 Debt management strategy	Dimension score A	A current medium-term debt management strategy covering existing and projected government debt, with a horizon of at least three years, is publicly reported. The strategy includes target ranges for indicators such as interest rates, refinancing, and foreign currency risks. Annual reporting against debt management objectives is provided to the legislature. The government's annual plan for borrowing is consistent with the approved strategy.

13.1. Recording and reporting of debt and guarantees

This dimension assesses the integrity and comprehensiveness of domestic, foreign, and guaranteed debt recording and reporting. A system to monitor and report regularly on the main features of the debt portfolio is critical for ensuring data integrity and effective management, such as accurate debt service budgeting, making timely debt service payments, and ensuring well-planned debt rollovers.

The General Directorate on Public Debt Management (GDPDM) at the Ministry of Finance undertakes all aspects of the planning, risk assessment and operations involving domestic and foreign debt and government guarantees. The objective of this function is to achieve the best mix of budgetary, domestic, and foreign borrowing and loan guarantees to minimize the cost and risk of the government's debt.

Domestic and foreign debt and guaranteed debt data are recorded, monitored, and published in Quarterly and annual debt bulletins available at the website of the Ministry of Finance. Comprehensive management and statistical reports cover debt service, stock, and operations involving public and publicly guaranteed debt of general and central government. External debt is broken down by maturity (long-term or short-term), currency, types of creditors, and interest rates. Domestic debt is broken down by maturity (weighted average maturity and the maturity profile), types of interest rates, and by holders of debt. For guarantees, only aggregate external and domestic stocks are outlined.

The government issues regular announcements of its debt activities. Under the government's current accounting rules, debt charges are recorded on an accrual basis of accounting. Reconciliations of domestic debt are performed monthly, while external debt can take up to two months to be reconciled. The time lapse between a disbursement transaction and its record in the information technology debt system is up to one month for foreign debt and up to two days for domestic debt. The GDPDM employs the Debt Management Financial Analysis System for all external debt and uses stand-alone Excel spreadsheets for managing domestic debt and guarantees. By the end of 2016 Domestic Debt was also recorded in DMFAS. The debt records are accurate and complete.[25]

In summary, domestic and foreign debt and guaranteed debt records are complete, accurate, and updated quarterly. **Most** (materiality by value as defined in the PEFA 2016 Framework) information is reconciled quarterly. Comprehensive management and statistical reports covering debt service, stock, and operations are produced and published quarterly.

Based on the analysis and supporting evidence the score for this dimension is B.

13.2. Approval of debt and guarantees

This dimension assesses the arrangements for the approval and control of the government's contracting of loans and issuing of guarantees, which is crucial to proper debt management performance.

The legal framework for central government debt management is included in the Constitution, the Law on State Borrowing, State Debt and State Loan Guarantees (2006), and the Law on Management of the Budgetary System (2016). The Constitution clarifies that central government can take and guarantee loans and financial credits, but only "when so authorized by law" (Article 156). In addition, Article 158 requires the Council of Ministers to present a report on central government debt from the previous year to Parliament.

The Law on Government Loan, Debt and Loan Guarantees provides clear authorization to the Minister of Finance to borrow and issue loan guarantees on behalf of the government. The Minister is also authorized to repurchase debt and to enter derivative contracts, provided they comply with the debt management strategy. Article 9 of the Law restricts central government borrowing to specific purposes, requires annual reporting to the Assembly (as part of the larger report on budget execution, to include a description of debt management transactions over the year, and how those have affected the cost and risk of the total debt portfolio), and the annual preparation of a medium-term debt management strategy, to be approved by the Council of Ministers. The Law on Management of the Budgetary System states that loans and loan guarantees must be approved by the Council of Ministers. When the proposed annual budget is submitted to the Assembly, the Minister shall provide a statement on contingent liabilities. This Law also sets a new fiscal rule, that each year, the debt to GDP ratio should not exceed the debt to GDP ratio of the previous year until the debt to GDP ratio reaches 45 percent.

Government borrowings and debt-related transactions are managed by the General Directorate of Public Debt Management (GDPDM) within the MoF, headed by a Director General who reports to the Deputy Minister of Finance. GDPDM functions as both the principal debt management entity and the principal guarantee entity of GoA. Among its responsibilities are to manage central government debt (both domestic and external), annually prepare a medium-term debt management strategy on a rolling basis, prepare the annual debt management report to the Assembly, monitor and approve local government borrowing, issue loan guarantees, and on-lend borrowed funds. It is organized into two divisions, each headed by a Head of Division. These are the Borrowing Division, and the Strategy and Debt Monitoring Division. Preparation of loan guarantees and on-lending, and monitoring and approval of local government borrowing are handled by a designated unit under the Strategy and Debt Monitoring Division. Formally, the Minister approves all borrowings, which are steered by the medium-term debt management strategy, approved by the Council of Ministers. GDPDM prepares an annual report on the public debt and its composition, which is approved by the Council of Ministers and submitted to the Assembly as a part of the consolidated annual budget implementation report.

Based on the analysis and supporting evidence the score for this dimension is A.

13.3. Debt management strategy

This dimension assesses whether the government has prepared a debt management strategy (DMS) with the long-term objective of contracting debt within robust cost–risk trade-offs. Such a DMS should cover at least the medium

[25] Recently the GDPDM upgraded the system to DMFAS 6 and included domestic debt data as well.

term (three to five years), and it should include a description of the existing debt portfolio's composition and evolution over time.

The assessment covers the MTDS strategies for 2016-2018.

The Medium Term Debt Management Strategy (MTDMS) for Albania is updated and published by the Ministry of Finance on an annual basis. For the three consecutive strategies, there has been a continuation of the same overall objectives of debt management, which are specified as:

1. To ensure the government financing needs, as well as the needs for servicing the current debt with the lowest cost subject to maintaining a prudent degree of risks exposure;
2. To develop the primary and secondary market of government securities.

The MTDMS assumptions are derived and are therefore consistent with the macro-fiscal framework approved by the Parliament for each of the 3-year rolling period and with the monetary policies implemented by the Bank of Albania over the medium term. The last MTDMS was approved by CoM on April 2016 and is part of the annual budgeting process.

The MTDMS scope is that of Central Government debt, which includes the state debt and the guaranteed state debt. The purpose of the MTDMS is to guide borrowing towards instruments with favorable cost and subject to acceptable levels of risk exposure for certain levels of funding. Funding levels are determined in the macro-fiscal framework and the Medium Term Budget Plan, which is divided in Annual Borrowing Plans. The financing strategy of the MTDMS is consistent with the borrowing plan detailed in domestic and foreign financing in the consolidated fiscal accounts which are presented at the parliament as part of the annual budget law.

The MTDMS includes a description of the existing debt portfolio's composition and evolution over the last 5 completed years (2010-2015). The MTDMS considers the market risks being managed—including the interest rate, exchange rate, refinancing/rollover risks liquidity risk and refinancing risk—and uses the approved macro fiscal framework's assumptions in terms of fiscal and debt projection.

The last MTDMS indicates strategic objectives in terms of quantitative targets for the major indicators of risk to be achieved in 2018 as per table 3.10 below:

Table 3.13: Objectives of the main risk indicators

Risk Type	Risk Indicator	Indicator 2015	Objective* (2018)
Refinancing Risk	ATM Domestic Debt (in years)	2.0	Min. 2.2
	ATM Total Debt (in years)	4.9	Min. 4.7
	Domestic debt matured in 1 year (% of the total)	55.9%	Maks. 46.0%
	Total debt matured in 1 year (% of the total)	31.6%	Maks. 26.0%
Interest Rate Risk	ATR Domestic Debt	1.8	Min. 2.0
	ATR Total Debt	3.2	Min. 3.0
	Domestic debt reevaluated within 1 year (% of the total)	67.7%	Maks. 60.0%
	Total debt reevaluated within 1 year (% of the total)	58.1%	Maks. 55.0%
Exchange Rate Risk	Foreign Currency Debt (% of the total)	48.5%	50.0%-55.0%

Source: *Ministry of Finance*

Annual reporting on debt management against the strategic objectives set in the MTDMS is part of the annual budget package sent to the parliament at the end of each year for the forthcoming year. The project-budget year supplement of 2017 contained a chapter on the debt management in 2016, and it assessed that all the strategic objectives of the MTDMS had been met. It also outlined the financing strategy for year 2017.

Based on the analysis and supporting evidence the score for this dimension is A.

3.4 PILLAR FOUR: 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 the following three dimensions and uses ***M2 (AV)*** *for aggregating dimension scores.*

- *Dimension 14.1. Macroeconomic forecasts (Time period: the last three completed fiscal years-2014, 2015, 2016; coverage – whole economy);*
- *Dimension 14.2. Fiscal forecasts (Time period: the last three completed fiscal years-2014, 2015, 2016; coverage - CG);*
- *Dimension 14.3. Macrofiscal sensitivity analysis (Time period: the last three completed fiscal years-2014, 2015, 2016; coverage - CG).*

Summary of scores and performance table

Indicator/Dimension	Score	Brief justification for score
PI-14. Macroeconomic and fiscal forecasting	Overall score A	Scoring method M2 (AV)
14.1 Macroeconomic forecasts	Dimension score A	The government prepares forecasts of key macroeconomic indicators, which, together with the underlying assumptions, are included in budget documentation submitted to the legislature. These forecasts are updated at least once a year usually formalized by a mid-year normative act. The forecasts cover the budget year and the two following fiscal years. The projections have been reviewed by the IMF as part of the IMF budget support for the period 2014-2017.
14.2 Fiscal forecasts	Dimension score B	The government prepares forecasts of the main fiscal indicators, including revenues by type, expenditure by type, and the budget balance, for the budget year and two following fiscal years. These forecasts, together with the underlying assumptions, are included in the macrofiscal framework which is approved by CoM decision and in the annexes of the budget law proposal submitted to the legislature and approved by parliament.
14.3 Macro-fiscal sensitivity analysis	Dimension score A	The government prepares a range of fiscal forecast scenarios based on alternative macroeconomic assumptions, and these scenarios are published, together with its central forecast as part of the government's Economic Reform Program.

14.1. Macroeconomic forecasts

This dimension assesses the extent to which comprehensive medium-term macroeconomic forecasts and underlying assumptions are prepared for informing the fiscal and budget planning processes and are submitted to the legislature as part of the annual budget process.

Macroeconomic forecasts over a three-year horizon covering the budget year and the two following fiscal years are conducted annually and updated at least once during the year. The unit in charge of the macroeconomic forecast is the Macroeconomic Department at the Ministry of Finance. The macroeconomic forecasts include main economic indicators as detailed in the table 3.11 below, and are sent to the Parliament together with the annual budget package. Together with the forecasts, the supplement to the draft budget sent to the Parliament contains main economic parameters and hypotheses/underlying assumptions used in the projections in a clearly stated and defined manner. For the years of assessment, 2014-2016, Albania has been under an IMF program, which meant that macroeconomic forecasts were reviewed and agreed with the IMF. The Law no. 57 date 02.06.2016 "On Management of the Budget System", requires the GDP forecast to be not higher than the last IMF World Economic Outlook forecast published when the budget proposal is sent to the parliament.

The macroeconomic framework is revised by the MoF in connection with the submission of the supplementary estimates mid-year, published in the MoF website and approved by the Council of Ministers. This process informs the submission of the Normative Budget Act sent to the Parliament by mid-year or by end year.

Table 3.14: Macroeconomic forecasts for the budget 2016

Indicators	Njësia	2012	2013	2014 est	2015 est	2016 For.	2017 For.	2018 For.
Population	Million	2.90	2.90	2.89	2.89	2.89	2.90	2.91
Inflation (average)	%	2.0	1.9	1.6	2.5	2.8	3.0	3.0
GDP Deflator	%	1.0	0.3	1.4	2.5	2.8	3.0	3.0
Exchange rate (Average)	Lek / USD	108.2	105.7	105.5	119.5	119.5	119.5	119.5
Exchange rate (Average)	Lek / Euro	139.0	140.3	140.0	141.0	141.0	141.0	141.0
The conversion factor according the Purchasing Power Parity (PPP)	Lek / USD	44.4	44.8	45.5	45.5	45.5	45.5	45.5
Real GDP Growth	%	1.4	1.0	2.1	3.0	4.0	4.5	4.5
GDP	Lek billion	1,332.8	1,350.1	1,413.9	1,492.0	1,596.0	1,717.9	1,848.9
GDP	USD billion	12.3	12.8	13.4	12.5	13.4	14.4	15.5
GDP	Euro billion	9.6	9.6	10.1	10.6	11.3	12.2	13.1
GDP per capita	Lek thous.	459.6	466.1	481.9	496.9	519.3	550.3	586.3
GDP per capita	USD	4,247.9	4,410.1	4,568.6	3,945.2	4,122.8	4,369.1	4,654.4
GDP per capita	Euro	3,306.6	3,322.7	3,442.7	3,556.2	3,763.2	3,988.0	4,248.3
GDP per capita	USD-PPP	10,361.4	10,357.4	10,740.9	11,277.5	12,003.4	12,856.5	13,767.4
Unemployment	%	14.1	17.1	17.3	16.4	15.3	13.9	12.4
Total revenues	% of GDP	24.7	24	26	27.8	27.8	27.9	27.9
Total expenditures	% of GDP	28.2	28.9	32.3	31.7	30.3	29.2	28.5
Overall Deficit	% of GDP	-3.4	-4.9	-6.3	-3.9	-2.6	-1.3	-1
Primary balance	% of GDP	-0.3	-1.7	-3.4	-0.6	0.6	1.7	2
Current fiscal balance	% of GDP	1.2	-0.1	0.9	2	3	4	4.6
Net borrowing	% of GDP	3.5	4.1	6.2	3.8	2.6	1.3	1
Total Public Debt	% of GDP	62.1	70.1	72	71.8	68.9	65.7	62.1
Public debt of the general government	% of GDP	58.1	61.1	65.2	65.6	63.8	60.6	57.3
Public debt outside fiscal indicators	% of GDP	4	9	6.9	6.2	5.1	5.1	4.8
Current account balance	% of GDP	-10.2	-10.6	-11.9	-11.8	-12.4	-12.5	-12.3
Trade balance in G&S	% of GDP	-18.6	-17.8	-18.3	-18	-18	-17.5	-16.7
Goods	% of GDP	-20.8	-17.7	-19.7	-20.2	-20.2	-19.8	-18.9

Exports	% of GDP	15.9	18	17.1	17.7	18	18.3	18.8
Imports	% of GDP	-36.7	-35.7	-36.7	-37.9	-38.2	-38.1	-37.7
Balance of Payments	% of GDP	0.8	1.1	2.2	2.1	2.1	2.2	1.9

Source: Ministry of Finance: Macro-fiscal framework, approved by CoM decision no 68 date 28.01.2015.

Based on the analysis and supporting evidence the score for this dimension is A.

14.2. Fiscal forecast

This dimension assesses whether the government has prepared a fiscal forecast for the budget year and the two following fiscal years based on updated macroeconomic projections and that reflects government-approved expenditure and revenue policy settings.

Based on the approved macrofiscal framework, the Fiscal Policy Directorate at the Ministry of Finance prepares the forecasts for the revenues. Two main approaches are employed: (i) the top down approach which considers the macroeconomic parameters such as growth, inflation, various tax elasticities, imports etc., and (ii) the bottom up approach which projects each revenue type through simple time series models. To these forecasts are added the effects of new policies, which are clearly identified in the supplement to the budget proposal for the forthcoming year only (the effects over 2 years forward are assumed constant but not explained). The supplement to the budget proposal submitted to the legislature also contains information on the current year's revenue performance and expectations for future performance. The updated revenue projections are presented by revenue type and clearly identify underlying assumptions including rates, coverage, and projected growth.

The updated expenditure estimates are prepared by the Budget Directorate of the Ministry of Finance. These expenditure estimates are based on the updated macrofiscal framework approved by CoM decision and consider post–budget year estimates of the preceding approved budget, adjusted to consider the budget and medium-term fiscal impact of any post-budget expenditure policy decisions. Variations between the final approved fiscal forecast and the projections included in the previous year's approved budget are not separately identified, explained and published as part of the annual budget process.

Based on the analysis and supporting evidence the score for this dimension is B.

14.3. Macro fiscal sensitivity analysis

This dimension assesses the capacity of governments to develop and publish alternative fiscal scenarios based on plausible unexpected changes in macroeconomic conditions or other external risk factors that have a potential impact on revenue, expenditure, and debt.

Currently the MoF does not present macrofiscal sensitivity analysis or a debt sustainability analysis when the annual budget package is presented to the Parliament. This analysis is not presented as part of the approval of the macrofiscal framework (MTFF).

The Economic Reform Programme (ERP) 2017-2019 contains a separate chapter (Chapter 3.6) discussing two alternative scenarios for sensitivity analysis and the expected implications on the fiscal framework as well as fiscal policy possible adjustments. Each of the alternative scenarios assumes that a set of negative (in case of a "pessimistic" scenario) or positive risks (in case "optimistic" scenario) will materialize. This set of risks assumes deviation from the respective forecasts of baseline scenario for some key macroeconomic indicators, including lending to the economy, the performance of the Eurozone economy with the consecutive effects on the exports of goods and services, on remittances, on various foreign capitals flows as well as exchange rate, the measures of the comprehensive impacts and the pace of the structural policy reforms planned for the medium term period ahead. The overall net effect of all the assumed risks, negative or positive, is quantified and introduced in terms of a single variable, real economic growth. Therefore, the alternative scenarios are based on different economic growth assumptions from the baseline for each year under the horizon of the ERP.

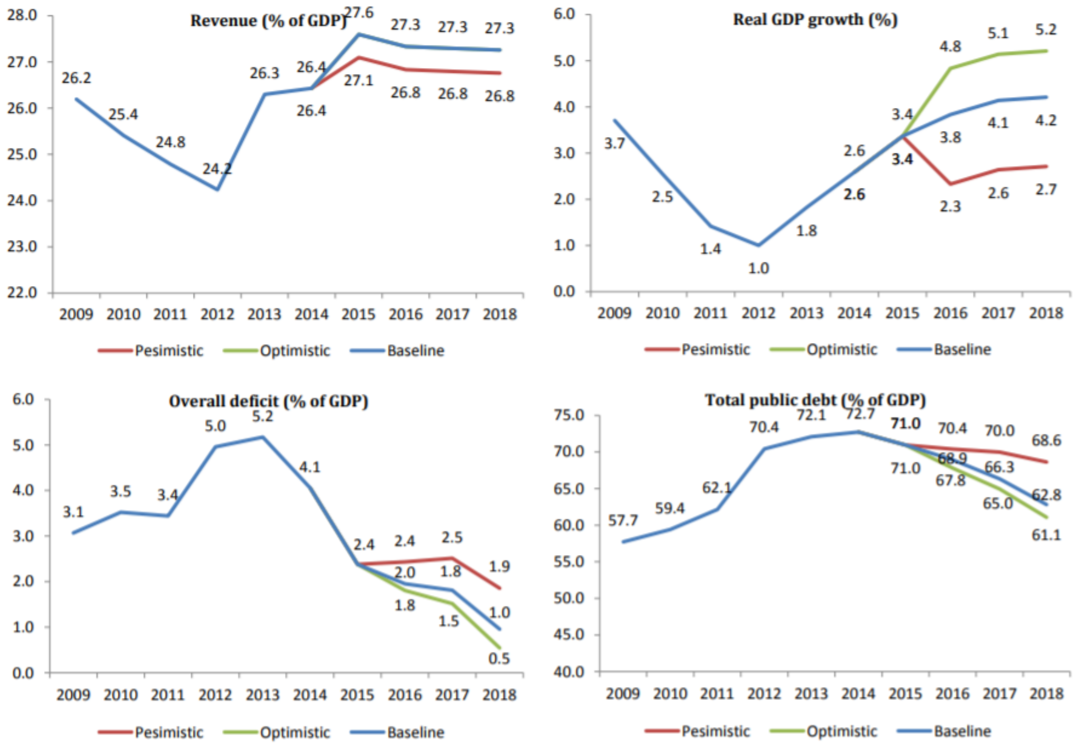
These two alternative macroeconomic scenarios imply different outcomes for fiscal revenues because of lower nominal GDP and a lower tax elasticity than the baseline in the case of the pessimistic scenario. Based on these trajectories (outcomes) for revenues, public deficit and debt are constructed and presented. The main items of the expenditures which are planned to absorb most of the fiscal effects in the case of each alternative scenario are “contingencies” included in the baseline scenario and "capital expenditures with domestic financing". The higher needs for deficit financing in the case of a “pessimistic” scenario is expected to be covered by higher domestic borrowing. A similar analysis is conducted in the two preceding ERP’s.

Table 3.15: Alternative macroeconomic and fiscal scenarios in the ERP

	2010	2011	2012	2013	2014	2015 Proj.	2016 Proj.	2017 Proj.	2018 Proj.	2019 Proj.
Real GDP growth (%)										
Baseline	3.7	2.5	1.4	1.0	1.8	2.6	3.4	3.8	4.1	4.2
Pesimistic								2.3	2.6	2.7
Optimistic								4.8	5.1	5.2
Nominal GDP (in billion Lek)										
Baseline	1,240	1,301	1,333	1,350	1,394	1,435	1,502	1,596	1,707	1,833
Pesimistic							0	1,573	1,659	1,755
Optimistic							0	1,612	1,740	1,886
Revenue (% of GDP)										
Baseline	26.2	25.4	24.8	24.2	26.3	26.4	27.6	27.3	27.3	27.3
Pesimistic							27.1	26.8	26.8	26.8
Optimistic							27.6	27.3	27.3	27.3
Overall fiscal deficit (in billion Lek)										
Note: The overall fiscal deficit in nominal terms for each alternative scenatio is targeted to be more (less) in the case of the pesimistic (optimistic) scenario than the baseline nominal deficit by 50% of the total revenue diference between the baseline and each respective alternative scenario										
Baseline	-38.0	-45.8	-45.9	-66.9	-72.1	-58.2	-35.7	-31.2	-30.9	-17.5
Pesimistic							-35.7	-38.3	-41.7	-32.6
Optimistic							-35.7	-29.1	-26.4	-10.3

Source: Albania ERP 2017-2019.

Figure 3.1: Fiscal outcome projections under alternative scenarios



Source: Albania ERP 2017-2019.

In addition to fiscal forecasts in alternative macroeconomic scenarios, the ERP contains a debt sustainability analysis with projections of debt under a baseline scenario, and under adverse exchange rate and interest rate scenarios presented in the same format as the baseline. These documents are prepared annually on a rolling basis, are publicly available and have full consistency with the macrofiscal Framework.

Based on the analysis and supporting evidence the score for this dimension is A.

PI-15. Fiscal strategy

This indicator provides an analysis of the capacity to develop and implement a clear fiscal strategy. It also measures the ability to develop and assess the fiscal impact of revenue and expenditure policy proposals that support the achievement of the government's fiscal goals. It contains the following three dimensions and uses the ***M2 (AV)*** *method for aggregating dimension scores:*

- *Dimension 15.1. Fiscal impact of policy proposals (Time period: the last three completed fiscal years-2014, 2015, 2016; coverage - CG);*
- *Dimension 15.2. Fiscal strategy adoption (Time period: the last completed fiscal years-2016; coverage - CG);*
- *Dimension 15.3. Reporting on fiscal outcomes (Time period: the last completed fiscal year-2016; coverage – CG).*

Summary of scores and performance table

Indicator/Dimension	Score	Brief justification for score
PI-15. Fiscal strategy	Overall score A	Scoring method M2 (AV)
15.1 Fiscal impact of policy proposals	Dimension score B	The government prepared estimates of the fiscal impact of all proposed changes in revenue and expenditure policy for the budget year and the two forthcoming years during the period of assessment 2014-2016. However, the impact of the policy changes regarding expenditures and some revenues were not articulated clearly in the budget proposals submitted to the Parliament. Policy changes adopted after the budget process are not consistently estimated and published
15.2 Fiscal strategy adoption	Dimension score A	The government has adopted, submitted to the legislature, and published a current fiscal strategy that includes explicit time-based quantitative fiscal goals and targets together with qualitative objectives for year 2016 and the following two fiscal years. These targets are included in the macro fiscal framework and in the annexes to the annual budget Law 2016. Albania has adopted a fiscal rule in 2016 which is consistent with the targets mentioned above.
15.3 Reporting on fiscal outcomes	Dimension score A	As part of the supplement to the Budget proposal for year 2017, the Ministry of Finance prepared an assessment of its achievements against stated fiscal objectives and targets as amended by the normative act in December 2016. The assessment includes an explanation of factors which led to deviations from the approved objectives such as revenue shortfalls, delays with public investments, and the resulting effect on the targets as well as proposed corrective actions. The report also sets out actions planned by the government to address any deviations, as prescribed in legislation.

15.1. Fiscal impact of policy proposals

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

The period under assessment covers years 2014, 2015 and 2016, a period in which Albania was part of the IMF program. Being under an IMF program implies the country estimated the effects of revenue and expenditure policy proposals for the current and forthcoming years. As part of the annual budget preparation the Ministry of Finance prepared a detailed assessment of the revenue measures to undertake each year to reach the program's target. The effects of all policy changes were clearly presented for the forthcoming year (year T) and assumed constant for the other two forthcoming years (T+1 and T+2). For the outer years, the impact is not separately presented under each revenue item. The fiscal impact of all policy changes was assessed and was submitted to the parliament as part of the supplement to the budget proposal and published. For changes which happened after the budget submission, such as the removal of small business tax in 2016, the impact was assessed internally but the MoF did not publish its effect on the affected year(s). These policy changes during the period in consideration have been limited in number.

For changes in expenditure policy proposals, major changes as regard reforms such as clearance of arrears, decentralization reform, salary increases are fully costed in the budget and estimated for the two following fiscal years. Details of the costs and assumptions of policy proposals approved by government are included in the budget documentation, submitted to the legislature, and published on the MoF website. The annual budget package includes a breakdown of expenditure by major economic classification – current (by category) and capital – and an explanation of variable factors that affect the cost estimates, such as number of staff in the public administration, social assistance recipients and capital investment. The budget proposal also includes the fiscal impact of policy proposals related to social security funds (e.g. increases in social security contributions and/or benefits), extrabudgetary units and local governments.

As part of the annual budget package, all capital expenditure items are presented to the legislature as an annex to the budget proposal. The budget proposal for year 2015 contains estimates for the two following years (these estimates are available for year 2016 but published based on programs, not projects). In the period 2014 and 2016 the space for new investments has been very limited, as Albania struggled to stabilize its public debt and available spending space was allocated to ongoing projects signed before 2014. In 2016 only 15 percent of the capital budget was financing new projects. For major capital projects, proposals do not include the recurrent costs associated with capital investment projects. In particular, maintenance of the national road network has been systematically underfunded, undermining the sustainability of the sector.

Significant fiscal implications of actions taken outside the budget process are not regularly estimated, submitted to the legislature, and published. These include expenditure policy decisions after the budget has been approved with effect in the next fiscal years.

Table 3.16: Fiscal impact of policy proposals submitted during budget preparation

Ministry	Name of proposal	Fiscal impact	Revenue/Cost information
Revenue policy proposals			**Do the proposals present total revenues to be collected for all budget years**
MoF 2014	VAT exemption of certain pharmaceuticals and medical service	- 1 billion lek	Assumed constant as percent of GDP in outer years
MOF 2014	Removal of VAT exemptions on oil	+1.5 billion lek	Assumed constant as percent of GDP in outer years
	Increase in excises for alcohol and tobacco gradual from 2014 to 2017	+3.8 billion lek	Yes
MoF 2014	Increase in car circulation tax	+5.6 billion lek	Not assessed
MoF 2014	Introducing progressive tax	-1.5 billion lek	Not assessed
MoF 2014	CIT increase to 15% from 10%	+ 7 billion lek	Assumed constant as percent of GDP in outer years
MoF 2015	Increase in PIT other than wages from 10% to 15%	+5 billion lek	Assumed constant as percent of GDP in outer years
MoF 2015	Increase in circulation tax	+6.6 billion lek	Not assessed
MoF 2015	Increase in excises for tobacco	+0.2 billion lek	Not assessed
MoF 2015	Lowering of the mineral rent for minerals processed in Albania	-0.045 billion lek	Not assessed
MoF 2015	Exemption from circulation tax for fishery	Not assessed	Not assessed

MoF 2015	Exemption on the VAT of Premium in the non-life insurance sector	- 0.22 billion lek	Not assessed
MoF 2015	) % tax for imports serving as inputs for agriculture	-0.232 billion lek	Not assessed
MoF 2015	Exemption of excises for natural bitumen	-0.015 billion lek	Not assessed
MoF 2015	Lowering of the customs tax for new car pneumatics	-0.33 billion lek	Not assessed
MoF 2016	Change in excises for beer	-17 billion lek	Not assessed
MoF 2016	Increase on a tax on premium insurance from 3% to 10%	0.7 billion lek	Not assessed
MoF 2016	Change in the application of mineral rent on quantity from previous value based application	0.4 billion lek	Not assessed
MoF 2016	Tax on luxury cars	0.4 billion lek	Not assessed
MoF 2016	Increase in insurance contributions for certain professions	1.1 billion lek	Not assessed
Sub-total			n.a.

Expenditure policy proposals			**Do the proposals present full costs (including current costs of capital projects) for all budget years**
MoF 2014	Increase in wages of the judiciary, police, and assistance	0.3billion lek	The budget proposal discusses the effects for 2015, noting that there will be savings from staff cuts in the public administration
MoF 2014	Decentralization reform		Not discussed
	Clearance of arrears		Fully costed and included in the budget estimates

Source: Supplements to the budgets for years 2014, 2015 and 2016.

The government prepares estimates of the fiscal impact of all (materiality by value as defined by PEFA 2016 Framework) proposed changes in revenue and expenditure policies for the budget year and the following two fiscal years.

Based on the analysis and supporting evidence the score for this dimension is B.

15.2. Fiscal strategy adoption

This dimension assesses the extent to which government prepares a fiscal strategy that sets out fiscal objectives for at least the budget year and the two following fiscal years.

The period under assessment includes fiscal year 2016.

During 2016 Albania was in the third year of the financing program with the IMF. The agreements on this program set the targets to be achieved by the government in terms of primary and overall balance and public debt. The medium term fiscal framework which is approved by CoM decision sets out the targets on the above indicators to be achieved during the budget year and the following two years. Consistent with the macrofiscal framework, the annual budget law formalizes this deficit target and sets the path for the two forthcoming years. The MTFF has been submitted to legislature and it contains specific numerical targets for all three years.

Based on the analysis and supporting evidence the score for this dimension is A.

In 2016, the "Law on management of the budget system" set a new fiscal rule for the country, which leaves the specification of the quantified targets for the public debt to the macrofiscal framework and the annual budget process, but prevents public debt increase each year by including specific contingencies in the expenditure categories.

15.3. Reporting on fiscal outcomes

This dimension assesses the extent to which the government makes available—as part of the annual budget documentation submitted to the legislature—an assessment of its achievements against its stated fiscal objectives and targets.

As part of the supplement to the Budget proposal for year 2017, the MoF prepares an assessment of its achievements against stated fiscal objectives and targets as amended by the normative act in December 2016. The assessment includes an explanation of factors which lead to deviations from the approved objectives such as revenue shortfalls, delays with public investments, and the resulting effect on the targets. The supplement also sets out actions planned by the government to address any deviation, as prescribed by legislation. The supplement is published together with the approved budget in the MoF's website. This section of the supplement to the budget proposal includes a detailed assessment for each revenue and expenditure category as per the main heads of the budget classification.

Based on the analysis and supporting evidence the score for this dimension is A.

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

- *Dimension 16.1. Medium-term expenditure estimates (Time period: last budget submitted to the legislature, budget for 2017; coverage - BCG);*
- *Dimension 16.2. Medium-term expenditure ceilings (Time period: last budget submitted to the legislature, budget for 2017; coverage - BCG);*
- *Dimension 16.3. Alignment of strategic plans and medium-term budgets (Time period: last budget submitted to the legislature, budget for 2017; coverage - BCG);*
- *Dimension 16.4. Consistency of budgets with previous year's estimates (Time period: the last medium-term budget and the current medium-term budget).*

Summary of scores and performance table

Indicator/Dimension	Score	Brief justification for score
PI-16. Medium-term perspective in expenditure budgeting	C+	Scoring method M2 (AV)
16.1. Medium-term expenditure estimates	Dimension score A	The MTBP for 2017-19, and the annual budget for 2017 include expenditure estimates for 2017, 2018, 2019 broken down by institution, program, function, and broad economic categories.
16.2. Medium-term expenditure ceilings	Dimension score C	Aggregate expenditures ceilings for 2017-19 MTBP were approved by the Government in January, before the first budget circular was issued in February. Ministry level expenditures ceilings for 2017 -19 MTBP were approved by the Government in March, after the first budget circular was issued in February.
16.3. Alignment of strategic plans and medium-term budgets	Dimension score C	Medium-term strategic plans are prepared by some ministries. Some expenditure policy proposals in the annual budget estimates align with strategic plans
16.4. Consistency of budgets with previous year's estimates	Dimension score D	Analysis of the deviations between the second year expenditures estimates from the past year and the first year of the current year is produced for internal purposes only and is not included in the budget documentation

16.1. Medium-term expenditure estimates

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

The budget process in Albania has a medium-term perspective. The medium-term budget framework is prepared and serves the basis for the annual budget. Expenditure estimates for the MTBP cover the next budget year and the following two fiscal years. The estimates are broken down by institution (administrative classification), program, function, and broad categories of economic classification (personnel expenses, other current spending, capital investment, including that financed from domestic sources and foreign financed). The MTBP covers general government budget, including the state budget, social insurance fund, health insurance fund, and the local budgets. The MTBP is attached to the annual budget which covers the state budget and budgets of health and social insurance funds. The MTBP for 2017-2019 and the budget for 2017 followed the above described format.

Based on the analysis and supporting evidence, the score for this dimension is A.

16.2. Medium-term expenditure ceilings

This dimension assesses whether expenditure ceilings are applied to the estimates produced by ministries to ensure that expenditure beyond the budget year is consistent with government fiscal policy and budgetary objectives.

The process of preparation of medium-term budget submissions by the line ministries is based on preliminary medium-term expenditure ceilings approved by the Council of Ministers. Aggregate expenditure ceilings are approved by the Council of Ministers together with the macrofiscal framework and the detailed MTBP preparation calendar. The ceilings are further broken down by line ministry and program, and by broad categories of economic classification. According to the OBL, the detailed preliminary ceilings are expected to be approved by the Council of Ministers before the MoF issues the MTBP circular at the end of February.

In 2016, the macrofiscal framework, including the aggregate ceilings, was approved in January, while detailed preliminary ceilings were approved by the Government at the end of March (Government decision dated March 30th), which was after the distribution of the circular for MTBP 2017-2019 preparation (issued by the MoF on February 29th). The MTBP circular explicitly mentioned that the ceilings would be coming later. The ceilings were circulated with the supplementary letter of the Ministry of Finance in early April which limited the time available for the line ministries to prepare their MTBP submissions to around a month (the deadline for submission was May 2, 2016).

Based on the analysis and supporting evidence, the score for this dimension is C.

16.3. Alignment of strategic plans and medium-term budgets

This dimension measures the extent to which approved expenditure policy proposals align with costed ministry strategic plans or sector strategies.

As part of MTBP submissions the line ministries are required to present information on objectives, targets, priorities for the programs they implement. The standard instruction on MTBP preparation explicitly states that MTBP submissions are expected to make a direct link between budget allocations and policy objectives of the programs. The basis for compiling this information differs by Ministry.

Albania has a high level strategic document (National Strategy for Development and Integration 2015-2020, NSDI 2) that includes cross-sector policy priorities as well as policy priorities for the key sectors. In the past, the country had multiple strategic documents that were often not linked to each other, so the integrated planning system approach was developed (IPS), that envisaged, among other things, the reduction in the number of strategic documents. Therefore, not every Ministry has a current sector strategy or equivalent strategic planning document.

The situation in the three line ministries selected as a representative sample for the purpose of the PEFA assessment is as follows:

- Ministry of Education (14 percent of the total central government spending) has a current strategy for post-university education which covers the two biggest programs implemented by the Ministry (around 80 percent of the education sector budget managed by the Ministry). The Strategy has a costing section and served the basis for formulation of the 2017-19 MTBP submission.
- Ministry of Health (11 percent of total spending) does not have a current strategy, the last sectoral Strategy expired in 2013, the new Strategy 2016-2020 is still in draft form, not approved yet.
- Ministry of Transport (around 7 percent of total spending) has a recently approved sector strategy that became effective in 2016. The costs of that strategy are very high and exceed significantly the available resource envelope for the sector. The Strategy and approach to its costing were discussed at the meeting of the Government Strategic Planning Committee in 2016. The decision was that it should be approved with two scenarios – the base scenario that is within the MTBP resource limits, and the second (optimistic) scenario for the case additional funding materializes. However, the version available at the website of the Ministry of Transport includes only the optimistic scenario.

All the line ministries interviewed issue a decision at the beginning of the budget cycle which establishes internal working groups to develop MTBP proposals. Each group is assigned responsibility for a particular program. The groups come up with the proposed submissions for the programs assigned to them, including the policy and spending priorities which are then reviewed at a special ministerial meeting and based on the decision of that meeting consolidated into the ministry MTBP submission. There is therefore a working mechanism in place to assure that MTBP submissions reflect the sector program objectives and priorities. However, this mechanism does not always assure the link between the existing sector strategies and MTBP submissions, as evidenced by the transport sector strategy. Overall, medium-term strategic plans are prepared for **some/representing sample (**materiality by value as defined by the PEFA Framework) ministries. **Some (**as demonstrated by the Ministry of Education- materiality by value as defined by PEFA Framework) expenditure policy proposals in the annual budget estimates align with the strategic plan.

Based on the analysis and supporting evidence, the score for this dimension is C.

16.4. Consistency of budgets with previous year's estimates

This dimension assesses the extent to which the expenditure estimates in the last medium-term budget establish the basis for the current medium-term budget. This will be the case if every expenditure variation between the corresponding years in each medium-term budget can be fully explained and quantified.

In Albania, deviations in the estimates between the years happen as evidenced by the table 3.14 below. The MoF Budget Department produces analysis of the deviations between the second year expenditures estimate from the past year and the first year of the current year, however this analysis is used for internal purposes only and is not included in the budget documentation.

Based on the analysis and supporting evidence the score for this dimension is D.

Table 3.17: Approved MTBP ceilings for selected ministries

Ministry of Transport and Infrastructure ALL million					
	For 2015	For 2016	For 2017	For 2018	For 2019
MTBP 2015-2017	42,335	35,616	30,931		
MTBP 2016-2018		35,419	41,579	42,262	
MTBP 2017-2019			33,264	35,013	35,065
Ministry of Culture ALL million					
	For 2015	For 2016	For 2017	For 2018	For 2019
MTBP 2015-2017	1,406	1,424	1,426		
MTBP 2016-2018		1,709	1,432	1,498	
MTBP 2017-2019			1,654	1,712	1,712

Source: PFM monitoring report (draft), SIGMA, May 2017.

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

- *Dimension 17.1. Budget calendar (Time period: the last budget submitted to the legislature, budget for 2017; coverage - BCG);*
- *Dimension 17.2. Guidance on budget preparation (Time period: the last budget submitted to the legislature, budget for 20107; coverage - BCG);*
- *Dimension 17.3. Budget submission to the legislature (Time period: the last three completed fiscal years, 2014, 2015, 2016; coverage - BCG).*

Summary of scores and performance table

Indicator/Dimension	Score	Brief justification for score
PI-17. Budget preparation process	Overall score B	Scoring method M2 (AV)
17.1 Budget calendar	Dimension score B	A clear budget calendar exists, but some deviations from it take place. In 2016, the budgetary units had about a month to prepare detailed MTBP submissions and about the same time to update them at the stage of preparation of the annual budget submission.
17.2 Guidance on budget preparation	Dimension score B	The set of instructions used for MTBP and budget preparation is comprehensive, covers total budget expenditures for the full fiscal year, and provides clear guidance to budgetary units. In 2016, the final expenditure ceilings were approved by the Council of Ministers after the supplementary instruction for annual budget preparation was issued by the Ministry of Finance, but well before the deadline for annual budget submissions.
17.3 Budget submission to the legislature	Dimension score C	The budget for 2014 was submitted to the National Assembly in the middle of December and therefore less than a month before the start of the fiscal year, the budgets for 2015 and 2016 were submitted to the National Assembly more than a month before the start of the fiscal year.

17.1. Budget calendar

This dimension assesses whether a fixed budget calendar exists and the extent to which it is adhered to.

The OBL regulates the budgetary process for all levels of public budget, including the budget calendar which integrates all the stages of budget planning, budget preparation, scrutiny, and approval. The Law defines the main steps in the budget process and the months during which the steps should be completed. In several instances, the Law defines specific dates as deadlines for the respective steps, as indicated in table 3.15 below.

OBL also envisages that a detailed annual budget calendar is approved by the Council of Ministers by January 1st. In 2016, the approval of the calendar was delayed by almost a month (detailed calendar was approved by the Decision of the Council of Ministers dated January 27th). Some other deviations from the calendar also took place. Preliminary expenditure ceilings could not be circulated with the MoF instruction issued in February because of their late approval by the Council of Ministers, and were circulated with a supplementary letter of the MoF in early April. Also, according to the detailed calendar, the deadline for approval of the final expenditure ceilings was July 8th, the deadline for annual budget submissions by the line ministries was September 1st. The actual date of approval of the final expenditures ceilings for 2017-2019 by the Council of Ministers was July 13, and the ceilings were communicated to the line ministries with the supplementary letter of the MoF within a week after that date, while the supplementary budget instruction was issued by the Ministry of Finance on July 8. The line ministries interviewed confirmed that in 2016 they had approximately a month to prepare MTBP submissions and about the same time to update those submissions for the annual budget purposes based on information on final approved expenditures ceilings. Everyone interviewed also confirmed that the time allocated for preparation of MTBP and budget submissions was sufficient and they had no problems to adhere to the calendar.

Table 3.18: Albanian Calendar for MTBP and Budget Preparation

Action	**OBL**	**Detailed calendar for MTBP and budget preparation approved by the Council of Ministers on January 27, 2016**	**Actual Dates, 2016**
Detailed annual public expenditure management calendar approved by the Council of Ministers	By January 1		January 27
Macroeconomic assessment and medium-term macroeconomic forecast prepared by the MoF for the Council of Ministers review and approval	In January		January 21
Annual instruction on MTBP and Budget preparation issued by the MoF	In February		February 29
Preliminary expenditure ceilings communicated to the spending units upon approval by the Council of Ministers	In February (as part of the MoF annual instruction)		Preliminary expenditure ceilings approved by the Council of Ministers on March 30 and communicated to the line ministries within the next week with the special letter of the MoF (letter addressed to the Ministry of Education dated April 4)
Macroeconomic assessment and forecast approved by the Council of Ministers and sent to the National Assembly	By March 10		February 29
Line ministries submit MTBP requests to the MoF		May 2	May 2
Minister of Finance submits draft MTBP document for the Council of Ministers' review and approval	In June		June 24
Ministry of Finance issues the supplementary instruction for MTBP and budget preparation including the approved MTBP ceilings	By July 10	July 8	Supplementary instruction issued by the MoF July 8. MTBP ceilings approved by the Council of Ministers July 13. Approved ceilings communicated to the spending units with the supplementary letter of the MoF within the next week (Letter addressed to the Ministry of Education dated July 19)
Spending units submit revised MTBP and annual budget requests to the MoF	By September 1	September 1	September 1
Council of Ministers approves the revised MTBP and annual budget proposal	By October 25		October 25
Prime Minister submits the annual budget proposal to the National Assembly	November 1		October 28
National Assembly approves the annual budget	December 31		December 15

Based on the analysis and supporting evidence, the score for this dimension is B.

17.2. Guidance on budget preparation

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

In Albania, a set of instructions is used to guide the budget preparation process. The order of the issuance and use of those instructions is determined in the OBL. The main instruction is the standard instruction for budget preparation issued in 2012 (and updated late 2016). This is a comprehensive document that defines the details of the MTBP and annual budget preparation processes. The standard instruction is supplemented by two annual instructions, the instruction on MTBP preparation and the supplementary instruction on annual budget preparation. The main annual instruction on MTBP preparation is issued by the MoF in late February (date of issuance in 2016 was February 29th). It includes information specific for the respective year, including the detailed budget calendar. The indicative expenditures ceilings are expected to be part of it, however in 2016 they were not approved on time by the Cabinet of Ministers (approved by the Cabinet of Ministers on March 30th and circulated with an additional letter).

The supplementary instruction circulated in July is expected to contain the final expenditure ceilings and other updated parameters to guide the line ministries in finalizing their annual budget submissions. In 2016, the Cabinet of Ministers approved the final expenditures ceilings for MTBP 2017-2019 on July 13 and these were circulated by the MoF with the special letter. Supplementary instruction of the Ministry of Finance was dated July 8th.

Based on the analysis and supporting evidence, the score for this dimension is B.

17.3. Budget submission to the legislature

This dimension assesses the timeliness of submission of the annual budget proposal to the legislature or similarly mandated body so that the legislature has adequate time for its budget review and the budget proposal can be approved before the start of the fiscal year.

The budgets for the last two completed fiscal years -2015 and 2016, were submitted to the National Assembly more than a month before the start of the fiscal year. The budget for 2014 was submitted later, in the middle of December.

The exact dates of submission were, as follows:

- 2014 budget – December 12, 2013;
- 2015 budget – November 3, 2014;
- 2016 budget – November 17, 2015.

Based on the analysis and supporting evidence, the score for this dimension is C.

PI-18. Legislative scrutiny of budgets

*This indicator assesses the nature and extent of legislative scrutiny of the annual budget. It considers the extent to which the legislature scrutinizes, debates, and approves the annual budget, including the extent to which the legislature's procedures for scrutiny are well established and adhered to. The indicator also assesses the existence of rules for in-year amendments to the budget without ex-ante approval by the legislature. The indicator contains the following four dimensions and uses the **M1 (WL)** method for aggregating dimension scores:*

- *Dimension 18.1. Scope of budget scrutiny (Time period: the last competed fiscal year, 2016; coverage - BCG);*
- *Dimension 18.2. Legislative procedures for budget scrutiny (Time period: the last completed fiscal year, 2016; coverage - BCG);*

- *Dimension 18.3. Timing of budget approval (Time period: the last three completed fiscal year, 2014, 2015, 2016; coverage - BCG);*
- *Dimension 18.4. Rules for budget adjustments by the executive (Time period: the last completed fiscal year, 2016; coverage - BCG).*

Summary of scores and performance table

Indicator/Dimension	Score	Brief justification for score
PI-18. Legislative scrutiny of budgets	Overall score C+	Scoring method M1 (WL)
18.1 Scope of budget scrutiny	Dimension score B	The National Assembly scrutiny focuses on the annual budget aggregates and details of expenditures and revenue, not the medium-term fiscal forecasts and priorities
18.2 Legislative procedures for budget scrutiny	Dimension score C	The National Assembly has clear and well documented procedures for budget review embedded in its General Rules of Procedure. Internal organizational arrangements for the budget review are well developed and assign specific roles to the Assembly committees and technical staff. Formalized negotiation procedures are missing.
18.3 Timing of budget approval	Dimension score A	The budgets for 2014, 2015 and 2016 were approved before the start of the respective fiscal years.
18.4 Rules for budget adjustments by the executive	Dimension score A	Clear rules for budget adjustments by the executive exist, set strict limits on the extent and nature of amendments that could be undertaken without the National Assembly involvement, and are adhered to.

18.1. Scope of budget scrutiny

This dimension assesses the scope of legislative scrutiny. Such scrutiny should cover review of fiscal policies, medium-term fiscal forecasts, and medium-term priorities as well as the specific details of expenditure and revenue estimates. In certain jurisdictions, the review may be undertaken in two or more stages, possibly involving a gap between review of medium-term aspects and review of the details of estimates for the next fiscal year.

The role of the National Assembly in the budget process is fixed in the OBL. Article 14 stipulates that the National Assembly approves budgetary revenues and appropriations for the central government units, unconditional transfers for local government units and their special funds, through which it gives the right to undertake expenditures in exercising their functions, as well as the financing sources of the budget deficit.

The National Assembly has very comprehensive approach to the scrutiny of the draft budget submitted by the Government. The Economy and Finance Committee leads the review process which precedes the plenary hearings. The Committee has the review calendar and organizes separate sessions to review fiscal policies, aggregate expenditures, revenues, and deficit /financing, as well as details of revenues and expenditures. The sessions are attended by the representatives of the MoF. The minutes of the review meetings are taken and indicate that discussions during the review sessions are very lively and are open to the public. Sector committees also review the details of expenditures for their respective sectors and legal committee scrutinizes in depth the proposed budgets for the statutory bodies.

The whole Assembly debates the budget in two hearings. The main focus of the National Assembly is the annual budget. Although it receives the approved MTBP for information, no detailed review of the medium-term priorities and /or fiscal targets takes place.

Based on the analysis and supporting evidence, the score for this dimension is B.

18.2. Legislative procedures for budget scrutiny

This dimension assesses the extent to which review procedures are established and adhered to. This includes public consultation arrangements, internal organizational and committee arrangements, technical support, and negotiation procedures.

The legislature procedures for review of the budget proposals are documented in the regular Rules of Procedure of the National Assembly. These determine the role of the Economy and Finance Committee, other committees, as well as the order of the plenary hearings. The same document stipulates that budget hearings both at the committee level and in the plenary are open to the public. The Economy and Finance Committee has its own calendar of budget hearings which is approved annually. The internal procedure of the committee assigns the role of preparatory analysis and preparation of documentation for the Committee sessions to the Committee's technical secretariat. The secretariat includes 5 regular staff members. The whole Committee included in 2016 21 members, many of which had strong competencies in the budget area (e.g. former senior staff of the Ministry of Finance, including former ministers). Among other duties, the secretariat takes minutes of all the review sessions which are available in the Parliamentary archives. The gap in the existing arrangements for budget scrutiny is the absence of formalized negotiation procedures.

Based on the analysis and supporting evidence, the score for this dimension is C.

18.3. Timing of budget approval

This dimension assesses the timeliness of the scrutiny process in terms of the legislature's ability to approve the budget before the start of the new fiscal year. The deadline is important so that budgetary units know at the beginning of the fiscal year what resources they will have at their disposal for service delivery.

The budget for 2014 was approved by the National Assembly in the last days of 2013 and was made public only in the middle of January 2014. The timing of the budget approval was delayed because of the parliamentary elections. The budgets for 2015 and 2016 were approved by the National Assembly well before the start of the respective fiscal year.

The exact dates of approval were, as follows:

- 2014 budget – December 28, 2013
- 2015 budget – November 27, 2014
- 2016 budget – December 17, 2015

Based on the supporting evidence, the score for this dimension is A.

18.4. Rules for budget adjustments by the executive

This dimension assesses arrangements made to consider in-year budget amendments that do not require legislative approval. Such amendments constitute a common feature of annual budget processes. To avoid undermining the credibility of the original budget, any authorization of amendments by the executive must adhere to clearly defined rules.

Article 44 of the OBL defines the rules for budget adjustments during the year. The Council of Ministers is authorized to approve reallocations of funds between programs, within central government unit, and for various general government units, not exceeding 10 percent of the total approved expenditures for the respective program. Reallocation above that limit require the approval by the National Assembly.

Reallocations of funds of investment projects within program of the central government require the approval of the Minister of Finance. Reallocations between current expenditure items within program shall be approved by the principal authorizing officer (General Secretary of the MoF). Reallocations within program and current expenditure item, between various spending units shall be approved by the authorizing officer of the central government unit to which the spending unit is subordinate. Procedures for submission of reallocation requests are defined in the standard instruction for budget execution and are followed.

According to the data provided by the MoF, in 2016, the Cabinet of Ministers approved 6 reallocations between the line ministries as well as 30 allocations from government reserve fund and 15 allocations from the contingency fund. There were also 120 adjustments approved at the level of the Ministry of Finance. These adjustments were approved on the request of the line ministries and presented reallocations between the programs and/or economic categories of spending. In total, 35 ministries and agencies submitted such reallocation requests, the number of requests varied from 1 to 12 per ministry, with an average of 3-4 requests per ministry.

Based on the supporting evidence, the score for this dimension is A.

3.5 PILLAR FIVE: Predictability and control in budget execution

PI-19. Revenue administration

*This indicator covers the administration of all types of tax and non-tax revenue for central government. It assesses the procedures used to collect and monitor central government revenues. The assessment is based on the General Department of Tax (GDT) and General Department of Customs (GDC) who are responsible for more than 90 percent of domestic revenue collection. This indicator contains the following four dimensions and uses **M2 (AV)** method for aggregating dimension scores:*

- *Dimension 19.1. Rights and obligations for revenue (Time period: at time of assessment; coverage - CG);*
- *Dimension 19.2. Revenue risk management (Time period: at time of assessment; coverage - CG);*
- *Dimension 19.3. Revenue audit and investigation (Time period: last completed fiscal year-2016; coverage - CG);*
- *Dimension 19.4. Revenue arrears monitoring (Time period: last completed fiscal year-2016; coverage - CG).*

Summary of scores and performance table

Indicator/Dimension	Score	Brief justification for score
PI-19. Revenue administration	**C+**	Scoring method M2 (AV)
19.1 Rights and obligations for revenue measures	Dimension score **A**	GDT and GDC who are responsible for more than 90 percent of domestic revenue collection use multiple channels to provide payers with easy access to comprehensive and up-to-date information on the main revenue obligation areas and on rights including, as a minimum, redress processes and procedures.
19.2 Revenue risk management	Dimension score **C**	GDT and GDC who are responsible for more than 90 percent of domestic revenue collection use approaches that are partly structured and systematic for assessing and prioritizing compliance risks for ***some*** revenue streams.
19.3 Revenue audit and investigation	Dimension score **C**	GDT and GDC who are responsible for more than 90 percent of domestic revenue collection undertake audits and fraud investigations using a compliance improvement plan and complete the **majority** of planned audits and investigations.
19.4 Revenue arrears monitoring	Dimension score **D**	Performance is less than required for a C score.

19.1. Rights and obligations for revenue measures

This dimension assesses the extent to which individuals and enterprises have access to information about their rights and obligations, and also to administrative procedures and processes that allow redress.

General Department of Tax and General Department of Customs use multiple channels to provide payers with easy access to comprehensive and up-to-date information on the main revenue obligations areas and on rights, including redress processes and procedures. GDT's (www.tatime.gov.al) and GDC's (http://www.dogana.gov.al/#) websites contains comprehensive information on:

(i) All laws and regulations pertaining to revenue administration- tax and custom duties, social insurance contributions[26] and non-tax revenue (https://www.tatime.gov.al/c/6/legjislacioni; http://www.dogana.gov.al/c/171/198/legjislacioni-doganor). Information is customized and tailored to the specific needs of payer segments i.e. type of businesses, individuals, taxes, custom procedures, regimes, importers, etc.;

(ii) payer's rights and the main revenue obligation areas (registration, timely filing of declaration, payment of liabilities on time, and complete and accurate reporting of information in declarations), including the right to redress https://www.tatime.gov.al/c/8/42/51/klientet-tatimpaguesit and http://www.dogana.gov.al/#.; Payer's right and obligations are summarized into the payer's card, which is a public document aimed at fostering cooperation between the revenue authorities and payers.

(iii) services offered by the tax and custom's authorities (https://www.tatime.gov.al/c/7/e-sherbime), including e-filing which is mandatory for the main taxes. Several YouTube videos (https://www.tatime.gov.al/eng/c/8/44/142/declaration) are available in the website to provide step-by-step guidance to payers in preparing the tax returns and requests for refunds. At the moment of registration, payers will receive an electronic notification regarding their revenue obligations and payments due for each of the registered tax. The website has a rolling tax calendar (https://www.tatime.gov.al/eng/kalendar.php) outlining the deadlines for the main revenue obligations areas.

Both GDT and GDC publish leaflets and pamphlets that have information on taxes and custom duties that are informative and provide guidance to the payers. These are updated if changes are made to the legislation, or in the way in which taxes and custom duties are administered. For instance, recently the excise department of the GDC prepared and published the *Manual for Businesses* (http://www.dogana.gov.al/dokument/1008/broshura-biznesi), which targets all managers and employees of retails and wholesales of alcoholic beverages; and instructions to the businesses and producers of wine and grappa (http://www.dogana.gov.al/dokument/1009/udhezues-per-biznesin-prodhimvere-raki). In addition to being publicly available in the websites, these leaflets and pamphlets are available in hard copy at tax and customs regional offices. Each regional office offers just-in-time advise to payers (walk-in) along with hard copies of guidance materials and instructions. Both GDT and GDC supplement these efforts with other means of communications[27], such as TV, radio, newspaper, Frequently Asked Questions, presentations, and social media. GDC has made available to the payers a 'green number' free of charge in case they need assistance and if they want to report a complaint or malpractice. GDT on the other hand, through the website offers "live chat" to payers, and it is in the process of establishing a call center to offer innovative services to entrepreneurs and citizens.

Information provided to the payers through multiple channels is free of charge and up-to-date. Documented procedures exist to ensure regular and systematic updating of information. According to the Order No. 35, Article #11, issued by the MoF, the website should be updated at least every Friday at the end of the month, and it seems that these procedures have been consistently applied in practice. Overall, information in the website is current in terms of the laws and administrative procedures, and changes are highlighted in a different color so they could be easily identified by the payers. Payers are made aware of the changes to laws and administrative procedures that affect them, and usually they are alerted in advance of the date of effect, i.e. changes in the VAT Law; and e-filing.

The team met with representative of the Foreign Investors Association of Albania (FIAA). Discussion on revenue matters indicated that there are no major material concerns by the business community on information provided about revenue administration system and how it operates, including redress system. Both GDT and GDC[28] have been very active in enhancing cooperation with the business community. While recognizing these efforts, private sector representatives indicated that they would like to see more effort being expended by the revenue authority in

[26] Social insurance contributions including health and social insurance are collected by the GDT who serves as the collection agent for respectively Health and Social Insurance Institutes. Administration of social insurance contributions as assessed by this indicator is managed by GDT.
[27] For instance, GDT organized a public campaign for the Small Business Tax and Personal Income Tax.
[28] For instance, GDC has currently two agreements with Kofindustria and Philip Morris

consulting all important pieces of legislation with the business community, i.e. changes in the law on free professionals went straight to the Peoples' Assembly without consultation with the business community; getting updated and tailored information related to specific procedures, and more importantly complicated tax issues.

GDT and GDC who are responsible for more than 90 percent of domestic revenue collection use multiple channels to provide payers with easy access to comprehensive and up-to-date information on the main revenue obligation areas and on rights including, as a minimum, redress processes and procedures.

Based on the analysis and supporting evidence, the score for this dimension is A.

19.2. Revenue risk management

This dimension assesses the extent to which a comprehensive, structured, and systematic approach is used within the revenue entities for assessing and prioritizing compliance risk.

Each payer has a unique Taxpayer Identification Number (TIN). A TIN with a check digit must be assigned before a company can be registered. The National Business Center (NBC) undertakes all registration activities for almost all businesses (http://www.qkr.gov.al/information-on-procedure/business-registration/), but a small percentage such as governmental organizations and institutions, and syndicates, which are registered directly by the GDT. NBC transmits the registration database to the GDT electronically in real time basis. For a company to import, a TIN is needed and should be entered into the "Asycuda World" system. GDT reported that information held in the registration database, especially the industry codes, is often inaccurate. Accurate codes are critical to ensuring effective compliance risk management. GDT is undertaking actions to improve the accuracy of information held in the registration database; although its efforts are limited by the lack of legal right to correct the NBC's registration database.

Importers are subjected to stratification according to risk assessment criteria. Since 2006, GDC has been using Asycuda World system. It has established the Risk Management Commission (RMC)[29] and the Directorate for Risk Analysis and Monitoring (DRAM). The risk management approach covers all categories of revenues and is guided by the *Guidance Manual on Risk Management and Control based on Risk Analysis*. Importers are subjected to stratification according to risk assessment criteria (type of import, location of supply, history of importer etc.) and they are assigned to: (i) *Green Channel* (no check); (ii) *Blue Channel* (post clearance audit); (iii) *Yellow Channel* (document check); (iv) *Rose Chanel* (inspection without interference) and (v) *Red Channel* (document check and physical Inspection). Importers can also be selected randomly for a higher level check. This approach to risk management also updates the risk profiles of importers from one channel to another based on their compliance performance. GDC has introduced online monitoring of customs warehouses and custom clearance processes have currently a level of physical intervention of about 10 percent.

GDC has made progress in refocusing compliance interventions on high value, high risk segments and on implementing modern compliance risk management frameworks. Bilateral meetings with neighbor countries' custom authorities are organized at least once a year focusing on sharing intelligence in real time. The GDC uses the data exchange system SEED that enable the verification of customs data declaration such as value, origin, tariff code, etc., at the moment of the goods' arrival. GDC has also procured the "fiscal stamps system" in compliance with an international 'track and trace system' (SICPATRACE), which is linked to a database. Customs procedures to link the database with customs import data by importers of tobacco products have also been established.

As highlighted by the Tax Administration Diagnostic Assessment Tool (TADAT)'s assessment, GDT has not fully implemented a structured and systematic risk assessment process for assessing, ranking and quantifying taxpayers' compliance risks. In January 2015, GDT supported by the IMF implemented a new IT system. There is a Risk Management Directorate (DRM) and a high-level Council for Compliance Risk Management (CRM). A CRM strategy has been developed by the GDT aiming at implementing good international practices related to modern risk management. In addition, a CRM operational plan for 2017 has been prepared.

[29] As per the Order dated 08/09/2016 on *Establishing and Functioning of the Risk Management Commission.*

At present, the compliance risk is assessed automatically through the IT system and risk criteria would benefit from use of more comprehensive information from internal and external sources. The IT system is the main instrument for selecting audit cases and it has facilitated the identification of industrial sectors with high-compliance risks[30]. It analyzes a broad range of taxpayer's data from internal sources. While GDT cooperates with GDC in exchanging payers' information, there is limited exchange of information with other relevant government registers, i.e. registers of immovable property, automobiles, ships, business licenses; as well as other important third party sources, i.e. banks and financial intermediary institutions.

In theory, CRM is well understood and the GDT is committed to implement the modern CRM approach in the next 2-4 years. At the early stage of reform implementation, DRM doesn't have sufficient resources to conduct a complete risk management approach to compliance which differentiate between large, medium, and small taxpayers based on an assessment view of their relative likelihood of non-compliance and the consequences of any potential non-compliance. In applying the risk differentiation compliance framework, each taxpayer's tax risks are classified as being high, medium, or low relative to other similar taxpayers. GDT does not conduct any systematic assessment of the factors that influence compliance behavior and the attitudes of different groups of taxpayers and their advisers to compliance. Most of GDT's efforts and resources have been focused towards government's campaign against the informal economy.

GDT and GDC who are responsible for more than 90 percent of domestic revenue collection use approaches that are partly structured and systematic for assessing and prioritizing compliance risks for ***some*** (materiality by value as defied by PEFA 2016 Framework) revenue streams.

Based on the analysis and supporting evidence, the score for this dimension is C.

19.3. Revenue audit and investigation

This dimension assesses whether sufficient controls are in place to deter evasion and ensure that instances of noncompliance are revealed.

GDC has an audit plan and a completion rate of 157 percent.

Table 3.19: Audits from the Directorate of Aposteriorit-Year 2016

Sector	**No. of audits**	**No. of audits planned**	**Audit: Completion rate**
Assessment/classification/origin	**45**	**25**	**180%**
Control of regimes	**57**	**40**	**143%**
TOTAL	**102**	**65**	**157%**

Source: Ministry of Finance, GDC.

GDT has an audit plan and a completion rate of 98 percent. All audits are conducted on the basis of a monthly plan developed by the GDT headquarter with inputs from regional tax offices. Around 60 percent of audit cases of the monthly audit plan are selected through the IT system. 40 percent of audit cases are selected from the regional tax offices, and may be subject to abuse by tax inspectors. The audit plan covers the main taxes. Audit of large taxpayers is conducted by the Large Taxpayer Office (LTO); however, it does not focus on other important taxpayer segments with high-compliance risks, i.e. high wealth individuals. Hence, full implementation of a modern CRM approach would improve audit coverage by including taxpayer segments with high-compliance risk.

[30] Document "Summary of Compliance Strategy, Risk Analysis" GDT, October 2016.

Table 3.20: Tax Audits-Year 2016

Regional Offices		No. of Planned audits	No. of Conducted Audits	Audit: Completion rate
Berat		114	105	92%
Diber		47	43	91%
Durres		242	237	98%
Elbasan		135	139	97%
Fier		203	220	108%
Gjirokaster		60	58	97%
Korce		116	94	81%
Kukes		37	25	68%
Lezhe		56	58	104%
Sarande		43	32	74%
Shkoder		237	226	95%
Vlore		77	78	101%
Tirane		343	376	110%
VIP		445	420	94%
TOTAL		**2,155**	**2,111**	**98%**

Source: Ministry of Finance, GDT

Although, GDT and GDC who are responsible for collecting more than 90 percent of domestic revenues complete all (materiality by value as defined by PEFA 2016 framework) planned audit and investigations, they are not managed and reported on according to a documented compliance improvement plan, considering that 40 percent of audit cases are not selected from the IT system but from the regional tax offices, which may be subject to abuse by tax inspectors.

Based on the analysis and supporting evidence, the score for this dimension is C.

19.4. Revenue arrears monitoring

This dimension assesses the extent of proper management of arrears within the revenue entities by focusing on the level and age of revenue arrears.

GDT's arrears collection function suffers serious weaknesses - the stock of tax arrears at the end of FY 2016 accounted for 68.3 percent of the total revenue collection and the tax arrears older than 12 months accounted for 69.4 percent of total tax arrears for FY2016**.** The main factors contributing to an increasing debt are the following: (i) the debt collection business processes are too generic and fail to recognize the different collection risks presented by different debt categories; (ii) collection procedures are inefficient and in some cases not used; (iii) there is insufficient understanding of the composition of the debt stock; (iv) there is insufficient management oversight and control over key operational activities; and (v) inapplicability of write off.

Customs and Excise arrears seems to be less of a problem- *the stock of tax arrears at the end of FY2016 accounted for 16.6 percent of the total revenues collected by GDC.* As the general rule requiring that goods cannot be collected unless duties have been paid results in arrears arising mainly in relation to penalties.

Table 3.21: General Department of Tax: The stock of Tax Arrears as of December 31, 2016

Age of Tax arrears	PIT	CIT	VAT	Social security contribution	Other	Total (in 000/Leke)
Less than 3 months	93,785	143,012	1,265,183	1,168,531	3,503,914	6,174,425
Between 3-6 months	105,384	523,958	2,137,732	1,497,953	1,289,969	5,554,995

Between 6-12 months	113,836	5,560,729	2,598,428	1,982,123	23,035,100	33,290,216
Between 1-2 years	211,987	4,725,435	5,425,193	1,481,792	4,118,941	15,963,348
Between 2-5 years	1,499,714	10,500,549	27,410,628	4,765,007	5,910,067	50,085,965
More than 5 years	1,084,475	13,421,061	13,292,733	3,235,442	4,965,410	35,999,121
A. Total tax arrears	**3,109,181**	**34,874,744**	**52,129,896**	**14,130,848**	**42,823,400**	**147,068,069**
B. Total tax collection						**215,335,824**
C. Tax arrears older than 12 months						**102,048,433**
Ratio A/B						**68.29%**
Ratio C/A						**69.38%**

Source: Ministry of Finance, General Department of Tax.

Table 3.22: General Department of Customs: The stock of Arrears as of December 31, 2016

General Department of Customs: The Stock of arrears as of December 31, 2016	
Regional Custom Offices	**Total Arrears (in 000/lek)**
A. Total arrears	**24,787,915**
B. Total custom collection	**148,432,000**
C. Ratio A/B	**16.6%**

Source: Ministry of Finance, General Department of Customs.

Although, the stock of GDC's tax arrears at the end of FY2016 accounted for 16.6 percent of the total revenues collected by GDC, at the aggregate level for both GDT and GDC, the stock of the stock of revenue arrears at the end of FY 2016 accounted for 47 percent[31]of the total revenue collection.

Based on the analysis and supporting evidence, the score for this dimension is D.

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 central government. The assessment is based on the General Department of Tax (GDT) and General Department of Customs (GDC) who are responsible for more than 90 percent of domestic revenue collection. This indicator contains the following three dimensions and uses ***M1 (WL)*** *for aggregating dimension scores:*

- *Dimension 20.1. Information on revenue collections (Time period: at time of assessment; coverage - CG);*
- *Dimension 20.2. Transfer of revenue collection (Time period: at time of assessment; coverage - CG);*
- *Dimension 20.3. Revenue accounts reconciliation (Time period: at time of assessment; coverage - CG).*

Summary of scores and performance table

Indicator/Dimension	Score	Brief justification for score
PI-20 Accounting for revenue	**A**	Scoring method M1 (WL)
20.1 Information on revenue collections	Dimension score **A**	MoF obtains revenue data at least monthly from both GDT and GDC who collect more than 90 percent of central government revenues. The Ministry of Finance (MoF)

[31] (147,068,069 + 24,787,915)/ (215.335.824 + 148,432,000) = 47 percent.

		compiles a consolidated Fiscal Report covering revenue by type and the collection period
20.2 Transfer of revenue collections	Dimension score **A**	GDT and GDC who are responsible for more than 90 percent of domestic revenue collection transfer the collection daily to the treasury.
20.3 Revenue accounts reconciliation	Dimension score **A**	Both GDC and GDT who are responsible for more than 90 percent of domestic revenue collection undertake complete reconciliation of assessment, collection, arrears, and transfers to the treasury at least monthly.

20.1. Information on revenue collections

This dimension assesses the extent to which a central ministry, i.e., the Ministry of Finance or a body with similar responsibilities, coordinates revenue administration activities and collects, accounts for, and reports timely information on collected revenue.

Revenue data accounting is on a cash basis and is done automatically on daily basis in the IT system. Reporting on revenue data is also done automatically through AGFIS. MoF obtains revenue data at least monthly from both GDT and GDC who collect more than 90 percent of central government revenues (***all-*** materiality as defined by PEFA 2016 Framework). The Ministry of Finance (MoF) compiles a consolidated Fiscal Report covering revenue by type and the collection period.

Based on the analysis and supporting evidence, the score for this dimension is A.

20.2. Transfer of revenue collections

This dimension assesses the promptness of transfers to the Treasury or other designated agencies or revenue collected.

The implementation of the new treasury information system, AGFIS, has resulted in same-day clearance of all revenue collection accounts and their deposit in the Treasury Single Account (TSA). The ability of commercial entities to pay their liabilities on-line has improved cash management. As a result, GDT and GDC who are responsible for more than 90 percent of domestic revenue collection transfer the collection daily to the treasury.

Based on the analysis and supporting evidence, the score for this dimension is A.

20.3. Revenue accounts reconciliation

This dimension assesses the extent to which aggregate amounts related to assessments/charges, collections, arrears, and transfers to (and receipts by) Treasury or other designated agencies take place regularly and are reconciled in a timely manner.

Through its IT system, GDT reflects amounts levied and paid by each payer automatically "*in real time*" when a tax return is e-filed and when payment is made, as well as reassessment done by the tax authority. GDT updates individual files automatically daily by the IT system once payments are made and reached the banks of the second level and treasury. GDT carries out a monthly reconciliation by tax type and reconciles payments and transfer to the treasury. Each tax type payment is reconciled against total payment as payment may be made in aggregate for different tax types. If a payment is not made by the due date, interest is accrued and a notice is issued. The same revenue accounts reconciliation is valid for GDC. Thus, both GDC and GDT who are responsible for more than 90 percent of domestic revenue collection undertake complete reconciliation of assessment, collection, arrears, and transfers to the treasury at least monthly.

Based on the analysis and supporting evidence, the score for this dimension is A.

PI-21. Predictability of in-year resource allocation

This indicator assesses the extent to which the central MoF 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 (Time period: at time of assessment; coverage - BCG);*
- *Dimension 21.2. Cash forecasting and monitoring (Time period: the last completed fiscal year, 2016; coverage - BCG);*
- *Dimension 21.3. Information on commitment ceilings (Time period: the last completed fiscal year, 2016; coverage - BCG);*
- *Dimension 21.4. Significance of in-year budget adjustments (Time period: the last completed fiscal year, 2016; coverage - BCG).*

Summary of scores and performance table

Indicator/Dimension	Score	Brief justification for score
PI-21 Predictability of in-year resource allocation	Overall score B	Scoring method M2 (AV)
21.1 . Consolidation of cash balances	Dimension score D	Balances on accounts outside TSA exceed TSA balance. Reports on the status of accounts outside TSA are collected monthly, however most of balances outside TSA are not consolidated
21.2 Cash forecasting and monitoring	Dimension score B	Treasury Department prepares a cash flow forecast for the whole year and updates it based on actual cash flows and outflows upon receipt of the updated source information. One of important types of the source information – debt service schedule, is updated only quarterly, other types of information are updated more frequently.
21.3 Information on commitment ceilings	Dimension score A	Budgetary units receive reliable information on monthly commitment ceilings for the whole year in January.
21.4 Significance of in-year budget adjustments	Dimension score B	Two significant budget adjustments took place in 2016 through budget rectifications approved by the National Assembly. One of the two episodes took place very close to the end of the fiscal year. The practice of end-of year adjustments is viewed by the line ministries as not fully transparent.

21.1. Consolidation of cash balances

This dimension assesses the extent to which the MoF, or other similar entity, can identify and consolidate cash balances as a basis for informing the release of funds. Use of a Treasury single account (TSA), or accounts that are centralized at a single bank, usually the central bank, facilitates the consolidation of bank accounts. A TSA is a bank account or a set of linked accounts through which the government transacts every receipt and payment. The control and reporting on individual transactions should be achieved through the accounting system, allowing the Treasury to delink management of cash from control of individual transactions. Achieving regular consolidation of multiple bank accounts not held centrally will generally require making timely electronic clearing and payment arrangements with the government's bankers.

In Albania, a significant part of cash balances is in the Treasury Single Account held at the Bank of Albania, and managed by the MoF Treasury Department. Consolidation of funds at TSA takes place daily. Nine accounts are held at the Bank of Albania but separately from TSA, including four accounts of special funds administered by the MoF, three accounts administered by the health insurance fund and two accounts of the social insurance fund. In addition, thirteen accounts of various budgetary, extrabudgetary and special funds are held at commercial banks (including several accounts administered by the MoF). Accounts of the donor financed projects are also predominantly held at commercial banks. Balances of all the above listed accounts are held separately in the respective banks, are not swept, or centralized at any moment in time, and in most cases, cannot be used in the same way as funds held in the TSA. Reports on the status of accounts outside TSA are collected monthly, however most of balances outside TSA are not consolidated. As evidenced by the data below, the size of the balances held outside TSA exceed the TSA balance.

Table 3.23: Data on cash balances as of end-2016

Cash balance on TSA	**10,089,232,544.78 lek**
Cash balances outside of TSA	16,382,183,378.86 lek
In the Bank of Albania	6,284,923,592.39 lek
In commercial banks	10,097,259,786.47 lek
o/w foreign financed project accounts	7,336,406,361.57 lek

Source: MoF Treasury Department.

Based on the analysis and supporting evidence, the score for this dimension is D.

21.2. Cash forecasting and monitoring

This dimension assesses the extent to which budgetary unit commitments and cash flows are forecast and monitored by the MoF. Effective cash flow planning, monitoring, and management by the Treasury facilitates the predictability of the availability of funds for budgetary units.

The Treasury Department prepares and regularly updates detailed cash forecasts. The forecasts are based on the monthly expenditure plans received from the spending units in January, projections of revenue collection by the revenue administration bodies, debt repayment schedules received from the debt management unit and other relevant information. The forecasts, broken down by month and day, largely follow historic trends. The forecasts are updated periodically, once updated source information becomes available. The frequency of receipt of updated source information depends on the type of information (e.g., information on debt service schedule is updated quarterly, while other types of information are updated more frequently).

Based on the analysis and supporting evidence, the score for this dimension is B.

21.3. Information on commitment ceilings

This dimension assesses the reliability of in-year information available to budgetary units on ceilings for expenditure commitment for specific periods. Predictability for budgetary units as to the availability of funds for commitment is necessary to facilitate planning of activities and procurement of inputs for effective service delivery and to avoid disruption of the implementation of these plans once they are underway.

Albanian Ministry of Finance uses monthly limits to control the spending during the year. These limits are produced based on the approved annual budget and monthly expenditure forecasts developed by the spending units and provided to the MoF through the line ministries in January. Information on the monthly spending limits is communicated to the line ministries and other spending agencies during the same month. Information is provided in the form of a special letter including the monthly spending limits for all 12 months. In case of budget rectification by the National Assembly during the year, monthly limits are revised and communicated to the line ministries after rectification. The Ministries of Health and Education confirmed that the letters from the MoF with the monthly spending limits for 2016 were received by end-January 2016, were reliable and allowed them to plan their activities properly. Therefore, budgetary units are able to plan and commit expenditures for at least six months in advance in accordance with the budgeted appropriations and cash/commitment releases.

Based on the analysis and supporting evidence, the score for this dimension is A.

21.4. Significance of in-year budget adjustments

This dimension assesses the frequency and transparency of adjustments to budget allocations. Governments may need to make in-year adjustments to allocations in the light of unanticipated events that affect revenues or expenditures. Specifying in advance a mechanism that relates such adjustments to budget priorities in a systematic and transparent manner minimizes the impact of adjustments on predictability and on the integrity of original budget allocations.

There were two significant adjustments of the 2016 budget (rectifications) initiated by the Government and approved by the National Assembly in line with the rules for budget adjustments fixed in the OBL and discussed under PI-18.4. The first adjustment was approved in July and the second one was approved at the end of the fiscal year, in mid-December. Adjustments reflected the actual revenue collection as well as changes in the spending plans of the ministries. Both adjustments were approved through the legal acts that list the funds, spending lines and programs affected and the new amounts approved for those items but do not show the original amounts for those lines and the scope of changes. Given the proximity of the second rectification episode to the end of the fiscal year, the rectification process is viewed by the line ministries as not fully transparent and predictable. The 2016 end of fiscal year rectification was not the only rectification of this nature during the last years. In 2015, two budget rectifications were approved by the National Assembly in December (out of the total of three rectification episodes that year) and this practice was commented critically in the SAI opinion on the 2015 budget execution report.

Based on the analysis and supporting evidence, the score for this dimension is B.

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 (Time period: the last three completed fiscal years, 2014, 2015, 2016; coverage - BCG);*
- *Dimension 22.2. Expenditure arrears monitoring (Time period: at the time of assessment; coverage - BCG).*

Summary of scores and performance table

Indicator/Dimension	Score	Brief justification for score
PI-22 Expenditure arrears	Overall score C+	Scoring method M1 (WL)
22.1. Stock of expenditure arrears	Dimension score B	The stock of expenditure arrears at the end of 2016 and 2015 was less than 6% of total actual expenditures for the respective years.
22.2 Expenditure arrears monitoring	Dimension score C	The standard frequency of production of arrears monitoring reports is every four months. Annual monitoring report for 2016, including the stock and composition of expenditures arrears, was available on the MoF website at the time of the assessment.

22.1. Stock of expenditure arrears

This dimension assesses the extent to which there is a stock of arrears. The stock is preferably identified at the end of the fiscal year and compared to total expenditure for the considered fiscal year.

Given the significance of the arrears problem in the recent past, special attention was paid under the program with the IMF to strengthen commitment controls and put in place mechanisms to prevent accumulation of the new arrears, along with repaying the historic stock. These measures included legislative changes to clarify definitions of the terms 'commitment' and 'arrears' and introduce the due date for payments. According to these changes invoices must be submitted to the treasury within 30 days of receipt, and another 30 days are allocated for the treasury to process the payment. Payments recognized as legitimate and not processed within this timeframe are classified as arrears.

The stock of historic arrears was largely repaid by 2016, with a notable exception of some disputed contracts for specific types of works, many of which are being contested in the courts (in particular, contracts for road repairs and construction which were concluded by the road authorities for a 5 year term without possibility of cancellation or amendment). The same historic long-term contracts continue to generate new arrears. It was therefore not possible to fully prevent accumulation of new arrears which is a concern.

As shown in table 3.21 below, as of end-2015, the total stock of central government arrears stood below 4 percent of total expenditure. It reduced further to less than 1 percent of total expenditure by end-2016. Accurate data with the required coverage for end-2014 could not be obtained.

Table 3.24: Stock of Expenditure Arrears, Central Government

	Arrears as of the end of the year Mil ALL	Total actual expenditures in the respective year Mil ALL	Ratio of the stock of arrears at the end of the year to total expenditures in the respective year
2014	na	426,447	na
2015	16,050.2	433,790	3.7%
2016	1,803.6	418,746	0.4%

Source: Ratio for 2015 comes from the SIGMA PFM monitoring report, corresponding amount in lek calculated by the team; data for 2016 comes from the arrears monitoring report produced by the MoF.

Based on available data the score for this dimension is B.

22.2. Expenditure arrears monitoring

This dimension assesses the extent to which any expenditure arrears are identified and monitored. It focuses on which aspects of arrears are monitored and how frequently and quickly the information is generated.

Given the significant stock of arrears accumulated in the recent past, Albania developed an Arrears Prevention and Clearance Strategy which was approved in 2014 as part of the program with the IMF. This involved a special mechanism established to monitor expenditure arrears that includes a system of self-reporting by the subordinate units established at each line ministry, which are required to submit consolidated information for their respective sectors to the MoF. Based on the information submitted by the line ministries, consolidated monitoring reports must be produced once every four months and published at the MoF website within one month after the end of the respective period. This mechanism continues to be relevant for monitoring of the historic stock of arrears, and new arrears associated with historic multi-year contracts, pre-dating 2016. The reports include data broken down by Ministry, agency / spending unit under the Ministry and the year /period of origin. Annual monitoring report for 2016 was available on the MoF website at the time of the assessment.

Following the legislative changes, the functionality of the treasury information system (AGFIS) was enhanced in 2016, so the system now captures information on commitments at the moment of registration of the signed contracts, including multi-year commitments for the contracts that span across several fiscal years. Invoices for the respective contracts are also captured by the system including information on the due date for payment. The treasury system therefore contains accurate information on arrears originating from 2016, including details at the level of the spending unit, contract, and the date of origin, which can be generated at any moment. However, there is no specific requirement / format to monitor arrears through the treasury system and regular reports are not produced.

Based on the analysis and supporting evidence, the score for this dimension is C.

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 labor 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 (Time period: as at time of assessment; coverage - CG);*
- *Dimension 23.2. Management of payroll changes (Time period: as at time of assessment; coverage - CG);*
- *Dimension 23.3. Internal control of payroll (Time period: as at time of assessment; coverage - CG);*
- *Dimension 23.4 Payroll audit (Time period: the last three completed fiscal years; coverage - CG).*

Summary of scores and performance table

Indicator/Dimension	Score	Brief justification for score
PI-23 Payroll controls	Overall score C+	Scoring method M1 (WL)
23.1 Integration of payroll and personnel records	Dimension score B	The payroll is supported by full documentation for all changes made to personnel records each month and checked against the previous month's payroll data. Staff hiring and promotion is controlled by a list of approved staff positions. With personnel, payroll, and payment information in many separate systems, some automated and some manual, the level of integration is low and extensive manual reconciliations are required.
23.2 Management of payroll changes	Dimension score B	Required changes to the personnel records and payroll are updated at least monthly, generally in time for the following month's payments. Retroactive adjustments are rare, and usually done within the next month payroll. However, the decentralized nature of payroll management means there could be considerable variations in performance across ministries and it was not possible to assess performance across the whole of government in this aspect.
23.3 Internal control of payroll	Dimension score C	Sufficient controls exist to ensure integrity of the payroll data of greatest importance.
23.4 Payroll audit	Dimension score B	Payroll audits have been undertaken within the last three completed fiscal years.

Background

The implementation of the new HR management procedures began shortly after the approval of the Civil Service Law (CSL), and many of the procedures were modified after the amendments to the CSL approved in December 2014. The Department of Public Administration (DoPA) issued several guidelines and organized training courses for HRM units in line ministries, subordinated institutions, and independent institutions.

DoPA's responsibility includes preparation and implementation of the general state policies and civil service legislation; supervision of their implementation in state administration institutions; approval and supervision of the implementation of training programs; management of the Central Register of Personnel; and drafting of the salary structure in the central and local administrations. Independent oversight of the civil service is ensured through the Commissioner for the Oversight of the Civil Service (COCS), set up by the CSL as an independent public body, which is appointed and reports to the Parliament[32].

The CSL provides for managing principles; institutional set-up; personnel files and registry; classification, recruitment, and career; transfers, suspension, and termination of employment; professional development and performance appraisal; rights (including the right to fair remuneration) and duties; and discipline.

The new CSL has a much broader scope compared to the previous law, by including the state administration (106 institutions, including the Office of Prime Minister, ministries and subordinated central institutions, including territorial branches), 19 independent institutions (administration of the Assembly, the President, courts' and prosecutors' administrations, as well as independent institutions, provided by the Constitution or established by the Law, which report to the Assembly) and local government units. Exceptions to this scope include judges and prosecutors, the civil judicial administration, military personnel, the state intelligence service, and institutions directly delivering services. Amendments to the CSL in December 2014 extended such exceptions to judicial police agents/officers and those allowed to carry guns, civilians in the armed forces structures, employees of the Financial Supervision Authority, employees of the drainage boards and advocates at the State Advocate's Office. The CSL clearly determines the demarcation between political appointees, public servants, and support staff. The following political positions are not included in the civil service: elected officials, ministers and deputy ministers, officials appointed by constitutional authorities (the Assembly, the President, and the CoM) and cabinet officials. The same applies to administrative functions, encompassing employees who carry on administrative, secretarial, maintenance, service, or custodial duties and who do not exercise public authority. Public employees excluded from the CSL are subject to the Labor Code[33], relevant sector legislation if it exists (as with the education, social services, and health sectors, for instance)[34], collective agreements and individual contracts.

In 2016, there were 164,635 public sector employees, representing 15.7 percent of the total labor force, a proportion that has declined in recent years. At the end of 2016, there were 7,743 civil servants working in the central administration, which accounted for 4.7 percent of all the public sector employees. The process of the declaration of the status of civil servants has been completed in the state administration.

23.1. Integration of payroll and personnel records

This dimension the degree of integration between personnel, payroll, and budget data.

Despite positive progress made since the 2011 assessment, the new HR Management Information system is still not functional and not implemented across all the state administration units. Present systems involved in the determination and management of payroll cannot communicate with each other. Extensive manual reconciliations are therefore required.

There are several components to the payroll management process:

- Organizational Structure Controls. Managed by the Department of Public Administration. Approval of changes to existing organizations is required before a request can be submitted in the budget submission.

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32 Decision of the Assembly No. 98 on the structure, organization, and categorization of the job positions of the COCS, 4 December 2014.

33 Law No. 7961 on the Labor Code of 12 July 1995, amended by Law No. 136/2015

34 Among others, Law No. 10 107 on Healthcare, 30 March 2009; Law No. 7952 on the Pre-university Education System, 21 June 1995; Law No. 8872 on Vocational Education and Training, 29 March 2002, amended by Law No. 10/011 of 30 October 2008 and Law No. 10434 of 23 June 2011; Law No. 8461 on Higher Education, 25 February 1999; Law No. 9355 on Social Aid and Services, 10 March 2005. It was not possible to look into the detail of provisions that cover professions outside of the civil service.

- Budget Control. The MoF determines the total wage bill, institution budget ceiling, and institutions salary and related expenses[35] budget ceiling for the upcoming annual fiscal plan and budget, based on the approved[36] organizational structures of the state administration units and approved salary scales[37], using a standard costing tool. Budget institutions then insert these staffing levels and their costs into their budget request. The Treasury monitors the utilization of the institution's budget allocation and monthly limits determined as above as a regular part of its processing and control activities. The budget is based on approved organization structure and positions; consequently, all new hiring and promotions based on the approved structure are budgeted.
- Personnel Records. These are maintained in the budget entity as physical files for each individual for personnel data by the Human Resources department in every institution of government. These files contain the general information about the employees – date of birth, gender, civil status, educational and other professional qualifications, etc. The Human Resources Department in all institutions collects the data for all employees. This is supplemented by a register of employees for pension purposes that contains the employee name, birth date, the start date of employment, the salary category, and the retirement date. These files are accessible only by the HR specialists designated by the HR section or department head.
- Attendance List. It is maintained for each employee and signed by the responsible unit manager on monthly basis. Depending on the institutions, the collection and consolidation of this information is managed by either the HR Department or Finance department, and is used as to document the payroll computation.
- Payroll Records. The payroll management, maintenance of records and payments are the responsibility of the Director of Financial Services. Monthly payroll computation worksheets include gross salaries, bonus payments (if any), payroll deductions and net payments for all employees. Across budgetary organization, mainly all payroll and HR records are manual systems, and exploit spreadsheets base files to perform the tasks. These require continuous reconciliation. In some non- budgetary organizations, HR management information systems are used, and system generated reports are reconciled with spreadsheets payroll computation. Monthly payroll, and changes to personnel status are filed electronically through the web portal to the General Department of Tax Information System.
- Payment for salary expenses are made though the Treasury system for budget organizations and bank accounts for other institutions, in a similar manner to all other transaction payments.

Internal audit units interviewed confirmed that the payroll was a high-risk area and that audits are regularly conducted in this area. Based on interviews with IAUs, the frequency of the payroll audits ranged from two to three years[38].

Independent oversight of the civil service is ensured through the Commissioner for the Oversight of the Civil Service (COCS), set up by the CSL as an independent public body, which is appointed and reports to the Parliament[39]. Since its establishment in 2014, the Commissioner has carried out several supervisions and inspections, in institutions that are part of the civil service, including independent institution, state administration institutions and local government units.

In summary, the payroll is supported by full documentation for all changes made to personnel records each month and checked against the previous month's payroll data. Staff hiring and promotion is controlled by a list of approved staff positions. However, with personnel, payroll, and payment information in many separate systems, some automated and some manual, the level of integration is low and extensive manual reconciliations are required.

35 Salary and related expenditure are presented separately in all budget, treasury and accounting reports, respectively economic categories 600 is used for Salaries, wages and other personnel, and account 601 for Social and health security contributions.

[36] Approved by the Decision of Council of Ministers, Laws and sublegal acts depending on the institution

[37] DCoM on the approved salary scales

[38] As part of full audits or specific assignments.

[39] Decision of the Assembly No. 98 on the structure, organization, and categorization of the job positions of the COCS, 4 December 2014.

Based on the analysis and supporting evidence the score for this dimension is B.

Efforts continue to establish a fully operational HRMIS. The system should serve not only as a computerized personnel register, but also as an HRM system for all public sector institutions, supporting homogeneous and transparent implementation of HRM practices. All central administration institutions, subordinated institutions, local government units and independent institutions must include their employee data in the HRMIS[40]. Progress has been made with database population and training of the users. The structures of all state administration institutions were included in the HRMIS. The total number of institutions/ spending units, including regional branches, which are foreseen to be included in the HRMIS is over 800. Out of which, the organizational structures of 330 spending units, mainly from state administration, have already been completed as at the end of 2016[41]. For these units, data entry for 11,000 employee files have been completed.

The interfaces between the HRMIS and the Civil Registry for the automatic exchange of the primary data of employees through identification numbers, and between HRMIS and the database of the National Business Center have been developed. Self-verification of the personnel records from the employee has been made possible through the utilization of the e governmental services platform e-Albania. The interface which connects HRMIS with the Treasury system was completed and pilot tests to exchange information between both systems and for the automatic calculation of salaries and payroll generation were conducted. In 2016, a unified formula for automation of payroll calculation has been developed[42] and introduced into the HRMIS payroll module which is being tested and planned to be rolled out by the end of the year 2017 in at least 30 percent of the state administration units which are part of the civil service. Decisions on the protocol of the data exchange between DoPA and the MoF and formalization of the division of authority and responsibilities in the process of payroll management are still pending. During 2018, DoPA will continue efforts to extend the HRMS to state administration units that are not part of the civil service, independent institutions, and local government.

23.2. Management of payroll changes

This dimension assesses the timelines of changes to personnel and payroll data. Any amendments required to the personnel database should be processed in a timely manner through a change report, and should result in an audit trail.

The team was advised by interviews with budget institutions and MoF that monthly payroll updates are based on changes made to the personnel records during the same month. No information was available on the number of days elapsing between the change in the personnel records and the payroll list, but based on the statements provided to the team, on average it does not exceed 4 weeks. Any changes to personnel records like transfers, hiring and dismissals are approved by the DoPA and immediately communicated to the organization’s HR department and to the Finance Department for action. Usually, changes occurring during a given month are reflected in the same month’s payroll cycle.

In addition, according to the tax legislation in force, all the changes to employee status such as hiring and dismissals and their respective position, salaries, social contribution, and tax on income are declared electronically through the web portal to the General Directorate of Tax Information System within 24 hours from the hiring date and not later than 10 days from the dismissal date[43]. Monthly payroll list, and related deductions, is declared electronically not later the 20 days from the end of the month[44]. Therefore, excel data kept by the payroll specialist are reconciled on monthly basis with an online declarations database to verify the correct application of the payroll changes.

Due to lack of IT systems for personnel and payroll, and automated integration, extensive control activities are required to ensure the completeness and timeliness of change data to payroll, which are currently not in place.

Based on the analysis and supporting evidence the score for this dimension is B.

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[40] CoM decision on the Keeping, Procedure and Management of Personnel Files and the Central Personnel Registry, dated 5 March 2014.

[41] DoPA, Annual Report 2016, p. 35

[42] Common instruction of the Ministry of Finance and Ministry of Innovation and State Administration No 4, dated 13.12.2016 “on the form, content and completion of the payroll for the general government units”.

[43] Form E-SIG 027

[44] Form E-SIG 025

23.3. Internal control of payroll

This dimension assesses the controls that are applied to the making of changes to personnel and payroll data. Effective internal controls should: restrict the authority to change records and payroll; require separate verification; and require production of an audit trail that is adequate to maintain a permanent history of transactions together with the details of the authorizing officers.

Overall responsibility for the control of all aspects of personnel records and payrolls is vested with the Authorizing Officer under the Law on Budget Systems Management and Law on Financial Management and Control. The assessment team understands adequate separation of functions exists between HR and Finance Department. HR's responsibility is to keep and update personnel files. Finance Departments, based on their attendance list, calculate the amounts due as salaries, bonuses, and any deductions such as the social contributions and personnel Income tax. Departmental managers oversee collecting and reporting the attendance for their respective employees on monthly basis; information that is then consolidated by Finance or HR departments depending on the organization. All the changes to the personnel data are matched against original decisions that are timely distributed to HR and Finance departments.

The monthly payroll is approved by head of the Finance Section. Besides, the payroll deductions for PIT and social and health contribution, and net salary are computed using an online tool to report payroll and deductions to the GDT. The calculation of deductions is automated, and there is a requirement for reporting of new hires and departures. Both files are reconciled with each other. Finally, the payment is approved by the Executing Officer and Authorizing Officer, and sent for execution through treasury. Monthly treasury controls are in place on salary related payments.

The lack of integrated personnel, payroll and payment systems combined with the existence of manual systems increases the risk related to payroll; extensive manual control activities are required to ensure the validity, completeness and timeliness of changes, and accuracy of the calculation. From the discussion with the Head of Finance Section in selected units, we understand that only a few minor mistakes were identified in the calculation of salaries when changes have occurred, which have been corrected in the following month.

Based on the analysis and supporting evidence the score for this dimension is C.

23.4. Payroll audit

This dimension assesses the degree of integrity of the payroll. Payroll audits should be undertaken regularly to identify ghost workers, fill data gaps, and identify control weaknesses.

The Internal Audit (IA) Units and High State Control regularly include payroll as a high-risk audit area in their audit programs. Interviews with a selected number of Internal Audit Units, and review of their annual audit plan indicated that the audit cycle for full audits for all central government entities is every 2-3 years. The full audits include the audit of the control activities and substantive testing.

Similarly, the High State Control conducts compliance and regularity audits in all institutions with a periodicity of every 2-3 years. The payroll is covered in their audit program.

Interviews with the IA units and High State Control and review of selected reports indicate that there are no significant issues regarding the calculation of salaries, social insurance, and personal income tax for the employees. Most issues reported with respect to salaries relate the compliance with the legal framework in recruiting or dismissing staff and existence of unjustified movement of employees. Despite the continuing efforts in capacity building and professional development since 2014[45], weak capacity noted in IA function and HSC reduce the quality of such audits and their ability to identify control weakness and fraud.

Based on the analysis and supporting evidence the score for this dimension is B.

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[45] Such initiatives are discussed as part of the assessment of PI 26.

PI-24. Procurement

*This indicator examines key aspects of procurement management. It focuses on transparency of arrangements, emphasis on open and competitive procedures, monitoring of procurement results, and access to appeal and redress arrangements. It contains the following four dimensions and uses the **M2 (AV)** method for aggregating dimension scores:*

- *Dimension 24.1. Procurement monitoring (Time period: the last completed fiscal year, 2016; coverage - CG)*
- *Dimension 24.2. Procurement methods (Time period: the last completed fiscal year, 2016; coverage - CG)*
- *Dimension 24.3. Public access to procurement information (Time period: the last completed fiscal year, 2016; coverage - CG)*
- *Dimension 24.4. Procurement complaints management (Time period: the last completed fiscal year, 2016; coverage - CG)*

Summary of scores and performance table

Indicator/Dimension	Score	Brief justification for score
PI-24 Procurement	B+	Scoring Method M2 (AV).
24.1 Procurement monitoring	Dimension score A	Databases or records are maintained for all contracts including data on what has been procured, value of procurement and who has been awarded the contracts. Procurement Plans are published at the Public Procurement Agency's (PPA) website and compare good to factual plans. E- procurement is mandatory for all procurement methods (except direct contracting) even for small value contracts.
24.2 Procurement methods	Dimension score B	All agencies follow open competitive method by default as per the law. However, single source contracting (noncompetitive method) represents 30 % percent of the total value of all public contracts concluded in 2016 according to PPA report. The noncompetitive method is often used to fill the needs of contracting authorities before budget appropriation.
24.3 Public access to procurement information	Dimension score A	The legal framework for procurement, procurement plan for 2017, realization of procurement operations for 2016 as well as bidding opportunities and contract awards are available on the PPA website in a timely manner. Information related to all complaints received by PPC are also published in PPC's website within 48 hours from the moment of complaint being lodged.
24.4 Procurement complaints management	Dimension score B	The procurement complaint system meets most criteria (5 out of 6) except of the timely issuing of the decisions. Frequent delays are reported, due to workload of PPC.

The overall effectiveness of public procurement system in Albania has been improving over the last few years. There has been progress especially regarding the legal, regulatory, and institutional frameworks, as well as development and functioning of an e-procurement system. The Public Procurement Law (PPL) applies to all public procurement financed by the government budget, with the exception of certain categories which are commonly excluded from procurement legislation in most countries. However, transparency, performance, and effectiveness of public procurement could be significantly improved. High number of direct contracting, lack of data on contract administration, frequent contract addendums resulting in a significant increase on contract price, are commonly reported problems. The private sector continues to report lack of trust in the transparency and fairness of public tenders. Complaints review mechanism is in its transitory phase to become fully independent after the adoption of the legal amendments from the Parliament. The high number of complaints (1,393 during 2016, 19,4 percent higher than the previous year) undermine the effectiveness of this mechanism.

24.1. Procurement monitoring

This dimension assesses the extent to which prudent monitoring and reporting systems are in place within government to ensure value for money and provide fiduciary integrity.

Records of procurement, which include nature of procurement/data on what has been procured, volume and value of the contracts awarded, time the process of procurement is opened, the procurement method used and the identification of the contract awardees for all[46] procurement methods for goods, works and services are publicly available in the e-procurement portal and in Weekly Procurement Bulletin. The data is saved and accessible in the e-archive of PPA for at least two years after contract award. In addition, the e-procurement system is obligatory[47], including for low-value procurement's methods and it captures and analyzes all data up to contract award. There is no information on contract monitoring as this function rests with contracting authorities. Contractors are obliged to submit bids electronically. The PPA has strengthened its **monitoring** function and has launched the preparation of a procurement performance and compliance monitoring system based on performance indicators.[48]

Based on the analysis and supporting evidence the score for this dimension is A.

24.2. Procurement methods

This dimension analyzes the percentage of the total value of contracts awarded with and without competition.

The PPL contemplates the use of the following procurement methods:

- Open procedure;
- Restricted procedure;
- Negotiated procedure, with or without prior publication of a contract notice;
- Request for proposals;
- Design contests, and
- Consultancy Services procedure, and
- Small value procurement.

The PPL affirms Open Procedures as the preferred method of procurement. It defines those situations in which other methods can be used, which are conditional either with reference to the financial threshold values, or to the nature/object being procured. The use of each procurement method is left at the discretion of the contracting authority in accordance with the conditions set forth in the PPL. The PPL also provides for different procurement procedures depending on the value of the contract. Above high value thresholds, open competition is mandatory; between high and low value thresholds the competition is required through the invitation of at least three economic operators. The thresholds are fixed every two years by a Council of Ministers' Decision. The most recent revised thresholds as of December 29, 2014, are the following:

(a) The high value thresholds:
  - 1,200,000,000 (one billion two hundred million) Albanian Lek (approx. US$9.5 million) for civil works;

[46] Even though the direct contracting/ negotiated procedure, with or without prior publication of a contract notice, is conducted outside the e-portal, publication of the respective contract award notice is mandatory.
[47] According to the Council of Ministers Decision no. 918 on electronically conducting PP procedures, December 29, 2014, the vast majority of PP procedures must be conducted electronically.
[48] EC Progress Report 2016.

- 200,000,000 (two hundred million) Albanian Lek (approx. US$ 1.6 million) for goods and services.

(b) The low value thresholds:
- 12,000,000 (twelve million) Albanian lek (approx. US$ 96,000) for civil works;
- 8,000,000 (eight million) Albanian lek (approx. US$ 64,000) for goods and services.

(c) Small Value Procurement: procurement of less than 800,000 Albanian Lek (approx. US$ 7,000) in a calendar year are considered to be small value procurement. The procedures for small value procurement are streamlined and simplified, however they are conducted through e-procurement system.

The total number of contract notices of procurement procedures published in the PPA official website was **5,109**[49] (479 more than in 2015) amounting to Lek 95.44 billion. Request for Proposal is the most frequently used method (3,106), followed by negotiated procedures (2,186) without prior publication (direct contracting). Open tendering (local and international) was 1,850.

The surprisingly high number of negotiated procedures without prior publication is due to (i) use of this method by Contracting Authorities (CA) by issuing contract amendments on existing contracts for an amount up to 20 percent of the original contract to meet the needs during the first three months at the beginning of the year, sometimes caused by delays in allocating the budget by the Treasury Department at the MoF to the CAs. Funding of these contracts are regulated by the MoF; and (ii) use of this method under the circumstances when emergency situations arise (especially for essential goods and services, such as food, cleaning services, etc.), when there are allegedly lengthy complaints review process by PPC on the new contracts for these goods and services.

Table 3.25: 2016 Public Procurement by Type and Value

Procurement Type	Number of Procurements	Value of Procurements (LEK billion)	Total Procurement Value (%)
Open International Competition	15	7,6	0.2%
Open Local Competition	1,835	79,9	25%
Request for Proposal	3,106	7,7	42%
Negotiations procedure (direct selection)	2,186	8,1	30%
Consulting and other services[50]	113	1,15	1.5%
Total Procurements	**(7,255)** **(5,109 [51]are published and captured by e-portal**	**105,05**	**100.0%**

Source: PPA 2016 Annual Report.

The noncompetitive method is often used to fill the needs of contracting authorities at the beginning of the year, before budget appropriation is approved. PPA reports that this accounts for about 30 percent of direct contracting.

Based on the analysis and supporting evidence the score for this dimension is B.

[49] Not including the negotiation without prior publications.

[50] Other services refer to design contest method.

[51] Figures correspond to published procedures, while the ones that succeeded to contract award are 5,067. The total number of procurement procedures published by PPA does not include direct contracting.

24.3. Public access to procurement information

This dimension reviews the level of public access to complete, reliable, and timely procurement information.

Table 3.26: Summary of evidence and results of the assessment for dimension 24.3

Element/ Requirements	Met (Y/N)	Evidence used/ Comments
Legal and regulatory framework for procurement	Y	All legal acts, bylaws, including standard bidding documents are available in PPA portal
Government procurement plans	Y	All procurement plans are published in PPA portal
Bidding opportunities	Y	All bidding opportunities (including small value contracts) are published on PPA portal
Contract award (purpose, contractor, and value)	Y	All contract award (including direct contracting) are published on PPA portal.
Data on resolution of procurement complaint	Y	PPC publish its decision in PPC website and all data are consolidated on the Annual Report.
Annual procurement statistics	Y	Annual procurement statistics are made available in PPA annual report published on PPA portal

Public access to procurement information is facilitated through the PPA website /www.app.gov.al/. The information provided is comprehensive, including the legal and regulatory framework for procurement, the municipal annual procurement plans, bidding opportunities, and contract awards (purpose, contractor, and value). The PPA system is designed to ensure the transparency and integrity of the procedures. The PPA system allows examination of procurement plans, although the electronic publications are not equipped with search functions, which makes it less user friendly. The system enables electronic processing of public procurement including e-noticing, e-tender documentation, e-submission and, to a certain extent, e-evaluation. According to the Law on procurement, all contracting authorities are obliged to use the system when sums exceed ALL 100,000 (USD 900). The system is fully operational. The annual procurement plans for 2017 and the procurement activities in 2016 were sent to PPA in January 2017 and posted on the PPA website. Announcement for finalization of the tender process and the declaration of the winner as well as the announcement of contract signed are published in the monthly bulletin from PPA which collects information from all contracting authorities.

Complaints and all relevant documentation are submitted and kept in hard copy rather than electronically (e.g. in a database or electronic procurement system). The PPC decisions are made public and posted in the PPC website. Publication of decisions enables interested parties to be better informed as to the consistency and fairness of the process.

Based on the analysis and supporting evidence the score for this dimension is A.

24.4. Procurement complaints management

This dimension assesses the existence and effectiveness of an independent, administrative complaint resolution mechanism.

Table 3.27: Summary of evidence and results of the assessment for dimension 24.4

Element/ Requirements	Met (Y/N)
Complaints are reviewed by a body which is not involved in procurement transactions or in the process leading to contract award decisions	Y
The complaint body does not charge fees that prohibit access by concerned parties	Y
Follows processes for submission and resolutions of complaints that are clearly defined and publicly available	Y

The complaint body exercise the authority to suspend the procurement process	Y
The complaint body issues decisions within the timeframe specified in the rules/regulations	N
The complaint body issues decisions that are binding on every party	Y

The PPC is the highest administrative body in charge of public procurement review of complaints. The main responsibility of the PPC is to examine the complaints pertaining to public procurement procedures and it is guaranteed by the law that PPC members cannot be involved in procurement operations and awards. Its decisions are final, and can only be challenged in the Administrative Court of Tirana. In addition, the PPC also reviews complaints related to concessions contracts, auctions, and mining permits.

The PPL gives the right to complaint to every person who has an interest in a procurement activity. However, the PPL states that the complaints review process shall not be available for complaints arising in connection with contracts for which a public notification is not required such as: negotiated procedure without prior publication, small value procurement, and call-offs under FAs. This leaves almost 30 percent of the total activities procured through negotiated procedure without prior publication out of the complaints review mechanism.

Complaints against the *decisions* of the CA should be first addressed to CA within seven (7) days following the date the complainant knew or should have known of the decision of the contracting authority being challenged. Upon receipt of the complaint, the contracting authority suspends the procurement process until the complaint has been reviewed, and issues a decision within seven (7) days from the receipt of complaint. In this case, the head of the CA may decide to have the complaint reviewed by staff who were not involved in the decision-making that is the subject of the complaint.

If the CA (i) does not reply to the complainant within seven (7) days from receipt of complaint, or (ii) if the CA responds and dismisses the complaint as ungrounded, the complainant can file a complaint with the PPC within 10 days for a fee (by paying a fee equal to 0.5 percent of the value of the allocated budget to the contract). A form for filing a complaint is attached to the tender documents.

The PPC sub-ordinance was recently changed through an amendment of PPL (Law no. 47/2017). PPC is expected to be an independent body reporting to the Parliament. The PPC will consist of five members who will be appointed by the Parliament after the proposal of the Council of Ministers for a term of five years renewable for another term. The PPC is undergoing a transitory period for six months until the new members are elected. More than 70 percent[52] of the complaints are addressed within the timeline established by Public Procurement Law. Complaints and all relevant documentation are submitted and kept in hard copy rather than electronically (e.g. in a database or electronic procurement system) This makes data analysis difficult and time-consuming. It is difficult to generate statistics by types of complaint, sector, category of procurement, economic operator, etc., at a specific point in time. The PPC decisions are made public and posted in the PPC website. Publication of decisions enables interested parties to be better informed as to the consistency and fairness of the process.

Based on the analysis and supporting evidence the score for this dimension is B.

PI-25. Internal controls on nonsalary expenditure

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

- *Dimension 25.1. Segregation of duties (Time period: at time of assessment; coverage - CG);*
- *Dimension 25.2. Effectiveness of expenditure commitment controls (Time period: at time of assessment; coverage - CG);*
- *Dimension 25.3. Compliance with payment rules and procedures (Time period: at time of assessment; coverage - CG).*

Background

[52] As per the finding of the Country Procurement and Contract Implementation Report of the World Bank (issued on June 2017).

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

Summary of scores and performance table

Indicator/Dimension	Score	Brief justification for score
PI-25 Internal controls on non-salary expenditure	Overall score B	Scoring method M2 (AV)
25.1 Segregation of duties	Dimension score C	Segregation of duties is prescribed throughout the expenditure process. More precise definition of important responsibilities may be needed.
25.2 Effectiveness of expenditure commitment controls	Dimension score C	Expenditure commitment control procedures exist which provide partial coverage and are partially effective.
25.3 Compliance with payment rules and procedures	Dimension score A	All payments are compliant with regular payment procedures. All exceptions are properly authorized in advance and justified.

25.1. Segregation of duties

This dimension assesses the existence of segregation of duties, which is a fundamental element of internal control to prevent an employee or group of employees from being in a position both to perpetrate and to conceal errors or fraud in the normal course of their duties.

In the Law "On the Financial Management and Control", art 22[53], control activities are described as minimum controls that each head of a public sector unit shall implement. A significant portion of the control activities includes: (1) segregation of duties (2) dual signature system, which does not allow a financial engagement to be made without the signatures of the Authorizing Officer and of the Executing Officer of the unit and (3) rules for documenting all transactions and activities of the unit.

The role of the various parties involved in the financial management control system are established in the Law on Financial Management and Control[54] and Law of the Management of the Budget System[55] and related sublegal acts[56]. These include the Minister of Finance, The Principal Authorizing Officer (MoF Secretary General), the entity authorizing officer and subordinate authorizing officers, executing officers, and line managers. These roles are clearly prescribed in the legislation, a separate instruction regulates the roles and responsibilities within the public units on the management of assets[57].

Pursuant to the law, the authorizing officers of central government units and special funds units of central government are accountable and report to the principle authorizing officer for the preparation, implementation, internal financial control, monitoring, reporting and accounting of their budget. The authorizing officer of the general government unit designates the second level authorizing officers, head of the programs, subprograms, to each

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

[54] Articles 6 through 12 of the Law.

[55] Law on the Management of the Budget System in the Republic of Albania no 9936, dated 26.06.2008, amended with the Law no. 57 dated 02.06.2016

[56] Ministry of Finance Instruction No. 2, dated 06.02.2012 On Standard Procedures on Implementation of Budget".

[57] Ministry of Finance Instruction no. 30, dated 27.12.2011 On the Assets Management in Public Sector Units.

structure and direct subordinate unit. In public units with several levels of spending units, authorizing officers are designated as a second or third level authorizing officer by the head of the institution.

Further, the public sector units must establish an organizational structure in documentary form; stating the rules for determining and segregating tasks, duties, and responsibilities, as well as hierarchy and reporting lines. When reviewing the composition of the finance and budget department of the organizations, it was noted that the finance units are significantly understaffed, therefore undermining the principles of division of labor, segregation of duties and consequently the achievement of the public-sector unit objectives.

The organizational structure is complemented by the internal regulations and job descriptions. The DoPA has observed that most institutions have not reflected the most recent organizational changes in the internal regulation[58]; therefore, the roles and responsibilities are not linked to the new structure. Weaknesses were also noted in the quality of the job descriptions prepared by the organizations[59]. During 2016 DoPA has prepare job descriptions and terms of reference for those positions that do not vary across state organization and general job descriptions, which will be an integral part of DoCM no. 142, dated 12,03,2014 as subsequently amended.

2016 PIFC annual report noted that the manuals and audit trails depicting processes and control activities[60] are not prepared and implemented in all public institutions, despite some progress in this area. Process map and audit trail are prepared only in the area of procurement. In practice, there is a lack of understanding of the need for business processes descriptions, which are often confused with job descriptions. During the assessment interviews conducted in selected institutions, it has been noted that undocumented policies and procedures on the budget execution process have resulted in inefficiencies in the process of handling of requests, commitments, payments, and reporting. This took place because the roles and responsibilities across various departments are not clearly defined and documented.

There are also inconsistent practices regarding the implementation arrangements for projects financed by international financial institutions. There are instances where ring-fenced donor project implementation units are established as separate spending units subordinated under the main implementing agency (ministry or subordinated instructions). In such cases, there are higher control risk due to lack of ownership, oversight, and segregation of duties.

Recent developments in the area provide emphasis toward the practical development of the management accountability and delegation of tasks. In the majority of the institutions the delegation of tasks, as prescribed by the articles 9, 12, 15 of the FMC law is not implemented.

Based on the analysis and supporting evidence the score for this dimension is C.

25.2. Effectiveness of expenditure commitment controls

This dimension assesses the effectiveness of expenditure commitment controls.

Commitment controls for salary and non-salary financial transactions are present in the control systems of central government units. According to the article 40 of the Organic Budget Law (OBL), as amended in June 2016, each general government unit, before starting any procurement procedure for a one or multi-year contract, is obliged to have a confirmation from MoF, that there are available funds to them to continue with the procurement. Once the procurement process is successfully finalized and the contract is signed, the commitment/ purchase order is entered into the treasury information system (AGFIS). Payment requests are thereafter submitted against the registered purchase order.

As noted under PI22, despite recent enhancement in the commitment controls, there are still instances of unbilled, old contracts issued before the implementation of the new arrangements, that are not registered in the system.

[58] Ministry of Finance 2016 draft annual PIFC report

[59] Department of Public Administration 2016 annual report pg. 24

[60] As required in the article 16 of the FMC law.

The MoF controlled treasury information system (AGFIS) does not yet provide direct access to all budgetary units[61], with manual systems being predominant thus endangering the effectiveness of commitment controls and other payment controls. Even when direct access is provided, limited users and inefficient segregation of duties between users reduces the effectiveness of the system controls.

During the interviews, the assessment team noted that monitoring controls are not in place. Controls such as review of aging of the open purchase orders and purchase requisitions, reconciliations, and monitoring and follow up of the stale items, or management reports would enhance the effectiveness of commitment controls. Overall, expenditure commitment control procedures exist which provide partial coverage and are partially effective.

Based on the analysis and supportive evidence the score for this dimension is C.

25.3. Compliance with payment rules and procedures

This dimension assesses the extent of compliance with the payment controls rules and procedures based on available evidence.

Treasury instructions on the recording, processing and reporting transactions are clear and are respected by the financial officers involved in the preparation and entry of the transactions. In Albania, Treasury District Offices (TDO) are ultimately responsible for payment execution. The Treasury information system (AGFIS) has built-in, extensive checks that ensure that errors are detected before they enter into the system and are corrected when processed. Specifically, every payment order presented by budgetary institutions is controlled by the financial officers at the TDO before are processed, irrespective of whether the unit has direct access in the system or not.

Starting from 2015, the Ministry of Finance has been monitoring the performance of a set of key indicators on the quality of internal control system across public sector units in central and local government, and the results are presented in the PIFC annual report[62]. There is an improvement over the years of the performance of the indicator assessing compliance with payment rules and procedures, based on assessment of the General Department of Treasury. In 2016, the indicator measuring the rate of rejection from the TDO of the expenditure order (payment request) issued by the line ministries varies from 0 to 1.9 percent of all the payment requests.

Both compliance audits undertaken by IA units and HSC during the recent years have not reported significant deficiencies and noncompliance of payment transactions for non-salary expenditure with established procedures (regular procedures and procedures for exceptions).

Overall, all (materiality as defined by PEFA 2016 Framework) payments are compliant with regular payment procedures. All (materiality as defined by PEFA 2016 Framework) exceptions are properly authorized in advance and justified.

Based on the analysis and supporting evidence the score for this dimension is A.

PI-26. Internal audit

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

- *Dimension 26.1. Coverage of internal audit (Time period: at time of assessment; coverage - CG);*
- *Dimension 26.2. Nature of audits and standards applied (Time period: at time of assessment; coverage - CG);*
- *Dimension 26.3. Implementation of internal audits and reporting (Time period: the last completed fiscal year, 2016; coverage - CG);*

[61] 15 institutions (Line ministries, national agencies and Tirana Municipality) are direct users of AGFIS through GovNet. The remaining budgetary institutions operate through District Treasury Offices.

[62] Ministry of Finance order no. 89, dated 28.12.2015 on the methodology for performance monitoring of the public units.

- *Dimension 26.4. Response to internal audits (Time period: audit reports used for the assessment should have been issued in the last three fiscal years, 2014, 2015, 2016; coverage - CG).*

Summary of scores and performance table

Indicator/Dimension	Score	Brief justification for score
PI-26 Internal audit	Overall score C+	Scoring method M1 (WL)
26.1 Coverage of internal audit	Dimension score A	The Internal Audit function is operational for all central government entities.
26.2 Nature of audits and standards applied	Dimension score C	The internal audit function still has no systematic or diagnostic nature in assessing the effectiveness of the internal control.
26.3 Implementation of internal audits and reporting	Dimension score A	Based on the CHU information during 2016, 90% percent of the audit plan has been implemented. In the organizations visited the all changes to the original audit plan have been approved by the head of the organization based on justification. Internal auditor submits their reports to the Minister and the head of the public entity audited.
26.4 Response to internal audits	Dimension score B	Management provides a partial response to audit recommendations for all entities audited within twelve months of the report being produced.

Background

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

The Law no. 114 replaced Law no. 9720 dated 23/4/2007 “On Internal Audit in Public Sector”. The changes in the Law were mainly focused in strengthening the processes of (1) hiring, (2) certification and (3) continuous professional development of internal auditors. In addition, the Law introduces for the first time the establishment of the Audit Committee in public entities as an independent monitoring and advisory body to senior management. In 2015, a new certification program for internal auditors joining the profession has been established with support of the donors. As part of a continuous professional development training program established under the same project, during 2014-2017 all internal auditors employed in the public sector have attended obligatory training. Such capacity building activities did not exist in the past.

Under the Law, Internal Auditors are required to have a master's degree in economics, law or other disciplines as may be appropriate for the sector subject to audit. A junior internal auditor must have three years of professional experience relating to the master’s degree and, within two years of first being hired as an internal auditor, must complete an “Internal Audit” certification procedure administered by the Commission for Qualification of Internal Auditors (CQIA) under MoF. A senior internal auditor must be certified as an "Internal Auditor" and have five years’ professional experience either in any relevant field or as an internal or external auditor. Heads of internal audit unit should also be certified as an "Internal Auditor" and have five years’ experience in internal or external audit. There are currently 1,874 CQIA-certified internal auditors, of which 197 currently work in the state administration together with 26 junior internal auditors. The 214 internal audit staff in the central government administration work across 58 internal audit units.

26.1. Coverage of internal audit

This dimension assesses the extent to which government entities are subject to internal audit.

The IA units across central government and local government public entities are established following the criteria defined by a COM Decision 83 dated 03.02.2016. It requires that IA units are established in:

- All line ministries, subordinated institutions organized with geographically dispersed units, and all municipalities;
- All other public entities (revenue generating, NGO, and joint ventures), owned, controlled, and financed by a central government unit, that meet the following criteria: (i) 400 million ALL revenue (eq. to Euro 3 million); and (ii) 300 employees during the last 3 years of the operations.;
- For the public entities that do not have an IA unit, the IA function is carried out by the public institution that the unit is subordinated;
- The public entities that do not meet any of the criteria to establish an IA unit and are not subordinated to another entity, can outsource the IA function through an agreement with the public entities that have IA unit or Certified IA consultants

112 internal audit units are established and operational, out of which 58 in central government institutions and entities. In addition, 7 central government institutions have outsourced their IA functions from within the central government.

Table 3.28: Summary of government entities subject to internal audit

	IA units	Outsourced	Total
Line ministries	16		16
Other central government institutions	20		20
Hospitals	8		8
Universities	5		5
Independent state institutions	9	7	16
Total	58	7	65

As described in the Law on Auditing, the role of the internal audit is to help the public unit in achieving its objectives. In the Annual report "On the functioning of Public Internal Financial Control System (PIFC) in the general government units for the year 2016" prepared by the Centre for Harmonization Unit (CHU) at the Ministry of Finance, it is observed around 90 percent of the Internal Audit (IA) Units have their objectives in accordance with the objectives of public entities. The IA units, according to the Law on Internal Auditing, identifies and assesses the risks of public entities during the planning process. As a result of such assessment, the high risk units are included in the strategic and annual audit plan. The 2017-2019 strategic audit plan and 2017 annual plan are approved by the management of the public entities by the end of 2016, and submitted to the Ministry of Finance for review and comments. The audit scope and coverage period varies from an entity to another and the assessor understanding is that during the audit planning preparation process the percentage coverage in terms of expenditures / revenues subject to audit is not taken into consideration as it centers on risk assessment-based approach. In the organizations visited, it has been noted that the subordinated entities are audited at least every two years. Only in a few instances some small units were audited at least every 5 years. For each audit assignment, an audit program is prepared and agreed with the management of the audited entity, before the fieldwork begins. There are standard checklists and templates used for documentation of all audit steps. All work is performed manually, and standard documentation and other evidence is filed in manual folders. There is evidence of review from senior staff in the audit files. Audit reports and related correspondence with the audited entities are maintained in the files. Evidence of follow up activities exist, such as follow up engagements performed by IA units, follow up inquiries to management conducted on periodic basis, and/or included as an activity in the audit program of the next IA audit to the audited entity.

During the visits, the assessment team noted that the IA units, established in line ministries, still do conduct audits in subordinated entities that have established an internal audit function, pursuant to CoM decision, despite such is not allowed by the legislation. As a result, the IA resources are not used efficiently and effectively across organizations. In addition, it has been persistently reported, the IA units are not including regularly in their audit plan the audit of the activities of the line ministry. Despite noted weaknesses, in overall, the internal audit is operational for **all** (materiality as defined by PEFA 2016 Framework) central government entities as demonstrated by the existence of laws, regulations and/or procedures and the existence of audit work programs, audit documentation, reporting, and follow-up activities leading to the achievement of the internal audit objectives.

Based on the analysis and supporting evidence the score for this dimension is A.

26.2. Nature of audits and standards applied

This dimension assesses the nature of audits performed and the extent of adherence to professional standards.

The current regulatory framework of the internal audit units including the Law on Internal Audit, the Audit Manual, Code of Ethics, the Internal Audit Charter as well as other legal acts, are in accordance with international standards of internal audit. Adherence to this framework is periodically evaluated by the MoF, and continuous professional development training is delivered periodically based on the annual training needs.

According to the IA Manual, there are six types of audits that the IA Unit may undertake during its activities: full audit, financial audit, compliance audit, performance and IT audit or combined audits. During 2016, 53 percent of the audits conducted by the IA Units were full audits, whereas 26 percent and 5 percent were compliance and financial audit respectively[63].

In practice, internal auditors face a lack of support and are confronted by misinterpretation of their function by their top managers. The Internal Audit function has in most cases become another type of control activity and primarily consists of ex-post reviews, which are focused on checking financial transaction and compliance. The auditors have limited understanding of system based auditing, and the requirements of such are not reflected in their working papers and reports, even though their audit plan indicates that they will perform an audit assessment of specific systems. Audit documentation on risk assessment and test of internal control, despite using approved templates and standard checklist does not reflect the requirements set out in the audit manual. And finally, the reports would benefit from a more detailed analysis of the internal control system, description of findings, the impact and related recommendation for each finding.

Besides weak technical skills, the IA function does not have in all instances the necessary resources and structure to fully support planned activities. At present, the structure of 15 units out of 58 are staffed with one or two auditors, and in 9 units, there is still no head of unit. Exacerbating the situation, the scarce resources are not used efficiently and effectively by the management of the organization. In addition, there is lack of specialized skills, like IT auditors, especially on those institutions that are heavily reliant on information systems. Such constrains, beside affecting the quality of the audits, would not allow proper division of labor, and quality assurance activities could not be properly exercised.

Based on the analysis and supporting evidence, despite positive progress in this area since the previous assessment, the Internal audit activities provide limited assurance of the adequacy and effectiveness of internal controls and are primarily focused on financial compliance.

Based on the analysis and supporting evidence, the score for this dimension is C.

26.3. Implementation of internal audits and reporting

This dimension assesses specific evidence of an effective internal audit (or systems monitoring) function as shown by the preparation of annual audit programs and their actual implementation including the availability of internal audit reports.

The IA units, according to the Law on Internal Audit, identifies and assesses the risks of public entities during the planning process. As a result of this assessment, the high risk units are included in the strategic and annual audit plan (or annual audit program as defined by PEFA 2016 Framework). These documents are approved by the

[63] Source: MoF PIFC General Directorate

management of the public entities before the start of the year, and submitted to the Ministry of Finance for review and comments. Based on MoF data, all IA units have prepared annual audit programs for the year 2016.

In the organizations visited, changes to the original audit plan have been approved provided justification by the head of the organization. Common causes of such changes are i) duplication with SAI audit plan, ii) changes in risk assessment occurring during the year, and iii) changes in the priorities during the year. Internal auditor submits their reports to the Minister and the head of the public entity audited. An annual activity report is produced on the audit activities of the preceding year, which includes information on actual audit engagements conducted, reports produced and distributed, recommendations and follow up. Such activity report is submitted to the head of the institution and then to the Ministry of Finance by all the IA units.

Based on data provided by MoF PICF Harmonization General Directorate with respect to the IA activity in central government during the year 2016[64], the number of audit engagements completed during 2016 fell behind the plan by 10 percent (833 out of 929 or 90 percent of the plan). Therefore, **all** (materiality as defined by PEFA 2016 Framework) programed audits are completed.

Based on the analysis and supporting evidence the score for this dimension is A.

26.4. Response to internal audits

This dimension assesses the extent to which action is taken by management on internal audit findings.

The responsibility for implementing the recommendations lies with the management of audited entities, IA units monitor the implementation of their recommendations. In the organizations visited, the assessment team noted that follow up activities are conducted by IA units. Such follow up is documented in various forms consisting of separate follow up engagements, follow up inquiries to management on periodic basis, and/or included as an activity in the audit program of the next IA audit to the audited entity. During follow up activities, IA unit validates that recommendation/ action is taken by the management and whether the response provided is appropriate. From the audits reviewed, it appears that findings and recommendations were discussed with the management of the auditee, and changes were made as appropriate. Agreed action plan schedules are not widely used as monitoring tools. While generally the quality of audit recommendations has improved, by being more focused on the improvement of the internal control framework, organizational structure and capacity building of staff, there are still deficiencies noted across all organizations such as: recommendations that relate to financial transactions rather than internal control system, recommendations that are not based on audit findings, and do not provide clear and concrete solutions.

General data analysis of the IA function[65] for the last 3 years shows that while the acceptance of the audit findings by the management of the audited entities is relatively high (99 percent of the findings are accepted by the auditees), on average during the last 3 years only up to 55 percent of the recommendations are implemented within 12 months of the report being produced. Thus, the assessment team concluded that within a year of the audit report being produced, for **all** the auditees, **a partial response** to the audit recommendations is provided by the management of the audited entities.

Based on the analysis and supporting evidence the score for this dimension is B.

[64] Based on the data provided by IA units in their annual activity reports.

[65] Analysis computed by the MoF PIFC General Directorate based on data reported annually by all the internal audit units established in state administration organizations/units as presented in their annual activity report.

3.6 PILLAR SIX: 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 (Time period: at time of assessment covering preceding fiscal year; coverage - BCG);*
- *Dimension 27.2. Suspense accounts (Time period: at time of assessment covering preceding fiscal year; coverage - BCG);*
- *Dimension 27.3. Advance accounts (Time period: at time of assessment covering preceding fiscal year; coverage - BCG);*
- *Dimension 27.4. Financial data integrity processes (Time period: at time of assessment; coverage - BCG).*

Summary of scores and performance table

Indicator/Dimension	Score	Brief justification for score
PI-27 Financial data integrity	Overall score B+	Scoring method M2 (AV)
27.1 Bank account reconciliation	Dimension score B	Bank reconciliation for all active central government bank accounts takes place at least on monthly basis, at aggregate and detailed levels and usually within one week from the end of the month.
27.2 Suspense accounts	Dimension score A	Reconciliation of suspense accounts takes place at least monthly, within a month from the end of each month. Suspense accounts are cleared in a timely way, no later than the end of the fiscal year unless duly justified.
27.3 Advance accounts	Dimension score A	Generally, advances are applied only in donor/IFI financed projects contracts, and there is a well-defined time schedule for the reconciliation and clearance compliant with contractual agreement. In general, this is performed on monthly basis, within a month, when invoices, summary reports and payments certificates are issued by the contractor and approved by the management of the unit.
27.4 Financial data integrity processes	Dimension score B	Access and changes to records is restricted and recorded, and results in audit trail.

27.1. Bank account reconciliation

This dimension assesses the regularity of bank reconciliation.

Treasury reconciles on daily basis all its liquidity balances with the TSA sub-accounts and other bank accounts in the Central Bank of Albania administered by the Ministry of Finance. The accounts outside TSA maintained in the Bank of Albania consist of special funds for expropriation, compensation of former owners, and a limited number of designated Bank accounts for IFI /Donor-financed projects, denominated in Albanian Lek, Euro and USD. Bank accounts maintained in second level banks relate to operational bank accounts for IFI/Donor financed projects, bank accounts managed by budgetary institutions required by Law, such as prosecution office and the agency for the compensation of owners. The accounts in second level banks are reconciled monthly, and related reports are submitted to Ministry of Finance within 5 days from the end of the month.

Based on the analysis and supporting evidence the score for this dimension is B.

27.2 Suspense accounts

This dimension assesses the extent to which suspense accounts, including sundry deposits/liabilities, are reconciled on a regular basis, and cleared in a timely way.

According to the Ministry of Finance, suspense accounts relate to account class 480 Revenues to be classified or adjusted that is used temporarily to record revenues or receipts that have yet to be classified. As revenues and receipts are collected by second level banks on behalf of GDT, GDC, HIF and SIF, the receipts are temporarily recorded in this account, and subsequently reclassified into respective revenue accounts for taxes, custom duties, and social and health contributions. The clearance is done on daily basis for revenues collected on behalf of GDT and every month for receipts collected on behalf of GDC. No balance is shown with respect to these two categories at year-end financial position. Any remaining balance (0.09 percent of total revenues as at the end of 2016) relates to receipts on behalf of HIF and SIF, which are cleared by the respective institutions based on their operational procedures. Differences or items requiring clarification are followed up. Generally, there is a well defined time schedule to follow up on any differences. There are no suspense accounts linked with expense accounts as enabled by treasury system functions.

Based on the analysis and supporting evidence the score for this dimension is A.

27.3. Advance accounts

This dimension assesses the extent to which advance accounts are reconciled and cleared.

Advances based on contracts for vendors, contractors, and consultants are not allowed, unless reference is made in a contract to the applicable legislation. In such events, advances would be allowed only to the extent of the performance guarantee issued by the contractor, usually at 10 percent. Exception to such rule are made for special importance contracts with prior approval of by the Minister of Finance. In practice, advances are mostly applied for the contracts signed under donor/ IFI financed projects usually contracted under procurement rules prescribed by the grant/credit agreement. The advance amount generally does not exceed 10 percent and are cleared according to timelines provided in contractual agreements. Travel advances to employees are occasionally provided, and cleared immediately after returning from the official trip. Operational imprest accounts are no longer allowed. There is no consistent accounting practice across budgetary units for the recording of advances, even though the applicable accounting principles prescribe recognition as an asset. In general, advances are recorded as expenditure at 100 percent when paid. Advances for capital investment contracts are recorded as assets. Advance accounts in the yearend financial reports produced by central budgetary units approximate nil.

Generally, advances are applied only in donor/IFI financed projects contracts, and there is a well-defined time schedule for the reconciliation and clearance, provided by the contractual agreements. In general, this is performed on monthly basis, within a month, when invoices, summary reports and payments certificates are issued by the contractors and approved by the management of the unit. The same pattern applies for the release of the related guarantee (bank or performance).

Based on the analysis and supporting evidence the score for this dimension is A.

27.4. Financial data integrity processes

This dimension assesses the extent to which processes support the delivery of financial information and focuses on data integrity defined as accuracy and completeness (ISO/IEC International Standard, 2014).

The main IT system operated by the MoF at present is the treasury information system (officially called Albanian Government Information System, AGFIS[66]). The functions automated through this system include budget execution, commitment management, cash management, accounting, and reporting. Implemented in 2010, the system was initially used by the GD Treasury, the Treasury District Offices, and GD Budget. However, it was recognized that the system would be more effective if the spending units were also granted access. Piloting the provision of direct access to the system has revealed major technical and financial constraints to implementing the solution (due to software customization needs and high licensing cost). It was subsequently decided to establish a web portal to provide (free/low cost) access for the spending units to the system functionality that is required at their level. Currently, the MoF is developing, on the basis of AGFIS, ICT solutions for the integrated financial management information system (AFMIS) and two interlinked information system modules to be administered by the Cabinet of Ministers office (CoM will administer the integrated planning module, IPSIS, and the external assistance module, EAMIS).

An IT security risk assessment, conducted in 2015, revealed many significant weaknesses where immediate response was required. As a result, a Risk Mitigation Strategy Implementation Plan was developed. Many high risk areas were addressed during 2016 such as implementation of an offsite BCC[67] and BCC program, implementation of a physical access and password policy, and enabling of audit logs in database level. In 2016, the application and database servers have been upgraded to the newer technology. However, there are still significant risk areas that infringe the data security and therefore require close attention and follow up.

Generally, access to the system is restricted by a rigid system of access passwords as defined in the IT policy. There is a well-defined user management policy[68] in place, establishing the requirements and procedures for creating new users, changing profiles, and deactivating users. Records cannot be created or modified without leaving an audit trail. Audit trails enable individual accountability, intrusion detection and problem analysis. Audit trails generated from the Oracle Audit Vault (OAV) provide information on who accessed the data, who initiated the transaction, the time of day and date of entry, the type of entry, what fields of information it contained, and what files it updated. OAV is maintained by NAIS however to date no audit or reviews are performed by NAIS to verify the financial integrity of data. Currently, there is no operational unit neither in MoF or elsewhere, that is responsible and conducts the data integrity reviews. Administrative right for the audit of the system is provided to the Ministry of Finance[69], however no unit has been established yet.

Based on the analysis and supporting evidence the score for this dimension is B.

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 and uses the **M1 (WL)** method for aggregating dimension scores:*

- *Dimension 28.1. Coverage and comparability of reports (Time period: the last completed fiscal year, 2016; coverage - BCG);*
- *Dimension 28.2. Timing of in-year budget reports (Time period: the last completed fiscal year, 2016; coverage - BCG);*

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[66] Registered in the state database list through CoMD Nr. 352 dated 11.05.2016 which defines data, responsible institutions, access levels and administrative for each institution.

[67] In 2016 has implemented BCC in NAIS Data Center for AGFIS system.

[68] Approved by Minister of Finance, order no. 89, dated November 12, 2014.

[69] CoMD Nr. 352 dated 11.05.2016.

- *Dimension 28.3. Accuracy of in-year budget reports (Time period: the last completed fiscal year, 2016; coverage - BCG).*

Summary of scores and performance table

Indicator/Dimension	Score	Brief justification for score
PI-28 In-year budget report	Overall score D+	Scoring method M1 (WL)
28.1 Coverage and comparability of	Dimension score D	Coverage and classification of data does not allow direct comparison to original budget
28.2 Timing of in-year budget reports	Dimension score B	Budget execution reports are prepared monthly and issued within four weeks
28.3 Accuracy of in-year budget reports	Dimension score C	There are concerns about data accuracy. Expenditure is captured at payment stage.

28.1. Coverage and comparability of reports

This dimension assesses the extent to which information is presented in in-year reports and in a form, that is easily comparable to the original budget (i.e., the same coverage, basis of accounting, and presentation).

In-year budget reports are generally consistent with budget coverage and classification to allow monitoring of budget performance and to be used timely for corrective measures. In-year budget reports are used to measure the year-to-date performance through the analysis of revenue and expenditures outturns, with respect to budget estimates. However, the budget reports are designed and are being prepared to compare coverage and classification of budget execution data to the revised budget estimates (i.e. not the original budget estimates). The original budget estimates are not used for the reports, but the data is readily available and with updates to the reporting system, it could be used.

Following every budget rectification process, the revised budget estimates are updated in the IT systems, and thus overwrite the original budget estimates. As any typical annual budget exercise is subject to at least 2 rectifications during the year, the revised budget estimates can differ significantly from the original budget estimates.

Based on the analysis and supporting evidence, the rating for this dimension is D due to lack of comparison with the original approved budget.

28.2. Timing of in-year budget reports

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

Monthly budget execution reports are prepared and issued within four weeks from the end of each month.

Based on the analysis and supporting evidence, the rating for this dimension is B.

28.3. Accuracy of in-year budget reports

This dimension assesses the accuracy of the information submitted, including whether expenditure for both the commitment and the payment stage is provided.

Actual expenditures are recorded and reported using the modified cash basis of accounting, whereas actual revenues collected are presented using the cash basis of accounting. However, reports are not accompanied by a detailed analysis and commentaries of budget execution related for instance to changes in the initial allocation between headings. No information is presented at the commitment stage of expenditure.

Based on the analysis and supporting evidence, the rating for this dimension is C.

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 (Time period: the last completed fiscal year; coverage - BCG);*
- *Dimension 29.2 Submission of reports for external audit (Time period: the last financial report submitted for audit; coverage - BCG);*
- *Dimension 29.3 Accounting standards (Time period: the last three years' financial reports; coverage - BCG).*

Summary of scores and performance table

Indicator/Dimension	Score	Brief justification for score
PI-29 Annual financial reports	D+	Scoring method M1 (WL)
29.1 Completeness of annual financial reports	Dimension score D	Annual financial reports are prepared but do not present a comparison between the original budget and actual execution.
29.2 Submission of reports for external audit	Dimension score B	FY 2015 annual financial reports have been submitted for external audit within 6 months
29.3 Accounting standards	Dimension score C	Accounting standards applied to all financial reports are consistent with the country's legal framework and ensure consistency of reporting over time. The differences between the national and international standards are not disclosed.

29.1. Completeness of annual financial reports

This dimension assesses the completeness of financial reports.

The Albanian Law 9928/2004 dated April 29, 2004, on accounting and financial statements, (amended by Law 9477 dated February 9, 2006) requires that (Article 12): "Subject to any exceptions or exemptions specified in national 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 the financial statements, containing disclosure of accounting policies, as well as other explanatory material."

Annual financial reports include information on revenue, expenditure, cash balances, financial and tangible assets, liabilities, including medium and long-term obligations. For the last completed FY 2015, as of the date of the main assessment mission in April 2017, the annual reports omitted the guarantees and other contingent liabilities (such as those related to Public-Private Partnerships). The BCG equivalent report that is formally submitted for audit does not contain a consolidated balance sheet and the statement of changes in equity. The financial reports include statements of revenues and expenses, but only compare the actuals with the latest revised budget (i.e. not the original approved budget). As explained under indicator PI 28.1, the revised budget estimates are used in the reporting formats, including for the annual financial reports, not the original budget figures.

Based on the analysis and supporting evidence, the rating for this dimension is D due to lack of comparison with the original approved budget.

29.2. Submission of reports for external audit

This dimension assesses the timeliness of submission of reconciled year-end financial reports for external audit.

Annual financial reports are submitted for external audit to the Albanian Supreme Audit Institution. By law, the annual reports on the budget execution are to be submitted by the MoF to the SAI within five months after the end of the fiscal year (December 31st). In general, for the past few years, the annual financial reports on the budget execution have been submitted on time, with some very small delays (a few days). At the time of the assessment mission in April 2017, the last completed annual financial report covered FY 2015. The FY 2015 annual reports have been submitted to the SAI on June 1, 2016.

Based on the analysis and supporting evidence, the rating for this dimension is B.

29.3. Accounting standards

This dimension assesses the extent to which annual financial reports are understandable to the intended users and contribute to accountability and transparency.

Accounting standards applied to all financial reports are consistent with the national legal framework and financial instructions to ensure consistency of reporting over time. The standards used in preparing the annual financial reports are disclosed, but the deviations from international accounting standards (i.e. International Public Sector Accounting Standards - IPSAS) are not explained. Overall, accounting standards used have significant differences compared to IPSAS. Over the recent months, the Government has been working with the World Bank on a separate project to assess the degree of compliance of the Albanian public sector accounting standards with IPSAS. The initial report revealed significant differences of the Albanian public sector accounting standards with IPSAS, and it is expected that a detailed final report describing the degree of adoption of IPSAS and the remaining compliance gap would become available in the second half of 2017.

Based on the analysis and supporting evidence, the rating for this dimension is C.

3.7 PILLAR SEVEN: External scrutiny and audit

PI-30. External audit

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

- *Dimension 30.1 Audit coverage and standards (Time period: the last three completed fiscal years; coverage - CG);*
- *Dimension 30.2 Submission of audit reports to the legislature (Time period: the last three completed fiscal years; coverage - CG);*
- *Dimension 30.3 External audit follow-up (Time period: the last three completed fiscal years; coverage - CG);*
- *Dimension 30.4 Supreme Audit Institution independence (Time period: at time of assessment; coverage - CG).*

Summary of scores and performance table

Indicator/Dimension	Score	Brief justification for score
PI-30 External audit	C+	Scoring method M1 (WL)
30.1 Audit coverage and standards	Dimension score B	Financial statements of the central government entities representing between 75-85% of total expenditures and revenues have been audited using national auditing standards during the last three completed fiscal years.
30.2 Submission of audit reports to the legislature	Dimension score B	Audits reports have been submitted to the legislature within 6 months from receipt of financial reports for the last 3 years.
30.3 External audit follow-up	Dimension score C	Formal responses are made by the audited entities on audits for which follow up was expected during the last 3 completed years.
30.4 Supreme Audit Institution independence	Dimension score B	The SAI operates independently from the executive with respect to procedures for appointment of the Chairman, planning of audit engagements, publicizing reports, and approval and execution of SAI's budget. This independence is assured by law. The SAI has unrestricted and timely access to records, documentation, and information. However, the Law has a subjective criterion on the dismissal clause of the SAI Chairman.

The Law 154/2014 dated November 27, 2014 on the organization and functioning of the state supreme audit institution established the legal basis for ensuring that the High State Control operates as a modern SAI. The new law also replaced the old SAI law of 1997.

30.1. Audit coverage and standards

This dimension assesses key elements of external audit in terms of the scope and coverage of audit, as well as adherence to auditing standards.

Law 154/2014 prescribes the types of audit that can be undertaken by the SAI, such as financial audits, compliance audits, performance audits and IT audits. In practice, most of the SAI audits are compliance audits with a focus on determining irregularities as well as highlighting any relevant material issues and systematic and control risks. The audits of FY 2013-2015 of the central government financial reports have been conducted mostly as compliance audits. These audits cover also the Extrabudgetary Units (EBUs) and the two Social Security Funds (SSFs).

The SAI audits ensured a coverage rate of 75.52 percent for 2013, 85.21 percent for 2014 and 75.39 percent for 2015.

Table 3.28: Coverage of the auditing with provision of opinion for state budget execution in central institutions

Coverage of the auditing with provision of opinion for state budget execution in central institution. ***In million ALL***			
YEARS	**2013**	**2014**	**2015**
I-Total expenditure audited by SAI	275,135	345,844	304,073
II Total state budget expenditure (MoF)	364,331	405,864	403,342
Percentage coverage audit = I / II	75.52%	85.21%	75.39%

Based on the analysis and supporting evidence, the rating for this dimension is B.

An ongoing reform process is under implementation to ensure the Albanian SAI is becoming compliant with the International Standards for SAIs (ISSAI), with a strategy in place for the adoption of the ISSAIs. In parallel, the SAI is currently completing its Strategy for Institutional Development for 2015-2017 and preparing its Strategy for 2018-2021. This is being complemented by several twinning projects with other developed SAIs, such as the SAIs from Poland and Croatia. These projects will help the Albanian SAI develop further, improve its audit manuals and procedures, and perform more financial audits. A number of 3 pilot financial audits have been carried out in 2016 and 10 financial audits were planned for 2017.

30.2. Submission of audit reports to the legislature

This dimension assesses the timeliness of submission of audit reports on budget execution to the legislature.

Law 154/2014 does not have a legal provision on the timeliness of the submission of audit reports to the legislature. The other relevant legislation, such as the Constitution and the Organic Budget Law require that submission by the SAI to the Parliament of the previous year's audit is needed before the Parliament starts debating and approval of the following year's budget. At the time of the assessment mission in April 2017, the last completed annual financial report submitted for audit covered FY 2015. In practice, it has been noted that audit reports for the FY 2013-2015 have been submitted to the legislature within six months of the receipt of annual financial reports, as detailed below:

- FY 2015: Financial reports received on June 1, 2016 and audit submitted to the legislature on October 4, 2016;
- FY 2014: Financial reports received on June 5, 2015 and audit submitted to the legislature on October 19, 2015;
- FY 2013: Financial reports received on June 24, 2014 and audit submitted to the legislature on October 3, 2014.

Based on the analysis and supporting evidence, the rating for this dimension is B.

30.3. External audit follow-up

This dimension assesses the extent to which effective and timely follow-up on external audit recommendations or observations is undertaken by the executive or audited entities.

As mandated by Law 154/2014, after the draft audit report is issued, the audited entity must respond in up to a month's time on the audit findings, with their observations being included in the final audit report. The Law 154/2014 also requires the audited entity to report to the SAI within a period of six months from the issuance of the final audit report on the implementation of the recommendations. In practice, it has been observed that formal responses were made by the audited entities on audits for which follow up was expected during the last three fiscal years. The level of recommendations' implementation was 69.7 percent during 2014, 70.6 percent during 2015 and 32.5 percent during 2016. As per the interviews with SAI officials and corroborated with Ministry of Finance, the relatively low level of recommendations' implementation (especially during 2016) has been attributed to the lower interest by the line ministries to address these recommendations, while the total number of recommendations issued by the SAI increased.

Based on the analysis and supporting evidence, the rating for this dimension is C.

Ongoing reforms include a recent protocol agreed between the SAI and Parliament on creating a sub-committee on public accounts audits, under the Parliament's economic-financial committee. It is expected that once the new Parliament takes office in the fall of 2017, the discussions on the establishment of the audit sub-committee would advance. However, it is not yet clear when and if this audit sub-committee would be established.

30.4. Supreme Audit Institution independence

This dimension assesses the independence of the SAI from the executive.

The Law 154/2014 guarantees that the Albanian SAI operates independently from the executive with respect to planning its audit engagements, arrangements for publicizing the audit reports, and the approval and execution of the SAI's budget, as well as ensuring unrestricted and timely access of the SAI to records, documentation and information pertaining to all audited entities. The Law 154 established the framework for a modern and independent SAI, in accordance with the Lima and Mexico declarations on SAI independence. However, the Law 154/2014 has a subjective criterion on the dismissal clause of the SAI Chairman, when the Chairman "commits an act or behavior that seriously discredits the position and his image". This legal provision can be considered subject to interpretation and thus it could interfere with the independence on the removal of the Head of the SAI. At any rate, recent peer reviews and monitoring of the Albanian SAI done by the Austrian SAI, and by the EU SIGMA have confirmed the highest (A) rating of the Albanian SAI's independence. As per the interviews with SAI officials, the subjective criterion mentioned above has never been used, and even if it were to be applied, it would require to be initiated by the Albanian President and then approved by the Parliament, and for this reason it may be considered thus interfering with the SAI's independence from the Executive.

Based on the analysis and supporting evidence, the rating for this dimension is B.

PI-31. Legislative scrutiny of audit reports

This indicator focuses on legislative scrutiny of the audited financial reports of the central government, including institutional units, to the extent that either (a) they are required by law to submit audit reports to the legislature or (b) their parent or controlling unit must answer questions and take action on their behalf. It has the following four dimensions and uses the ***M2 (AV)*** *method for aggregating dimension scores:*

- *Dimension 31.1 Timing of audit report scrutiny (Time period: the last three completed fiscal years; coverage - CG);*
- *Dimension 31.2: Hearings on audit findings (Time period: the last three completed fiscal years; coverage - CG);*
- *Dimension 31.3 Recommendations on audit by legislature (Time period: the last three completed fiscal years; coverage - CG);*

- *Dimension 31.4. Transparency of legislative scrutiny of audit reports (Time period: the last three completed fiscal years; coverage - CG).*

Summary of scores and performance table

Indicator/Dimension	Score	Brief justification for score
PI-31 Legislative scrutiny of audit reports	B	Scoring method M2 (AV)
31.1 Timing of audit report scrutiny	Dimension score A	Scrutiny of audit reports on annual financial reports has been completed by the legislature within a month from receipt of the reports for the last 3 completed years.
31.2 Hearings on audit findings	Dimension score C	In depth hearings on key findings of audit reports take place regularly with SAI representatives and MoF officials only.
31.3 Recommendations on audit by legislature	Dimension score C	The legislature issues recommendations on actions to be implemented, but there is no tracking system for following up on these recommendations.
31.4 Transparency of legislative scrutiny of audit reports	Dimension score B	Hearings are conducted in public with a few exceptions (BoA) in addition to national security or similar sensitive discussions.

31.1. Timing of audit report scrutiny

This dimension assesses the timeliness of the legislative's scrutiny, which is a key factor in the effectiveness of the accountability function.

The legislative scrutiny of the audit reports is carried out firstly by economic-financial committee of the Parliament and its results and recommendations are then adopted by the Parliament. The timeliness of the legislative scrutiny for the last 3 completed fiscal year has been very good, with scrutiny of the audit reports completed with a month from receipt of the audit reports. The actual dates for the last 3 completed fiscal years are summarized below:

- FY 2015: Audit reports received on October 5, 2016 and adopted by the legislature on October 20, 2016;
- FY 2014: Audit reports received on October 23, 2015 and adopted by the legislature on November 6, 2015;
- FY 2013: Audit reports received on October 3, 2014 and adopted by the legislature on October 16, 2014.

Based on the analysis and supporting evidence, the rating for this dimension is A.

31.2. Hearings on audit findings

This dimension assesses the extent to which hearings on key findings of the SAI take place.

In-depth hearings on the audit findings take place regularly and involve representatives of the SAI and MoF officials. Representatives of line ministries, or other audited entities do not participate in the hearings. The Parliament follows up with the line ministries and other audited entities on addressing the audit findings and implementing the recommendations made by the SAI. The audited entities are required to report back to the Parliament on how the audit findings and recommendations have been addressed.

Based on the analysis and supporting evidence, the rating for this dimension is C.

31.3. Recommendations on audit by legislature

This dimension assesses the extent to which the legislature issues recommendations and follows up on their implementation.

The legislature issues recommendations on the key audit findings. The recommendations do not usually have dates by which to be implemented. The SAI follows up with the audited entities on the implementation of the recommendations and usually reports back to the legislature in the following year's hearing process. No evidence could be obtained on whether a tracking system is used by the legislative to follow up how the recommendations have or have not been implemented.

Based on the analysis and supporting evidence, the rating for this dimension is C.

31.4. Transparency of legislative scrutiny of audit reports

This dimension assesses the transparency of the scrutiny function in terms of public access.

Hearings are conducted in public with a few exceptions (such as the Central Bank - Bank of Albania audits), in addition to national security or similar sensitive discussions. The economic-financial committee provided its reports to the full chamber of the legislature and are published on the official website of the Parliament.

Based on the analysis and supporting evidence, the rating for this dimension is B.

4. Conclusions of the analysis of PFM systems

4.1 Integrated assessment of PFM performance

The results of the assessment indicate mixed performance across the seven pillars of the 2016 PEFA framework. Scores for 15 out of 31 indicators are in the A-B range reflecting strong performance while scores for the other 16 indicators are in the C-D range reflecting weak performance. Each pillar has its strengths and weaknesses, a summary of which is presented below.

Budget reliability

Deviations from the originally approved budget expenditures are indicative of underlying weaknesses in the PFM system. The aggregate expenditure outturn was between 95 and 96 percent per cent of the approved budget in each of the last three completed fiscal year. This outcome has considerably improved from the past years and the previous assessment. However, over all three years the expenditure function by function shows a large variance; between 26.7 percent in 2014 and 21 percent in 2015. Reallocations from the originally approved budget occur frequently and reflect more systemic problems related to budgeting, public investment management, implementation, and monitoring of large infrastructure projects; and to a lesser extent inability to reach revenue targets.

Revenue outturn performance improved in the assessment period, reflecting a more realistic approach to revenue forecasting. For the period under assessment the revenue outturn was 97.5 percent of the budgeted revenue in 2016 and 100.1 percent of the budgeted revenue for 2014. In 2015, revenues outturn was 92.2 percent of budgeted revenue, reflecting a broad-based underperformance in excises, PIT, and oil-related taxes. The tax shortfalls reflected problems in revenue administration and coordination across responsible agencies. Forecasting issues in the preparation of the 2015 budget also played a role, with the stock of tax credits in the system underestimated, and lower than expected GDP growth, interest rates, and oil prices.

Transparency of public finances

Albania provides extensive information regarding the finances of the central government. The budget classification and chart of accounts are based on every level of economic, administrative, and functional (and sub-functional) classification using GFS/COFOG standards. A comprehensive set of information is provided in the annual budget documentation. The public has full access to most critical fiscal information (PI-9) with the exception of external audit reports.

Significant number of extrabudgetary units do not provide financial reports to the Government. While available evidence suggests that their operations are insignificant and associated potential fiscal risks are negligible, this could not be verified in the absence of accurate information.

Significant levels of transfers to local government have been conducted through discretionary grants. Central government provides financial resources to the municipalities and the communes through two types of transfers: unconditional and conditional grants. In 2016, 60.8 percent of transfers were determined by transparent, rule based systems; however significant discretionary grants to LGUs were also applied, affecting the rule based distribution.

Ministries provide reasonably comprehensive information on programs, targets, budget execution and discussion of performance targets which are reported on an annual basis. However, there is no consistent and regular upward flow of complete information on the utilization of resources by the service delivery units to accountable ministries.

Management of assets and liabilities

Significant weaknesses in public investment management present a particular challenge in Albania, and undermine the efficiency and effectiveness of capital spending. All major investment projects have been subject to technical assessments and cost benefit analysis. Rules for DPIM review of capital investment exist but are not systematically applied due to political considerations and the pressure to maintain capital spending. The budget includes information on current and capital expenditures, but there is no information on total project costs, or a breakdown by sub-programs or projects. Regulations on reporting, monitoring and evaluation of public investments are in place, but the monitoring system is not comprehensive and the quality of data is not always adequate.

Basic records of financial assets are maintained, but the government lacks a comprehensive record of non-financial assets. A record of its holdings of financial assets is maintained, but information on performance is not published. While public sector units are required to maintain records of non-financial assets, a complete and comprehensive register does not exist. A comprehensive debt management strategy exists and the government maintains adequate systems for recording and reporting debt and guarantees.

There are a number of other areas where the state could improve its monitoring and reporting of government assets and liabilities. Budget documents show transfers to public corporations and their accounts are publicly available however there is no consolidated financial statements of the government portfolio of companies or quasi-fiscal activities. Explicit contingent liabilities in the form of state guarantees are monitored and published quarterly. The Economic Reform Program 2017-2019 contains information on other contingent liabilities such as Public Private Partnerships (PPP) which create direct liabilities for the budget. However, there is no regular comprehensive report on PPPs or other explicit contingent liabilities in the form of deposit insurance, disasters, crop insurance, ongoing litigation, and court cases.

Policy-based fiscal strategy and budgeting

A comprehensive medium term macro-economic forecasts is prepared over a three-year horizon. Updated forecasts are prepared based on the updated macro-fiscal framework but variations between the fiscal forecast and approved budget are not separately identified, explained, or published as part of the budget process. Fiscal forecasts under alternative macroeconomic scenarios and a debt sustainability analysis are prepared on an annual basis and made available to the public.

Estimates of the fiscal impact of all proposed changes in revenue and expenditure policy for the budget year and the two forthcoming years are prepared; however, the fiscal impact of the policy changes is not articulated clearly in the budget proposals submitted to the Parliament. MoF prepares an assessment of its achievements; including an explanation of factors which lead to deviations from the approved objectives, progress made against its fiscal strategy and an explanation of the reasons for any deviation from the targets set.

A comprehensive medium term budget framework is prepared and forms the basis for the annual budget. Aggregate and ministry level ceilings were prepared in 2016; however, the ministry level ceilings were issued after the issuance of the first budget circular. There is a working mechanism in place to assure that MTBP submissions reflect the sector program objectives and priorities, however this mechanism does not assure the link between the existing sector strategies and MTBP submissions.

The set of instructions used for MTBP and budget preparation is comprehensive, covers total budget expenditures for the full fiscal year, and provides clear guidance to budgetary units. A clear budget calendar exists and is generally adhered to albeit with some deviations. In 2016, the final expenditure ceilings were approved by the Council of Ministers after the supplementary instruction for annual budget preparation was issued by the MoF, but well before the deadline for annual budget submissions. Budgets for 2015 and 2016 were submitted to the National Assembly more than a month before the start of the fiscal year, while submission of the 2014 budget was delayed.

The National Assembly scrutiny focuses on the annual budget aggregates and details of expenditures and revenue, not the medium-term fiscal forecasts and priorities. The budgets for all three years under review were approved before the start of the fiscal year. The legislature has clear and well documented procedures for budget review, which assign specific roles to Assembly committees and staff but do not specify negotiation rules. Clear rules for budget adjustments by the executive exist and set strict limits on the extent and nature of amendments undertaken without National Assembly involvement.

Predictability and control in budget execution

There is significant scope to improve the revenue collection systems in Albania. Tax agencies have not fully implemented a structured and systematic risk assessment process for assessing, ranking and quantifying taxpayers' compliance risks. GDT's arrears collection function suffers serious weaknesses; the stock of tax arrears at the end of 2016 accounted for 68.3 percent of total revenue collection with 69.4 percent of these being over 12 months old.

Notwithstanding these weaknesses, the rights and obligations of taxpayers are comprehensive and up to date. Both the GDC and GDT have satisfactory system for recording and accounting for revenue.

Significant cash balances are held outside the TSA, and while they are reported monthly these are not consolidated. Cash flow forecasts are prepared and updated at least on a quarterly basis. Significant budget adjustments took place in 2016, one very close to the budget year end. Although these were approved by the National Assembly, the practice of end-of-year large adjustments is not seen as transparent by line ministries.

After considerable problems in the recent past, the stock of expenditure arrears at the end of 2015 and 2016 was under control. Following significant arrears in the recent past the issue has been given special attention and the functionality of the treasury system now captures commitment information through the registration of signed contracts and monitoring of multi-year contracts. Despite these measures there is no specific reporting or regular monitoring of arrears through the treasury system. Failure to fully prevent accumulation of new arrears presents a concern.

Modernization of IT systems and budget laws are taking time to be fully embedded within budget institutions. Recent legal changes have sought to clarify roles and responsibilities within the budget system, including the preparation, implementation, internal financial control, monitoring, reporting and accounting of the budget. Many budget institutions are still to reflect these laws in their internal regulations and therefore roles and responsibilities are not linked to these new structures. While the AGFIS is being developed many commitment and payment controls are still performed manually. Limited users lead to inadequate segregation of duties in budget entities and further reduces the effectiveness of internal controls. Nevertheless, compliance audits have not reported significant deficiencies with respect to compliance with established procedures for non-salary expenditures.

With personnel, payroll and payment systems in different systems, the level of integration is low and reconciliation is difficult. Personnel, payroll, and payment systems are updated at least monthly. Payroll audits have been undertaken in the last three fiscal years.

The overall effectiveness of public procurement system in Albania has been improved over the last few years, however non-competitive methods make up a significant proportion of contract awards. There has been progress especially regarding the legal, regulatory, and institutional frameworks as well as development and functioning of an e-procurement system, which is mandatory for all procurement methods (except direct contracting). The public has access to procurement plans, bidding opportunities, and contract awards through the PPA website. However, non-competitive procurement methods are often used to fulfill the needs of contracting authorities. Frequent delays are reported on the decisions of the PPC, who are responsible for reviewing complaints pertaining to public procurement decisions.

Some progress has been made in the development of an internal audit function, but many challenges remain. In accordance with the law all central government units have an internal audit function, however many units are understaffed and/or lack a head of unit. While the law reflects international standards of internal audit, technical skills are still being developed and reports would benefit from a more detailed analysis of control deficiencies, description of findings, impacts and recommendations. While acceptance of internal audit findings is said to be high, only 55 percent of findings had been implemented within 12 months. The quality of audit recommendations is also an issue; audit findings often focus on individual financial transactions rather than systemic internal control weaknesses or recommendations for improvement.

Accounting and reporting

Accounts reconciliation and the integrity of financial data are strengths within the PFM system; weaknesses in fiscal reporting still remain. In-year budget reports are consistent with budget coverage and classification to allow some monitoring of budget performance. However revised budgets overwrite the original budget allocations so that budget users can not conduct a comparison to the original budget in in-year financial reports. Annual financial statements also do not present a comparison between the original budget and execution. National accounting standards are disclosed but not deviations from IPSAS.

External scrutiny and audit

There was a deterioration in actions taken by the executive to address weaknesses identified in SAI audit reports. Central government entities representing between 75-85 percent of total expenditures and revenues have been audited. In practice, most SAI audits are compliance audits with a focus on determining irregularities, as well as highlighting material issues and control weaknesses. The level of implementation of SAI recommendations has fallen in 2016 which has been attributed to less involvement of the line ministries in addressing the SAI's recommendations and in audit follow up over the past year. Legislative scrutiny of audit reports is carried out by the economic-financial committee of Parliament on a regular basis but only with SAI and MOF officials; representatives of line ministries and other audited entities do not participate. There is no system to track the implementation of recommendations made by the legislature, based on key audit findings.

4.2 Effectiveness of the internal control framework

Control environment

The Law on Financial Management and Control (FMC) provides a sound legal framework for the development of FMC, and is consistent with the organic budget law. Under the Law, the requirement to introduce FMC applies to all public institutions, including extrabudgetary funds and commercial organizations partly owned by the state. Pillar 5 of the Government's Public Financial Management Strategy addresses the implementation of FMC which seeks to establish effective internal control through a wide range of deliverables, covering issues such as information systems needed for effective FMC and enhanced status for the Head of Finance, as well as in seven FMC pilots. The role of the various parties involved in the financial management control system are established in the Law. These include the Minister of Finance, The Principal Authorizing Officer (MoF Secretary General), the entity authorizing officer and subordinate authorizing officers, executing officers, and line managers.

The government is taking practical steps towards the development of the management accountability and delegation of tasks in accordance with the Law. Full implementation of the requirements of this legislation will take time to be fully and effectively implemented in public bodies. Many finance units are understaffed, undermining the principles of segregation of duties and achievement of the public sector unit objectives. Public sector units must establish an organizational structure that enables the achievement of the objectives and compliance with the functions assigned by legislation. It must be presented in documentary form, stating clearly the rules for determining and segregating tasks, duties, and responsibilities, as well as hierarchy and appropriate reporting lines. In addition, internal regulations and job descriptions need to be updated to fully reflect the recent regulatory changes.

Risk Assessment

The implementation of modern risk management practices is in its infancy in Albania. Under the FMC law the Risk Coordinator is the Authorizing Officer of the institution. Recent PFIC Reports note progress in the development of the function and a growing number of institutions are preparing risk registers. At the same the Report recognizes that few, if any organizations are using these registers as a management tool to achieve their business objectives.

Control Activities

Recent PFIC annual reports note a number of shortcomings in control activities, processes, and procedures. The report noted that the manuals and audit trails depicting processes and control activities are not prepared and implemented in all public institutions. In addition, descriptions of formal business processes often go undocumented.

Many budget entities have still to fully automate and integrate their financial management systems. Despite some recent improvements manual systems, expenditure **commitment controls (**PI-25) still only provide partial coverage and effectiveness. Similarly, regarding **payroll controls** (PI-23) budget entities often hold personnel, payroll, and payment information in different systems, some which are automated and some which are manual. Lack of capacity is one of the causes of weak internal control systems. There is inadequate **segregation of duties** (PI-25) due to understaffing of finance and administration departments caused by budget constraints and high staff turnover.

Notwithstanding, the above concerns Albania scores well for indicators relating **compliance with payment rules and procedures** (PI-25.3) and financial integrity processes (PI-27.4).

Information and communication

Recent PIFC reports note that there is a general lack of understanding of how financial information can be used to improve efficiency and effectiveness. Quality of financial information is also an issue as evidenced by the weaknesses identified in in-year budget reports (PI-28) and the annual financial reports (PI-29). Of concern is the use of revised rather than original budget figures; which limits their effectiveness as a management monitoring tool.

Monitoring

The CHU/FMC currently has a full complement of six staff and developed a comprehensive PIFC monitoring system. Its role is to provide guidance and support for institutions, and coordination of an annual self-assessment survey on the status of FMC. The results of the survey are included in the PIFC annual report, but are also part of a set of 20 indicators for performance monitoring of government ministries and larger municipalities. This set of indicators is also included in the PIFC annual report, as well as data from the Budget and Treasury directorates within the MoF and the CHU/FMC and the CHU/IA. Aggregate scoring for the institutions involved has been converted into a set of league tables. The PIFC annual report includes an assessment for each organization.

The Assessment highlighted several significant areas where monitoring activities could be improved:

- **Monitoring of public corporations (PI-10.1).** The Ministry of Economy does not prepare consolidated financial statements for the government's portfolio of companies or report quasi-fiscal activities.
- **Contingent liabilities and other fiscal risks (PI-10.3).** Central government entities and agencies quantify some significant contingent liabilities in their financial reports, however there is no comprehensive report which includes all PPPs and concessions.
- **Quality of central government financial asset monitoring (PI-12.1).** A record of its holdings in major categories of financial assets is maintained, but this is not published.
- **Quality of central government non-financial asset monitoring (PI-12.2).** There is no comprehensive register of non-financial assets.
- **Revenue arrears monitoring (PI-19.4).** GDT's debt collection business processes are too generic and have failed to address the accumulation of significant revenue arrears.
- **Expenditure arrears monitoring (PI-22.2).** There is no specific regular reporting to monitor arrears through the treasury system.

4.3 PFM strengths and weaknesses

Aggregate fiscal discipline

Aggregate fiscal discipline requires effective control of the total budget and management of fiscal risks. Maintaining the balance between revenues and expenditures, the debt level, and other fiscal aggregates requires setting firm limits, in advance, that drive the budget decisions on both the annual and medium-term basis.

At an aggregate level the government has met its fiscal targets however fiscal discipline is undermined through large variances in expenditure composition by function. These relate principally to the clearance of historic arrears, the unanticipated costs of implementing large investment projects and, in 2015 the failure to reach revenue targets. After the revenue underperformance in 2015, improvements in revenue forecasting suggest that the government has better procedures in place regarding macroeconomic assumptions, and the evaluation of new policies.

Improvements in the treasury function and control structure have effectively contained expenditures and avoided a re-occurrence of arrears problems during the period. However, the government remains exposed to levels of hitherto unquantified fiscal shocks due to a through a failure to adequately monitor, report and manage fiscal risks such as the quasi-fiscal activities of public companies, PPPs or other explicit contingent liabilities.

Strategic allocation of resources

Strategic allocation of resources involves planning and executing the budget in line with government priorities aimed at achieving policy objectives. The allocation of resources requires evidence on the importance and effectiveness of government's activities and programs.

The technical aspects of the MTBP process are well developed however the policy and strategic focus of the budget could be improved. The government prepares comprehensive medium term macro-economic forecasts over a three-year horizon. Budget allocations reflect medium-term policy objectives and priorities as formulated in the line ministry submissions for the medium-term budget planning process. However, strategic focus of the budget is reduced by varying availability of sector strategies to underpin the MTBP submissions. In addition, overly ambitious nature of some of the existing sector strategies makes them aspirational documents and diminishes possibilities for their operationalization through the budget.

Public investment management is weak and is in urgent need of attention. A lack of overarching reviews of capital investment projects, and monitoring/reporting thereafter, reduces their impact in supporting the government's social and economic development objectives.

Efficient use of resources for service delivery

Efficient use of resources for service delivery requires using budgeted revenues to achieve the best levels of public services within available resources. Services are critical points of contact between citizens and government. While improving, public services extend beyond PFM, there are several aspects of PFM that contribute to it, including public procurement, investments, and assets management.

The basic building blocks of the Albanian PFM framework are in place but further work will be needed to build capacity to focus on performance and the efficiency and effectiveness of service delivery. Lack of consistent and regular upward flow of complete information on the utilization of resources by the service delivery units limit possibilities of the line ministries to monitor performance. Significant budget reallocations close to the end of the budget year lack transparency, and may result in a contraction of planned services. Public procurement practices are improving but high levels of direct contracting affect the efficiency of service delivery and the achievement of best value for money of government purchases. Internal audit is still focused on compliance rather than addressing systemic or performance issues. Performance audits by the SAI are only just being introduced are not published or subject to broader discussion in society. Of particular concern is the general lack of responsiveness by management to recommendations by the SAI and legislature may mean that opportunities to improve the efficient use of resources are missed.

4.4 Performance changes since a previous assessment

This 2016 is the third PFM performance assessment for Albania based on the PEFA framework. When considering comparing the aggregated performance at the indicator level between this assessment and the last assessment in 2011 there has been no change in performance for sixteen indicators. In the case of five indicators there is an improvement in performance and for seven indicators a lower score was observed. Of those seven indicators, three scores did not relate to a change in performance but to over-optimistic interpretation of the framework in 2011.

Main improvements were observed in the following areas:[70]

- *PI-3 - Aggregate revenue outturn compared to original approved budget*: During the assessment period revenue forecasting, has been more realistic (with the exception of 2015).
- *PI-4 - Stock and monitoring of expenditure payment arrears*: Greater emphasis on the management and reporting of commitments and expenditure arrears has resulted in an improvement in performance.
- *PI-6 - Comprehensiveness of information included in the budget documentation and PI-10 Public access to key fiscal information*: More key documentation is being provided in the budget package and key fiscal information made available to the public.
- *PI-19 - Competition, value for money and controls in procurement*: There have been improvement in the public's access to complete, reliable, and timely procurement information.

[70] The performance indicators (PI) listed refer to the PI numbering of the 2011 version of the PEFA framework.

Slippages in performance were noted in the following areas:

- *PI-7 – Extent of unreported operations*: Slippage due to the comprehensiveness of data collected in respect of extrabudgetary units.
- *PI-8 - Transparency of inter-governmental fiscal transfers*: Slippage due to an increase in the share of the budget assigned to discretionary grants which are not fully in line with the rule based system.
- *PI-11 - Orderliness and participation in the annual budget process*: Slippage in performance due to issuance of budget ceilings after the budget circular in 2016 and late approval of the 2014 budget.
- *PI-28 - Legislative scrutiny of external audit reports*: Deterioration in performance due to lack of participation by the line ministries in hearings which are held to address the recommendations arising from audit reports.

These performance movements may be summarized by budgetary outcomes as follows:

Aggregate fiscal discipline was strengthened through improvements in revenue forecasting and monitoring of expenditure arrears.

Strategic allocation of resources was negatively affected by deviations from the approved MTBP calendar.

The impact of performance changes on e*fficient use of resources for service delivery* was mixed. Positive impact resulted from improvements in various dimensions of transparency indicators, including budget documentation, public access to information and access to reliable and timely procurement information. Negative impact resulted from less comprehensive data collection for extra budgetary funds and deterioration in transparency of transfers allocated to local governments. Also, a lack of action in addressing weaknesses highlighted in audit reports may result in missed opportunities to make the most efficient use of resources within government.

5. Government PFM reform process

5.1 Approach to PFM reforms

The Ministry of Finance of Albania has adopted a Public Finance Management (PFM) reform strategy for 2014-2020[71] and a relevant action plan. The overarching objective of the Strategy is to restore macroeconomic discipline, and it addresses all aspects of Albania's public finance management system. The Strategy is an ambitious undertaking and has a direct bearing on the institutional arrangements, the human and technical capacity, and the PFM processes analyzed in this Review.

Reform priorities

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

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

In addition, a number of priorities of the PFM Strategy cut across the whole spectrum of broader PFM and public administration reforms:

- A professional public administration with improved skills in the management of public funds;
- Efficient enforcement of rules and procedures, and well-targeted training and capacity building for strengthened administrative capacity in public administration at both the central and local level;
- Full and uniform enforcement of sanctions for administrative violations in public financial management;
- Effective fight against outright corruption in public administration.

Key components and instruments

The PFM reform strategy is organized on six pillars:

- Pillar 1 - Sustainable and prudent fiscal framework;
- Pillar 2 - Well-integrated and efficient planning and budgeting of public expenditure;
- Pillar 3 - Efficient execution of the budget;
- Pillar 4 - Transparent government financial reporting;
- Pillar 5 - Effective internal controls;
- Pillar 6 - Effective external oversight of the public finances.

5.2 Recent and on-going reform actions

Albanian authorities have made extensive efforts to implement PFM reforms through the Strategy. Initial efforts focused on laying down the foundations for reform, creating institutional arrangements and drafting legislative

[71] http:/MoF/www.financa.gov.al/al/raportime/strategjia-per-menaxhimin-e-financave-publike-2014-2020

amendments. A monitoring and reporting framework for the implementation of PFM reforms is now fully operational (discussed further below).

According to the most recent MoF self-assessment the following achievements have been made with respect to the Strategy:

Pillar 1 - Sustainable and prudent fiscal framework: Provisions were introduced into legislation to address over-optimistic forecasting and introduce new debt and deficit rules. A Fiscal Risk Department has been established in the MoF. The process of fiscal risk monitoring and reporting was launched recently, and the MoF plans to elaborate a separate fiscal risk statement to be attached to the draft 2018 budget.

Pillar 2 - Well-integrated and efficient planning and budgeting of public expenditure: Responsibility for oversight and monitoring public investment management has been moved back to MoF. They are establishing criteria for prioritizing and appraising large capital investment projects. Amendments to the OBL place limits on concessions and public-private partnerships (PPPs) and the establishment of a contingency fund to protect against possible revenue shortfalls and/or unpredictable interest rate movements.

Pillar 3 - Efficient execution of the budget: Expenditure controls have been improved with the recording of commitments (including multi-year commitments) in the treasury system. The treasury system now also receives reports from social insurance funds. The implementation of an Arrears Prevention and Clearance Strategy has reduced the stock of arrears during 2016. Automation of PFM system shows slow progress – 15 entities have on-line access to AGFIS and the selection of the company in charge of expanding AGFIS into the Albanian Financial Management Information System is complete.

Pillar 4 - Transparent government financial reporting: The format and procedures for in-year financial reporting has improved, with the publication of monthly spending information for ministries and other first line budget users, and quarterly local government financial data.

Pillar 5 - Effective internal controls: Staffing of the CHU/FMC has and FMC training is now provided by Albanian School of Public Administration (ASPA). The CHU/FMC has developed a plan for institutional visits (starting in 2017) to verify issues included in the FMC self-assessment questionnaires. Revisions to the FMC Law in 2015 provided a clearer definition of FMC, establishes the role of the FMC and risk management coordinators, as well as providing a legal framework for the PIFC Board. Supporting subsidiary legislation in the form of orders, instructions and a revised FMC manual have been introduced.

The Law on IA was revised in 2015 to better align it with international standards by introducing reference to audit charters and codes of ethics, as well as adding the concept of competence to the general principles. Supporting subsidiary legislation was also introduced to provide additional guidance on a number of issues raised in the Law on IA, such as a Qualification Commission of Internal Auditors, establishment of Internal Audit Committees in Public Entities and criteria for the establishment of Internal Audit Units in the Public Sector.

Pillar 6 - Effective external oversight of the public finances. The HSC regulated some new ISSAIs and this has resulted in shift from compliance to financial and performance audits (from 6 percent in 2015 to 13 percent in 2016). Concerns regarding the decrease in the implementation of HSC recommendations has been addressed through a Parliamentary regulation aimed at providing a more effective mechanism for monitoring the follow up of findings.

5.3 Institutional considerations

Organizational arrangements

In recent years, the Albanian authorities have made extensive efforts to further PFM reforms. The implementation of these reforms is managed through the Albania Public Finance Management Strategy 2014-2020 (PFM Strategy). Initial efforts were centered on laying the foundations for implementing reforms, such as establishing the structures for driving reform, drafting legislative amendments and capacity improvements in key areas. However, the monitoring and reporting framework for the implementation of PFM reforms is now fully operational. In 2015-2016, the process for monitoring the PFM Strategy was strengthened by the development of detailed methodology and guidance on performance indicators (“indicator passports”).

The Ministry of Finance co-ordinates PFM across participating institutions and within MoF. The MoF is exercising this function through the Directorate for Managing the Reforms in the Public Finance (DMRPF), formed in late 2016. The Directorate's role, inter alia is to provide logistical support for pillar managers to deliver on their assigned tasks and to prepare regular progress reports on the Strategy. In addition, there is a PFM Reform Technical Committee consisting of the Secretary General of MoF and pillar/component leaders:

A cross–Ministerial Steering Committee (established by Prime Ministerial Order) was created to oversee implementation of the Strategy. The Steering Committee is chaired by the Minister of Finance, and its members are as follows:

- The deputy Minister of Finance;
- The deputy Minister of Social Welfare and Youth;
- The deputy Minister of the Ministry of European Integration;
- The Minister of State on Local Issues;
- The Head of the Public Administration Department;
- Two representatives from the Department of Programming, Development, and Foreign Aid at the Prime Minister Office;
- The Head of the Procurement Agency;
- The Head of Public Procurement Commission.

Two Steering Committee meetings were held during 2016.

Transparency of the PFM Program

The Reform Strategy and related monitoring reports are published on the MoF website. The latest Public Finance Management annual monitoring report covers the period from January 1, 2016 to December 31, 2016. These monitoring reports provide the PFM Steering Committee information on the achievements and challenges in meeting the objectives of the PFM Strategy. Through Indicators Passports (IP); the Monitoring Report provides a detailed methodological description of measurement for all Output-level indicators that are included in the government's PFM Strategy.

Annexes

Annex 1. Performance indicator summary

This annex provides a summary table of the performance at indicator and dimension level. The table specifies the scores with a brief explanation for the scoring for each indicator and dimension.

COUNTRY NAME: Albania			2017 assessment	
Pillar	**Indicator/Dimension**		**Score**	**Description of requirements met**
Budget Reliability	**PI-1**	**Aggregate expenditure outturn**	**A**	Aggregate expenditure outturn was between 95% and 105% of the approved aggregate budgeted expenditure in 2016 and 2014 and 94.5% in 2015.
	PI-2	**Expenditure composition outturn**	**D+**	
		(i) Expenditure composition outturn by function	D	The composition variance between the expenditures outturn by function and the budgeted expenditure exceeds 20 percent in all the three years of assessment.
		(ii) Expenditure composition outturn by economic type	A	Variance in expenditure composition by economic classification was less than 5% in 2014 and 2016. The variance in expenditure composition exceeds 5% in 2015.
		(iii) Expenditure from contingency reserves	A	Actual expenditure charged to a contingency vote was on average at 0.1 % of the original budget during 2014-16.
	PI-3	**Revenue outturn**	**B+**	
		(i) Aggregate revenue outturn	A	Actual revenue was between 97% and 106% of budgeted revenue in 2014 and 2016.
		(ii) Revenue composition outturn	B	Variance in revenue composition was less than 10% in 2014 and 2016.
Transparency of Public Finances	**PI-4**	**Budget Classification**	**A**	The budget classification and Chart of Accounts are based on every level of economic, administrative, and functional (and sub-functional) classification using GFS/COFOG standards and can produce information compatible with the GFS 2014 standards.
	PI-5	**Budget Documentation**	**A**	For the BCG, Albania fulfills 10 elements, including every basic element (1–4) of the budget documentation
	PI-6	**Central government operations outside financial reports**	**D**	
		(i) Expenditure outside financial reports	D*	Information on expenditure outside financial reports is incomplete as it covers only 17 of 63 EBUs currently listed by INSTAT; while available evidence suggests that the total unreported amount is less than 5% of BCG expenditure, it cannot be confirmed.
		(ii) Revenue outside financial reports	D*	Revenues of active EBUs not reported cannot be confirmed.
		(iii) Financial reports of extrabudgetary units	D	Active extrabudgetary units do not provide regular financial reports to GoA.
	PI-7	**Transfers to subnational governments**	**C+**	
		(i) System for allocating transfers	C	The horizontal allocation of unconditional and specific grants to subnational governments from central government is determined by transparent, rule based systems. These represent 60.8 percent of total transfers to LGUs

COUNTRY NAME: Albania			2017 assessment	
Pillar	**Indicator/Dimension**		**Score**	**Description of requirements met**
		(ii) Timeliness of information on transfers	B	By December each year, LGUs know the amounts of unconditional and specific transfers they are going to receive.
	PI-8	**Performance information for service delivery**	**C+**	
		(i) Performance plans for service delivery	B	Each program in the Ministries of Education and Health has specified objectives, output targets, and expenditure allocations for the medium-term, and these are reported quarterly and annually.
		(ii) Performance achieved for service delivery	B	Information on outputs produced is published annually for most Ministries.
		(iii) Resources received by service delivery units	D	One large ministry (Education) has information on central government resources received by frontline service delivery units (schools), for salaries and other investment expenditures: however, other school expenditures are covered by local governments, so there is no comprehensive report.
		(iv)Performance evaluation for service delivery	B	The SAI has undertaken 'Performance Audits', as follows: FY2014-7; FY2015-11; FY2016-13, and the reports are available on their website.
	PI-9	**Public access to fiscal information**	**B**	The government makes available to the public seven elements, including five basic elements in accordance with specified timeframes.
Management of assets and liabilities	**PI-10**	**Fiscal risk reporting**	**C**	
		(i) Monitoring of public corporations	C	Government receives financial reports from most public corporations within nine months of the end of the fiscal year.
		(ii) Monitoring of subnational governments (SNG)	C	Financial statements for all subnational governments are published each month on a consolidated basis for all LG and quarterly on a unit level. Auditing of LGUs is conducted once in two years by the Supreme Audit.
		(iii) Contingent liabilities and other fiscal risks	C	Central government entities and agencies quantify some significant contingent liabilities in their financial reports including the Debt Statistics, the Economic Reform Program, and the supplement to the budget proposal. However, there is no comprehensive report which includes all PPPs and concessions which may at the moment not have direct implications for the budget but may represent a contingent risk.
	PI-11	**Public investment management**	**C+**	
		(i) Economic analysis of investment proposals	C	Economic analyses are conducted to assess **all** major investment projects. However, no documented publication of the results of economic analysis of those major investment projects was provided to the assessment team.
		(ii) Investment project selection	D*	Prior to their inclusion in the budget, **some** of the major investment projects are prioritized by a central entity, although the proportion cannot be determined.
		(iii) Investment project costing	C	Projections of the total capital cost of major investment projects, together with the capital costs over a three-year horizon, are included in the budget documents.
		(iv) Investment project monitoring	B	The total cost and physical progress of major investment projects are monitored by the implementing government unit. Standard procedures and rules for project implementation are in place, and information on

COUNTRY NAME: Albania			2017 assessment	
Pillar	**Indicator/Dimension**		**Score**	**Description of requirements met**
				implementation of major investment projects is published annually.
	PI-12	**Public asset management**	**D+**	
		(i) Financial asset monitoring	C	The government maintains a record of its holdings in **major** categories of financial assets.
		(ii) Nonfinancial asset monitoring	D	Performance is less than required for a C score.
		(iii) Transparency of asset disposal	C	Procedures and rules for the transfer or disposal of nonfinancial assets are established. Information on transfers and disposals is included in budget documents, financial reports, or other reports.
	PI-13	**Debt management**	**A**	
		(i) Recording and reporting of debt and guarantees	B	Domestic and foreign debt and guaranteed debt records are complete, accurate, and updated quarterly. Most information is reconciled quarterly. Comprehensive management and statistical reports covering debt service, stock, and operations are produced at least annually.
		(ii) Approval of debt and guarantees	A	Primary legislation grants authorization to borrow, issue new debt, and issue loan guarantees on behalf of the central government to a single responsible debt management entity. Documented policies and procedures provide guidance to borrow, issue new debt and undertake debt-related transactions, issue loan guarantees, and monitor debt management transactions by a single debt management entity. Annual borrowing must be approved by the government or legislature.
		(iii) Debt management strategy	A	A current medium-term debt management strategy covering existing and projected government debt, with a horizon of at least three years, is publicly reported. The strategy includes target ranges for indicators such as interest rates, refinancing, and foreign currency risks. Annual reporting against debt management objectives is provided to the legislature. The government's annual plan for borrowing is consistent with the approved strategy.
Policy-based fiscal strategy and budgeting	**PI-14**	**Macroeconomic and fiscal forecasting**	**A**	
		(i) Macroeconomic forecasts	A	The government prepares forecasts of key macroeconomic indicators, which, together with the underlying assumptions, are included in budget documentation submitted to the legislature. These forecasts are updated at least once a year usually formalized by a mid-year normative act. The forecasts cover the budget year and the two following fiscal years. The projections have been reviewed by the IMF as part of the IMF budget support for the period 2014-2017.
		(ii) Fiscal forecasts	B	The government prepares forecasts of the main fiscal indicators, including revenues by type, expenditure by type, and the budget balance, for the budget year and two following fiscal years. These forecasts, together with the underlying assumptions, are included in the Macro fiscal framework which is approved by CoM decision and in the annexes of the budget law proposal submitted to the legislature and approved by parliament.
		(iii) Macro-fiscal sensitivity analysis	A	The government prepares a range of fiscal forecast scenarios based on alternative macroeconomic

COUNTRY NAME: Albania		2017 assessment	
Pillar	**Indicator/Dimension**	**Score**	**Description of requirements met**
			assumptions, and these scenarios are published, together with its central forecast as part of the government's Economic Reform Program.
PI-15	**Fiscal strategy**	**A**	
	(i) Fiscal impact of policy proposals	B	The government prepared estimates of the fiscal impact of all proposed changes in revenue and expenditure policy for the budget year and the two forthcoming years during the period of assessment 2014-2016. However, the impact of the policy changes regarding expenditures and some revenues were not articulated clearly in the budget proposals submitted to the Parliament. Policy changes adopted after the budget process are not consistently estimated and published.
	(ii) Fiscal strategy adoption	A	The government has adopted, submitted to the legislature, and published a current fiscal strategy that includes explicit time-based quantitative fiscal goals and targets together with qualitative objectives for year 2016 and the following two fiscal years. These targets are included in the macro fiscal framework and in the annexes to the annual budget Law 2016. Albania has adopted a fiscal rule in 2016 which is consistent with the targets mentioned above.
	(iii) Reporting on fiscal outcomes	A	As part of the supplement to the Budget proposal for year 2017, the Ministry of Finance prepared an assessment of its achievements against stated fiscal objectives and targets as amended by the normative act in December 2016. The assessment includes an explanation of factors which lead to deviations from the approved objectives such as revenue shortfalls, delays with public investments, and the resulting effect on the targets as well as proposed corrective actions. The report also sets out actions planned by the government to address any deviations, as prescribed in legislation.
PI-16	**Medium-term perspective in expenditure budgeting**	**C+**	
	(i) Medium-term expenditure estimates	A	The MTBP for 2017-19, and the annual budget for 2017 include expenditure estimates for 2017, 2018, 2019 broken down by institution, program, function, and broad economic categories.
	(ii) Medium-term expenditure ceilings	C	Aggregate expenditures ceilings for 2017-19 MTBP were approved by the Government in January, before the first budget circular was issued in February. Ministry level expenditures ceilings for 2017 -19 MTBP were approved by the Government in March, after the first budget circular was issued in February.
	(iii) Alignment of strategic plans and medium-term budgets	C	Medium-term strategic plans are prepared by some ministries. Some expenditure policy proposals in the annual budget estimates align with strategic plans.
	(iv) Consistency of budgets with previous year's estimates	D	Analysis of the deviations between the second year expenditures estimates from the past year and the first year of the current year is produced for internal purposes only and is not included in the budget documentation.
PI-17	**Budget preparation process**	**B**	
	(i) Budget calendar	B	A clear budget calendar exists, but some deviations from it take place. In 2016, the budgetary units had about a month to prepare detailed MTBP submissions and about

COUNTRY NAME: Albania			2017 assessment	
Pillar		**Indicator/Dimension**	**Score**	**Description of requirements met**
				the same time to update them at the stage of preparation of the annual budget submission.
		(ii) Guidance on budget preparation	B	The set of instructions used for MTBP and budget preparation is comprehensive, covers total budget expenditures for the full fiscal year, and provides clear guidance to budgetary units. In 2016, the final expenditure ceilings were approved by the Council of Ministers after the supplementary instruction for annual budget preparation was issued by the Ministry of Finance, but well before the deadline for annual budget submissions.
		(iii) Budget submission to the legislature	C	The budget for 2014 was submitted to the National Assembly in the middle of December and therefore less than a month before the start of the fiscal year, the budgets for 2015 and 2016 were submitted to the National Assembly more than a month before the start of the fiscal year.
	PI-18	**Legislative scrutiny of budgets**	**C+**	
		(i) Scope of budget scrutiny	B	The National Assembly scrutiny focuses on the annual budget aggregates and details of expenditures and revenue, not the medium-term fiscal forecasts and priorities.
		(ii) Legislative procedures for budget scrutiny	C	The National Assembly has clear and well documented procedures for budget review embedded in its General Rules of Procedure. Internal organizational arrangements for the budget review are well developed and assign specific roles to the Assembly committees and technical staff. Formalized negotiation procedures are missing.
		(iii) Timing of budget approval	A	The budgets for 2014, 2015 and 2016 were approved before the start of the respective fiscal years.
		(iv) Rules for budget adjustments by the executive	A	Clear rules for budget adjustment by the executive exist, set strict limits on the extent and nature of amendments that could be undertaken without the National Assembly involvement, and are adhered to.
Predictability and control in budget execution	**PI-19**	**Revenue administration**	**C+**	
		(i) Rights and obligations for revenue measures	A	GDT and GDC who are responsible for more than 90 percent of domestic revenue collection use multiple channels to provide payers with easy access to comprehensive and up-to-date information on the main revenue obligation areas and on rights including, as a minimum, redress processes and procedures.
		(ii) Revenue risk management	C	GDT and GDC who are responsible for more than 90 percent of domestic revenue collection use approaches that are partly structured and systematic for assessing and prioritizing compliance risks for ***some*** revenue streams.
		(iii) Revenue audit and investigation	C	GDT and GDC who are responsible for more than 90 percent of domestic revenue collection undertake audits and fraud investigations using a compliance improvement plan and complete the **majority** of planned audits and investigations.
		(iv) Revenue arrears monitoring	D	Performance is less than required for a C score.
	PI-20	**Accounting for revenue**	**A**	
		(i) Information on revenue collections	A	MoF obtains revenue data at least monthly from both GDT and GDC who collect more than 90 percent of central

COUNTRY NAME: Albania		2017 assessment	
Pillar	**Indicator/Dimension**	**Score**	**Description of requirements met**
			government revenues. The Ministry of Finance (MoF) compiles a consolidated Fiscal Report covering revenue by type and the collection period
	(ii) Transfer of revenue collections	A	GDT and GDC who are responsible for more than 90 percent of domestic revenue collection transfer the collection daily to the treasury.
	(iii) Revenue accounts reconciliation	A	Both GDC and GDT who are responsible for more than 90 percent of domestic revenue collection undertake complete reconciliation of assessment, collection, arrears, and transfers to the treasury at least monthly.
PI-21	**Predictability of in-year resource allocation**	**B**	
	(i) Consolidation of cash balances	D	Balances on accounts outside TSA exceed TSA balance. Reports on the status of accounts outside TSA are collected monthly, however most of balances outside TSA are not consolidated.
	(ii) Cash forecasting and monitoring	B	Treasury Department prepares a cash flow forecast for the whole year and updates it based on actual cash flows and outflows upon receipt of the updated source information. One of important types of the source information – debt service schedule, is updated only quarterly, other types of information are updated more frequently.
	(iii) Information on commitment ceilings	A	Budgetary units receive reliable information on monthly commitment ceilings for the whole year in January.
	(iv) Significance of in-year budget adjustments	B	Two significant budget adjustments took place in 2016 through budget rectifications approved by the National Assembly. One of the two episodes took place very close to the end of the fiscal year. The practice of end-of year adjustments is viewed by the line ministries as not fully transparent.
PI-22	**Expenditure arrears**	**C+**	
	(i) Stock of expenditure arrears	B	The stock of expenditure arrears at the end of 2016 and 2015 was less than 6% of total actual expenditures for the respective years.
	(ii) Expenditure arrears monitoring	C	The standard frequency of production of arrears monitoring reports is every four months. Annual monitoring report for 2016, including the stock and composition of expenditures arrears, was available on the MoF website at the time of the assessment.
PI-23	**Payroll controls**	**C+**	
	(i) Integration of payroll and personnel records	B	The payroll is supported by full documentation for all changes made to personnel records each month and checked against the previous month's payroll data. Staff hiring and promotion is controlled by a list of approved staff positions. With personnel, payroll, and payment information in many separate systems, some automated and some manual, the level of integration is low and extensive manual reconciliations are required.
	(ii) Management of payroll changes	B	Required changes to the personnel records and payroll are updated at least monthly, generally in time for the following month's payments. Retroactive adjustments are rare, and usually done within the next month payroll. However, the decentralized nature of payroll management means there could be considerable

COUNTRY NAME: Albania		2017 assessment	
Pillar	**Indicator/Dimension**	**Score**	**Description of requirements met**
			variations in performance across ministries and it was not possible to assess performance across the whole of government in this aspect.
	(iii) Internal control of payroll	C	Sufficient controls exist to ensure integrity of the payroll data of greatest importance.
	(iv) Payroll audit	B	Payroll audits have been undertaken within the last three completed fiscal years.
PI-24	**Procurement**	**B+**	
	(i) Procurement monitoring	A	Databases or records are maintained for all contracts including data on what has been procured, value of procurement and who has been awarded the contracts. Procurement Plans are published at the Public Procurement Agency's (PPA) website and compare good to factual plans. E- procurement is mandatory for all procurement methods (except direct contracting) even for small value contracts.
	(ii) Procurement methods	B	Most agencies follow open competitive method by default as per the law. However, Single source contracting (noncompetitive method) represents 30 % percent of the total value of all public contracts concluded in 2016 according to PPA report. The noncompetitive method is often used to fill the needs of contracting authorities before budget appropriation.
	(iii) Public access to procurement information	A	The legal framework for procurement, procurement plan for 2017, realization of procurement operations for 2016 as well as bidding opportunities and contract awards are available on the PPA website in a timely manner. Information related to all complaints received by PPC are also published in PPC's website within 48 hours from the moment of complaint being lodged.
	(iv) Procurement complaints management	B	The procurement complaint system meets most criteria (5 out of 6) except of the timely issuing of the decisions. Frequent delays are reported, due to workload of PPC.
PI-25	**Internal controls on nonsalary expenditure**	**B**	
	(i) Segregation of duties	C	Segregation of duties is prescribed throughout the expenditure process. More precise definition of important responsibilities may be needed.
	(ii) Effectiveness of expenditure commitment controls	C	Expenditure commitment control procedures exist which provide partial coverage and are partially effective.
	(iii) Compliance with payment rules and procedures	A	All payments are compliant with regular payment procedures. All exceptions are properly authorized in advance and justified.
PI-26	**Internal audit effectiveness**	**C+**	
	(i) Coverage of internal audit	A	The Internal Audit function is operational for all central government entities.
	(ii) Nature of audits and standards applied	C	The internal audit function still has no systematic or diagnostic nature in assessing the effectiveness of the internal control.
	(iii) Implementation of internal audits and reporting	A	Based on the CHU information during 2016, 90% percent of the audit plan has been implemented. In the organizations visited the all changes to the original audit plan have been approved by the head of the organization based on

COUNTRY NAME: Albania			2017 assessment	
Pillar	**Indicator/Dimension**		**Score**	**Description of requirements met**
				justification. Internal auditor submits their reports to the Minister and the head of the public entity audited.
		(iv) Response to internal audits	B	Management provides a partial response to audit recommendations for all entities audited within twelve months of the report being produced.
Accounting and Reporting	**PI-27**	**Financial data integrity**	**B+**	
		(i) Bank account reconciliation	B	Bank reconciliation for all active central government bank accounts takes place at least on monthly basis, at aggregate and detailed levels and usually within one week from the end of the month.
		(ii) Suspense accounts	A	Reconciliation of suspense accounts takes place at least monthly, within a month from the end of each month. Suspense accounts are cleared in a timely way, no later than the end of the fiscal year unless duly justified.
		(iii) Advance accounts	A	Generally, advances are applied only in donor/IFI financed projects contracts, and there is a well-defined time schedule for the reconciliation and clearance compliant with contractual agreement. In general, this is performed on monthly basis, within a month, when invoices, summary reports and payments certificates are issued by the contractor and approved by the management of the unit.
		(iv) Financial data integrity processes	B	Access and changes to records is restricted and recorded, and results in audit trail.
	PI-28	**In-year budget reports**	**D+**	
		(i) Coverage and comparability of reports	D	Coverage and classification of data does not allow direct comparison to original budget
		(ii) Timing of in-year budget reports	B	Budget execution reports are prepared monthly and issued within four weeks
		(iii) Accuracy of in-year budget reports	C	There are concerns about data accuracy. Expenditure is captured at payment stage.
	PI-29	**Annual financial reports**	**D+**	
		(i) Completeness of annual financial reports	D	Annual financial reports are prepared but do not present a comparison between the original budget and actual execution.
		(ii) Submission of reports for external audit	B	FY 2015 annual financial reports have been submitted for external audit within 6 months
		(iii) Accounting standards	C	Accounting standards applied to all financial reports are consistent with the country's legal framework and ensure consistency of reporting over time. The differences between the national and international standards are not disclosed.
External scrutiny and audit	**PI-30**	**External audit**	**C+**	
		(i) Audit coverage and standards	B	Financial statements of the central government entities representing between 75-85% of total expenditures and revenues have been audited using national auditing standards during the last three completed fiscal years.
		(ii) Submission of audit reports to the legislature	B	Audits reports have been submitted to the legislature within 6 months from receipt of financial reports for the last 3 years.
		(iii) External audit follow-up	C	Formal responses are made by the audited entities on audits for which follow up was expected during the last 3 completed years.
		(iv) Supreme Audit Institution (SAI) independence	B	The SAI operates independently from the executive with respect to procedures for appointment of the Chairman,

COUNTRY NAME: Albania			2017 assessment	
Pillar	**Indicator/Dimension**		**Score**	**Description of requirements met**
				planning of audit engagements, publicizing reports, and approval and execution of SAI's budget. This independence is assured by law. The SAI has unrestricted and timely access to records, documentation, and information. However, the Law has a subjective criterion on the dismissal clause of the SAI Chairman.
	PI-31	**Legislative scrutiny of audit reports**	**B**	
		(i) Timing of audit report scrutiny	A	Scrutiny of audit reports on annual financial reports has been completed by the legislature within a month from receipt of the reports for the last 3 completed years.
		(ii) Hearings on audit findings	C	In depth hearings on key findings of audit reports take place regularly with SAI representatives and MoF officials only.
		(iii) Recommendations on audit by the legislature	C	The legislature issues recommendations on actions to be implemented, but there is no tracking system for following up on these recommendations.
		(iv) Transparency of legislative scrutiny of audit reports	B	Hearings are conducted in public with a few exceptions (BoA) in addition to national security or similar sensitive discussions.
		Total Scored	**31**	

Annex 2. Summary of observations on the internal control framework

Internal control components and elements	Summary of observations
1. Control Environment	The Law on Financial Management and Control (FMC) provides a sound legal framework for the development of FMC, and is consistent with the organic budget law. Under the Law, the requirement to introduce FMC applies to all public institutions, including extrabudgetary funds and commercial organizations partly owned by the state. Pillar 5 of the Government's Public Financial Management Strategy addresses the implementation of FMC which seeks to establish effective internal control through a wide range of deliverables, covering issues such as information systems needed for effective FMC and enhanced status for the Head of Finance, as well as in seven FMC pilots.
1.1 The personal and professional integrity and ethical values of management and staff, including a supportive attitude toward internal control constantly throughout the organization	**No information available from the PEFA assessment.**
1.2 Commitment to competence	**No information available from the PEFA assessment.**
1.3 The 'tone at the top' (i.e. management's philosophy and operating style)	**No information available from the PEFA assessment.**
1.4 Organizational structure	The role of the various parties involved in the financial management control system are established in the Law on Financial Management and Control. These include the Minister of Finance, The Principal Authorizing Officer (MoF Secretary General), the entity authorizing officer and subordinate authorizing officers, executing officers, and line managers. The government is taking practical steps towards the development of the management accountability and delegation of tasks in accordance with the Law. Full implementation of the requirements of this legislation will take time to be fully and effectively implemented in public bodies**.** Many finance units are understaffed, undermining the principles of segregation of duties and achievement of the public sector unit objectives. Public sector units must establish an organizational structure that enables the achievement of the objectives and compliance with the functions assigned by legislation. It must be presented in documentary form, stating clearly the rules for determining and segregating tasks, duties, and responsibilities, as well as hierarchy and appropriate reporting lines. In addition, internal regulations and job descriptions need to be updated to fully reflect the recent regulatory changes.
1.5 Human resource policies and practices	**No information available from the PEFA assessment.**
2. Risk assessment	The implementation of modern risk management practices is in its infancy in Albania. Under the FMC law the Risk Coordinator is the Authorizing Officer of the institution. Recent PIFC Reports note progress in the development of the function and a growing number of institutions are

	preparing risk registers. At the same the Report recognizes that few, if any organizations are using these registers as a management tool to achieve their business objectives.
2.1 Risk identification	Several PIs are related to the extent to which risks are identified, notably: **Economic Analysis of Investment Proposals is rated 'C' in 11.1** – No review of the economic analysis of capital investment projects other than by the sponsoring entity. **Debt Management Strategy is rated 'A' in 13.3** – A medium-term debt management strategy covering existing and projected government debt, with a horizon of at least three years, is publicly reported, which includes target ranges for indicators such as interest rates, refinancing, and foreign currency risks. **Macrofiscal sensitivity analysis is rated 'A' in 14.3 –** The government prepares a range of fiscal forecast scenarios based on alternative macroeconomic assumptions, and these are published, together with its central forecast as part of the government's Economic Reform Program. **Revenue Risk Management is rated 'C' in 19.2** – GDT has not fully implemented a structured and systematic risk assessment process for assessing, ranking and quantifying taxpayers' compliance risks. The compliance risk is assessed automatically through the IT system and risk criteria would benefit from use of more comprehensive information from internal and external sources. **Cash Flow Forecasting and Monitoring is rated 'B'** in **21.2** - The Treasury Department prepares and regularly updates detailed cash forecasts. The forecasts are based on the monthly expenditure plans received from the spending units in January, projections of revenue collection by the revenue administration bodies, debt repayment schedules received from the debt management unit and other relevant information. The forecasts are updated periodically, once updated source information becomes available.
2.2 Risk assessment (significance and likelihood)	**See risk identification (2.1 above)**
2.3 Risk evaluation	Based on the CHU information during 2016, 90% percent of the audit plan has been implemented. In the organizations visited, all changes to the original audit plan have been approved by the head of the organization based on justification. Internal auditor submits their reports to the Minister and the head of the public entity audited **(Implementation of internal audits and reporting – 26.3 rated 'A'**). However, the internal audit function still has no systematic or diagnostic nature in assessing the effectiveness of the internal control **(Nature of internal audits and standards applied – 26.2 rated 'C').**
2.4 Risk appetite assessment	**No information available from the PEFA assessment**
2.5 Responses to risk (transfer, tolerance, treatment, or termination)	**No information available from the PEFA assessment**
3.Control activities	Recent PIFC annual reports note a number of shortcomings in control activities, processes, and procedures. The report noted that the manuals and audit trails depicting processes and control activities are not prepared and implemented in all public institutions. In addition, descriptions of formal business processes often go undocumented.

3.1 Authorization and approval procedures	**Financial data integrity processes are rated 'B' in 27.4.** Access and changes to records is restricted and recorded, and results in audit trail. **Recording and reporting of debt and guarantees are rated 'B' in 13.1.** Domestic and foreign debt and guaranteed debt records are complete, accurate, and updated quarterly. Most information is reconciled quarterly. Comprehensive management and statistical reports covering debt service, stock, and operations are produced at least annually. **Approval of debt and guarantees are rated 'A' in 13.2.** Primary legislation grants authorization to borrow, issue new debt, and issue loan guarantees on behalf of the central government to a single responsible debt management entity. Documented policies and procedures provide guidance to borrow, issue new debt and undertake debt-related transactions, issue loan guarantees, and monitor debt management transactions by a single debt management entity. Annual borrowing must be approved by the government or legislature. **Effectiveness of expenditure commitment controls is rated 'C' in 25.2.** Expenditure commitment control procedures exist which provide partial coverage and are partially effective. **Integration of payroll and personal records is rated 'B' in 23.1.** The payroll is supported by full documentation for all changes made to personnel records each month and checked against the previous month's payroll data. Staff hiring and promotion is controlled by a list of approved staff positions. With personnel, payroll, and payment information in many separate systems, some automated and some manual, the level of integration is low and reconciliation is difficult. **Management of payroll changes is rated 'B' in 23.2**. Required changes to the personnel records and payroll are updated at least monthly, generally in time for the following month's payments. Retroactive adjustments are rare, and usually done within the next month payroll. However, the decentralized nature of payroll management means there could be considerable variations in performance across ministries and it was not possible to assess performance across the whole of government in this aspect. **Compliance with payroll payment rules and procedures is rated 'C' in 23.3.** Sufficient controls exist to ensure integrity of the payroll data of greatest importance.
3.2 Segregation of duties (authorizing, processing, recording, reviewing)	**Segregation of duties is rated 'C' in 25.1.** While segregation of duties is prescribed throughout the expenditure process, many organizations need to update roles and responsibilities in line with recent changes in internal regulations.
3.3 Controls over the access to resources and records	**Compliance with payment rules and procedures is rated 'A' in 25.3.** All payments are compliant with regular payment procedures. All exceptions are properly authorized in advance and justified. **Financial data integrity processes are rated 'B' in 27.4.** Access and changes to records is restricted and recorded, and results in audit trail.
3.4 Verifications	**Accuracy of in-year budget reports which is rated 'C' in 28.3.** The in-year budget reports do not present an accurate analysis of expenditure and are not completely useful for budget execution analysis as they do not provide both the information at the commitment and payment stages,

	thus making it difficult to fully monitor the budget execution. Data issues related to the revised budget estimates are not highlighted in the reports.
3.5 Reconciliations	**Banks account reconciliations are rated 'B' in 27.1.** Bank reconciliations for all active central government bank accounts takes place at least on monthly basis, at aggregate and detailed levels and usually within one week from the end of the month. **Suspense account reconciliations are rated 'A' in 27.2.** Reconciliation of suspense accounts takes place at least monthly, within a month from the end of each month. Suspense accounts are cleared in a timely way, no later than the end of the fiscal year unless duly justified.
3.6 Reviews of operating performance	**Revenue audit and investigations are rated 'C' in 19.3.** GDT and GDC who are responsible for more than 90 percent of domestic revenue collection undertake audits and fraud investigations; however, there is no compliance improvement plan and 40 percent of audit cases are selected by regional tax offices and not through the IT system.
3.7 Reviews of operations, processes and activities	**Procurement monitoring is rated 'A' in 24.1.** Databases or records are maintained for all contracts including data on what has been procured, value of procurement and who has been awarded the contracts. Procurement Plans are published at the PPA's website and compare good to factual plans. E-procurement is mandatory for all procurement methods (except direct contracting) even for small value contracts.
3.8 Supervision (assigning, reviewing, and approving, guidance and training)	**No information available from the PEFA assessment.**
4. Information and communication	Recent PIFC reports note that there is a general lack of understanding of how financial information can be used to improve efficiency and effectiveness. Quality of financial information is also an issue as evidenced by the weaknesses identified in in-year budget reports (PI-28) and the annual financial reports (PI-29). Of particular concern is the use of revised rather than original budget figures; which limits their effectiveness as a management monitoring tool.
5. Monitoring	The CHU/FMC currently has a full complement of six staff and developed a comprehensive PIFC monitoring system. Its role is to provide guidance and support for institutions, and coordination of an annual self-assessment survey on the status of FMC. The results of the survey are included in the PIFC annual report, but are also part of a set of 20 indicators for performance monitoring of government ministries and larger municipalities. This set of indicators is also included in the PIFC annual report, as well as data from the Budget and Treasury directorates within the MoF and the CHU/FMC and the CHU/IA. Aggregate scoring for the institutions involved has been converted into a set of league tables. The PIFC annual report includes an assessment for each organization.
5.1 Ongoing monitoring	The Assessment highlighted a number of areas related to ongoing monitoring activities: **Resources received by service delivery units is rated 'D' in 8.3.** While there is no consistent and regular upward flow of complete information on the utilization of resources to accountable ministries, the Ministry of Education has comprehensive data at the level of the 3,000 + public

	schools (the Ministries of Health and Agriculture do not have similar disaggregated data). **Monitoring of public corporations is rated 'C' in 10.1.** Government receives financial reports from most public corporations within nine months of the end of the fiscal year. **Monitoring of subnational governments is rated 'C' in 10.2.** Financial statements for all subnational governments are published each month on a consolidated basis for all LG and quarterly on a unit level. Auditing of LGUs is conducted every once two years by the SAI. **Contingent liabilities and other fiscal risks is rated 'C' in 10.3.** Central government entities and agencies quantify some significant contingent liabilities in their financial reports including debt Statistics and the Economic Reform Program, there is no comprehensive report which includes all PPPs and concessions. **Investment project monitoring is rated 'B' in 11.4.** The total cost and physical progress of major investment projects are monitored by the implementing government unit. Standard procedures and rules for project implementation are in place, and information on implementation of major investment projects is published annually. **Quality of central government financial asset monitoring is rated 'C' in 12.1.** The government maintains a record of its holdings in major categories of financial assets, but this is not published. **Quality of central government non-financial asset monitoring is rated 'D' in 12.2.** A complete and current register of non-financial assets doesn't exist. **Revenue arrears monitoring is rated 'D' in 19.4.** GDT's arrears collection function suffers serious weaknesses. **Expenditure arrears monitoring is rated 'C' in 22.2.** The standard frequency of production of arrears monitoring reports is every four months. The Annual monitoring report for 2016, including the stock and composition of expenditures arrears, is available on the MoF website. **Procurement monitoring is rated 'A' in 24.1.** Databases or records are maintained for all contracts including data on what has been procured, value of procurement and who has been awarded the contracts. Procurement Plans are published at the PPA's website and compare good to factual plans. E- procurement is mandatory for all procurement methods (except direct contracting) even for small value contracts. **Implementation of internal audits and reporting is rated 'A' in 26.3.** 90% percent of the audit plan has been implemented. In the organizations visited the all changes to the original audit plan have been approved by the head of the organization based on justification. Internal auditor submits their reports to the Minister and the head of the public entity audited.
5.2 Evaluations	**Performance evaluation for service delivery is rated 'B' in 8.4.** **Investment project selection is rated 'D*' in 11.2.**
5.3 Management responses	**Response to internal audits is rated 'B' in 26.4.** Management provides a partial response to audit recommendations for all entities audited within twelve months of the report being produced. **External audit follow up is rated 'C' in 30.3.** Formal responses are made by the audited entities on audits for which follow up was expected during the last 3 completed years.

Annex 3A. Sources of information: surveys and analytical reports

- Subnational PEFA Reports 2016 (Municipalities of Tirana, Berat, Tropoja, Kuçova, Fier), SECO and USAID, March 2017
- Annual Progress Report of European Commission, 2016
- PEFA Assessment 2011, World Bank
- Draft report on the enhancement of public sector financial reporting, Word Bank, 2017
- Report on Country Procurement and Project Implementation, Word Bank, 2017
- Albania Public Finance Functional Review, World Bank, June 2016
- Cash Management Report, World Bank, 2017
- Assessing and Managing Fiscal Risks from Public-Private Partnerships (PPP), World Bank, June 2017
- Government Debt Market Development, World Bank, June 2017
- Government Finance Statistics Mission Report – IMF, April 2017
- Albania Tax Administration Diagnostic Assessment Tool (TADAT) Performance Assessment Report" - Fiscal Affairs Department IMF, August 2016
- IMF's Public Investment Management Assessment, June 2016
- IMF'S Report on Albania Fiscal Transparency, 2015
- IMF Report on the Government Finance Statistics, June 2016
- The Principles of Public Administration / Public Finance Management" – SIGMA, November 2017
- The Principles of Public Administration / Public Finance Management" – SIGMA, April 2015
- Albania Monitoring Report 2016, SIGMA
- Open Budget Survey 2015 (IBP)
- Open Budget Survey December 2016 update (IBP)
- Budget Transparency Report, MoF, March 2015
- PIFC Annual Report 2015 and 2016, MoF
- Annual Reports for the years 2015-2016 of Public Procurement Agency (PPA)
- Public Financial Management Strategy 2014-2020, 2015 Monitoring Report, MoF, March 2016
- Annual Report of the year 2016 of Public Procurement Commission (PPC)
- Financial Management Strategy 2014-2020, 2016 Monitoring Report, MoF, March 2017

Annex 3B. Sources of information by indicator

Performance Indicators	Information sources Documents, websites
PI-1	• http://www.financa.gov.al/al/raportime/buxheti/buxheti-ne-vite/buxheti-2014 • http://www.financa.gov.al/al/raportime/buxheti/buxheti-ne-vite/buxheti-2015 • http://www.financa.gov.al/al/raportime/buxheti/buxheti-ne-vite/buxheti-2016 • Ministry of Finance, budget instruction on "Standard procedures for budget implementation", dated 06.02.2012. • Law No.185/2013 "On budget of Year 2014", (http://www.financa.gov.al/files/userfiles/Buxheti_2014/204-2013.pdf) • Law No.160/2014 "On budget of Year 2015", (http://www.financa.gov.al/al/legjislacioni/buxheti-thesari-borxhi/buxheti/buxheti-ne-vite/buxheti-2015) • Law No.147/2015, "On budget of Year 2016", (http://www.financa.gov.al/al/legjislacioni/buxheti-thesari-borxhi/buxheti/buxheti-ne-vite/buxheti-2016/ligji-i-buxhetit-2016) • Fiscal Indicators Y2014 (http://www.financa.gov.al/files/userfiles/Programimi_EkonomikoFiskal/Raporte_dhe_Statistika_Fiskale_Mujore/Statistika_Fiskale_Mujore/Viti_2014/dhjetor/Statistika_Fiskale_Janar_-_Dhjetor_2014.pdf) • Fiscal Indicators Y2015 (http://www.financa.gov.al/files/userfiles/Programimi_EkonomikoFiskal/Raporte_dhe_Statistika_Fiskale_Mujore/Statistika_Fiskale_Mujore/2015/dhjetor/Statistika_Fiskale_Janar_-_Dhjetor_2015_(1).pdf) • Fiscal Indicators Y2016 (http://www.financa.gov.al/files/userfiles/Programimi_EkonomikoFiskal/Raporte_dhe_Statistika_Fiskale_Mujore/Statistika_Fiskale_Mujore/2016/Treguesit_analitik_fiskal_-_DHJETOR_2016_perfundimtare.pdf) • Normative Act No.1, dated 17.9.2014 "On some amendments and additions in Law no.185/2013, "On Budget of Y2014". (http://www.financa.gov.al/al/legjislacioni/buxheti-thesari-borxhi/buxheti/buxheti-ne-vite/buxheti-2014) • Normative Act No.2, dated 29.12.2014 "On some amendments and additions in Law no.185/2013, "On Budget of Y2014"", as amended. • Normative Act No.1, dated 29.7.2015 " On some amendments and additions in Law no.160/2014, "On Budget of Y2015" • Normative Act No.2, dated 11.12.2015 "On some amendments and additions in Law no.160/2014, "On Budget of Year 2015", as amended (http://www.financa.gov.al/al/legjislacioni/buxheti-thesari-borxhi/buxheti/buxheti-ne-vite/buxheti-2015) • Normative Act No.3, dated 28.12.2015, "On some amendments and additions in Law no.160/2014, "On Budget of Year 2015", as amended • Law no.9936 dated 26.06.2008, "On the Management of the Budgetary System in the Republic of Albania" (as amended July 2016) • MoF Manual of Incomes • MoF Manual of Expenditures • Instruction No.23 dated 22.11.206 On standard Procedures of Preparation of MTBP • http://www.financa.gov.al/al/raportime/thesari/gfs-ne-vite

PI-2	• http://www.financa.gov.al/al/raportime/buxheti/buxheti-ne-vite/buxheti-2014 • http://www.financa.gov.al/al/raportime/buxheti/buxheti-ne-vite/buxheti-2015 • http://www.financa.gov.al/al/raportime/buxheti/buxheti-ne-vite/buxheti-2016 • Ministry of Finance, budget instruction on "Standard procedures f or budget implementation", dated 06.02.2012. • Law No.185/2013 "On budget of Y2014", (http://www.financa.gov.al/files/userfiles/Buxheti_2014/204-2013.pdf) • Law No.160/2014 "On budget of Y2015", (http://www.financa.gov.al/al/legjislacioni/buxheti-thesari-borxhi/buxheti/buxheti-ne-vite/buxheti-2015) • Law No.147/2015, "On budget of Y2016", (http://www.financa.gov.al/al/legjislacioni/buxheti-thesari-borxhi/buxheti/buxheti-ne-vite/buxheti-2016/ligji-i-buxhetit-2016) • Fiscal Indicators Y2014 (http://www.financa.gov.al/files/userfiles/Programimi_EkonomikoFiskal/Raporte_dhe_Statistika_Fiskale_Mujore/Statistika_Fiskale_Mujore/Viti_2014/dhjetor/Statistika_Fiskale_Janar_-_Dhjetor_2014.pdf) • Fiscal Indicators Y2015 (http://www.financa.gov.al/files/userfiles/Programimi_EkonomikoFiskal/Raporte_dhe_Statistika_Fiskale_Mujore/Statistika_Fiskale_Mujore/2015/dhjetor/Statistika_Fiskale_Janar_-_Dhjetor_2015_(1).pdf) • Fiscal Indicators Y2016 (http://www.financa.gov.al/files/userfiles/Programimi_EkonomikoFiskal/Raporte_dhe_Statistika_Fiskale_Mujore/Statistika_Fiskale_Mujore/2016/Treguesit_analitik_fiskal_-_DHJETOR_2016_perfundimtare.pdf) • Normative Act No.1, dated 17.9.2014 "On some amendments and additions in Law no.185/2013, "On Budget of Y2014". (http://www.financa.gov.al/al/legjislacioni/buxheti-thesari-borxhi/buxheti/buxheti-ne-vite/buxheti-2014) • Normative Act No.2, dated 29.12.2014 "On some amendments and additions in Law no.185/2013, "On Budget of Y2014"", as amended. • Normative Act No.1, dated 29.7.2015 " On some amendments and additions in Law no.160/2014, "On Budget of Y2015" • Normative Act No.2, dated 11.12.2015 "On some amendments and additions in Law no.160/2014, "On Budget of Y2015", as amended (http://www.financa.gov.al/al/legjislacioni/buxheti-thesari-borxhi/buxheti/buxheti-ne-vite/buxheti-2015) • Normative Act No.3, dated 28.12.2015 On some amendments and additions in Law no.160/2014, "On Budget of Y2015", as amended • Law no.9936 dated 26.06.2008, "On the Management of the Budgetary System in the • Republic of Albania" (as amended July 2016)

PI-3	• http://www.financa.gov.al/al/raportime/buxheti/buxheti-ne-vite/buxheti-2014 • http://www.financa.gov.al/al/raportime/buxheti/buxheti-ne-vite/buxheti-2015 • http://www.financa.gov.al/al/raportime/buxheti/buxheti-ne-vite/buxheti-2016 • Ministry of Finance, budget instruction on "Standard procedures of budget implementation", dated 06.02.2012 • Law No.185/2013 "On budget of Year 2014", (http://www.financa.gov.al/files/userfiles/Buxheti_2014/204-2013.pdf) • Law No.160/2014 "On budget of Year 2015", (http://www.financa.gov.al/al/legjislacioni/buxheti-thesari-borxhi/buxheti/buxheti-ne-vite/buxheti-2015) • Law No.147/2015, "On budget of Y2016", (http://www.financa.gov.al/al/legjislacioni/buxheti-thesari-borxhi/buxheti/buxheti-ne-vite/buxheti-2016/ligji-i-buxhetit-2016) • Fiscal Indicators Year 2014 (http://www.financa.gov.al/files/userfiles/Programimi_EkonomikoFiskal/Raporte_dhe_Statistika_Fiskale_Mujore/Statistika_Fiskale_Mujore/Viti_2014/dhjetor/Statistika_Fiskale_Janar_-_Dhjetor_2014.pdf) • Fiscal indicators Year 2015 (http://www.financa.gov.al/files/userfiles/Programimi_EkonomikoFiskal/Raporte_dhe_Statistika_Fiskale_Mujore/Statistika_Fiskale_Mujore/2015/dhjetor/Statistika_Fiskale_Janar_-_ Dhjetor_2015_(1).pdf) • Fiscal indicators Year 2016 (http://www.financa.gov.al/files/userfiles/Programimi_EkonomikoFiskal/Raporte_dhe_Statistika_Fiskale_Mujore/Statistika_Fiskale_Mujore/2016/Treguesit_analitik_fiskal_-_ DHJETOR_2016_perfundimtare.pdf) • Normative Act No.1, dated 17.9.2014 "On some amendments and additions in Law no.185/2013, "On Budget of Y2014". (http://www.financa.gov.al/al/legjislacioni/buxheti-thesari-borxhi/buxheti/buxheti-ne-vite/buxheti-2014) • Normative Act No.2, dated 29.12.2014 "On some amendments and additions in Law no.185/2013, "On Budget of Year 2014"", as amended. • Normative Act No.1, dated 29.7.2015 " On some amendments and additions in Law no.160/2014, "On Budget of Year 2015" • Normative Act No.2, dated 11.12.2015 "On some amendments and additions in Law no.160/2014, "On Budget of Y2015", as amended (http://www.financa.gov.al/al/legjislacioni/buxheti-thesari-borxhi/buxheti/buxheti-ne-vite/buxheti-2015) • Normative Act No.3, dated 28.12.2015 "On some amendments and additions in Law no.160/2014, "On Budget of Y2015", as amended. • Law no.9936 dated 26.06.2008, "On the Management of the Budgetary System in the • Republic of Albania" (as amended July 2016); •Instruction No.23 dated 22.11.206, "On standard Procedures of Preparation of MTBP
PI-4	• Law no.9936 dated 26.06.2008, "On the Management of the Budgetary System in the Republic of Albania" (as amended July 2016) • Code of budget classification • http://www.financa.gov.al/al/raportime/buxheti/udhezime/udhezime-vjetore-te-buxhetit/udhezimet-vjetore-per-pergatitjen-e-buxhetit/viti-2016148285235 • http://www.financa.gov.al/al/raportime/buxheti/ligjet • http://www.financa.gov.al/al/raportime/buxheti/buxheti-ne-vite/projektbuxhet/projektbuxheti-2016 • http://www.financa.gov.al/al/raportime/buxheti/buxheti-ne-vite/buxheti-2016 • http://www.financa.gov.al/al/raportime/buxheti/buxheti-ne-vite/projektbuxhet/projektbuxheti-2017 • Law No.147/2015, "On the budget of year 2016", • http://www.financa.gov.al/al/legjislacioni/buxheti-thesari-borxhi/buxheti/buxheti-ne-vite/buxheti-2016/ligji-i-buxhetit-2016 • Instruction No.23 dated 22.11.206 On standard Procedures of Preparation of MTBP • Manual of Incomes • Manual of Expenditures • http://www.financa.gov.al/al/raportime/buxheti/buxheti-ne-vite/buxheti-faktik-ne-vite1482915269/buxheti-faktik-2015 • http://www.financa.gov.al/al/raportime/thesari/gfs-ne-vite • Chart of accounts approved by decision of CoM no.25 date 20.01.2001

PI-5	• http://www.financa.gov.al/al/raportime/buxheti/buxheti-ne-vite/projektbuxhet/projektbuxheti-2017
PI-6	• Budget execution reports and Financial Statements for Year 2016 • Internal reports of the Treasury Department • List of accounts outside TSA • List of Accounts managed by TSA • Financial Statements of Social Insurance Institute • Financial Statements of Immovable Property Registration Office • HSC Audit report
PI-7	• Article 42, of the Law no.9936, date 26.06.2008 "On management of the budgetary system in Republic of Albania" • Article 15 of the Law no. 147/2015 "For the budget of 2017" • Point 52. 54, 55 and 56 of the Guidance of Minister of Finance No.1, dated 15.01.2016 "For the execution of the budget of Y2017" • Annex 1 and Table 3, of the Law No.147/2015 "For the budget of 2016" • http://www.financa.gov.al/files/userfiles/Buxheti/buxheti_pushtetit_vendor/Udhezime/udhezim_buxheti.pdf • The Official Letter of Ministry of Finance for the transfer of new functions No.18172 dated 29.12.2015 and no.18172/3 dated 11.01.2016 • The Official Letter of the Ministry of Finance for the unconditional transfers and specific transfers No.18025 dated 28.12.2015 • Complementary Budget Instruction No.1 dated 15.01.2016 • Complementary Budget Instruction on Local Government No.4/1 dated 29.02.2016 • Law No.139/2015 "For local self-government" (http://shtetiweb.org/wp-content/uploads/2016/03/LIGJI_139_2015_PER_VETEQEVERISJEN_VENDORE1.pdf) • Law no. 68/2017 “On self-governance local finances” May 2017
PI-8	• http://www.arsimi.gov.al/al/ministria/buxheti-dhe-financat; • http://www.shendetesia.gov.al/al/publikime/monitorimi-financiar/tabelat-e-raportimit-per- intervalet-kohore-3-muaj-9-muaj-dhe-vjetore-si-dhe-relacionet- • http://www.financa.gov.al/files/userfiles/Buxheti/Programi_Buxhetor_Afatmesem_ne_Vite/PBA_2017-2019_Faza_III_Shkurt_2017.pdf • Instruction No.22, dated 17.11.2016 "On standard procedures of budget monitoring in central government units" (http://www.financa.gov.al/al/legjislacioni/buxheti-thesari-borxhi/buxheti/udhezime/udhezime-standarde-te-buxhetit/udhezime-standarde-per-monitorimin-e-buxhetit) • Monitoring reports of Line Ministries (http://www.financa.gov.al/al/legjislacioni/buxheti-thesari-borxhi/buxheti/raporte-monitorimi/viti-2016/raporte-monitorimi-nga-ministria-e-financave-2016)

PI-9	• http://www.klsh.org.al/previewdoc.php?file_id=2670 • SAI Report on budget execution Y2015 • Official Letter no.597/1 dated 01.01.2016 submission of HSC budget report • Enacted budget. The annual budget law: (http://www.qbz.gov.al/botime/fletore_zyrtare/2015/PDF-2015/236-2015.pdf • In-year budget execution reports: http://www.financa.gov.al/al/raportime/programimi-ekonomiko-fiskal/raporte-dhe-statistika-fiskale-mujore/statistika-fiskale-mujore • http://www.financa.gov.al/al/raportime/buxheti/buxheti-ne-vite/projektbuxhet/projektbuxheti-2016 • http://www.financa.gov.al/al/raportime/buxheti/buxheti-ne-vite/buxheti-2016/ligji-i-buxhetit-2016 • Decision of Council of Minister no. 643, dated 22.07.2015 "For the approval of project-document of MTBP 2016-2018" • http://www.financa.gov.al/files/userfiles/Buxheti/Buxheti_i_Qytetarit_2016_-_updated.pdf • http://www.financa.gov.al/files/userfiles/Programimi_EkonomikoFiskal/Kuadri_Makroekonomik_dhe_Fiskal/Kuadri_Makroekonomik_e_Fiskal_per_Periudhen_2016-2018_(VKM_Nr._68_date_28.01.2015).pdf • http://www.qbz.gov.al/botime/fletore_zyrtare/2016/PDF-2016/11-2016.pdf • Monthly fiscal indicators as published in MoF website for Y2016 • Y2016 Fiscal indicators report • http://www.klsh.org.al (SAI recommendations) • http://www.financa.gov.al (for public access to fiscal information) • http://www.klsh.org.al/web/Raporte_Auditimi_201_1.php
PI-10	• INSTAT data on public corporations • IMF: June 2016 - Report on the Government Finance Statistics • Fiscal Risks Assessment and Mitigation - Budget 2017 Explanatory Note Extract by MoF • Report on fiscal controls performed during Y2016 by the General Directorate of Taxation
PI-11	• Budget documentation for FY2016; • Budget execution reports FY2015; • http://www.financa.gov.al/al/raportime/buxheti/ligjet • Law no.9936 dated 26.06.2008, “On the Management of the Budgetary System in the • Republic of Albania” (as amended June 2016). • http://www.financa.gov.al/al/raportime/buxheti/buxheti-ne-vite/projektbuxhet/projektbuxheti-2016 http://www.financa.gov.al/files/userfiles/Buxheti/Programi_Buxhetor_Afatmesem_ne_Vite/PBA_e_Rishikuar_2016-2018.pdf • http://www.financa.gov.al/al/raportime/shlyerja-e-detyrimeve-te-prapambetura • Prime Ministers Order No.159 dated 09.05.2014, “On the Approval of the Methodology of Reporting, Monitoring and Assessment of Public Investments” • Report on public investment projects • Law nr. 10164 of 15 October 2009

PI-12	• Instruction no 30 dated 27.12.2011 of the MoF, On Asset Management at Public Sector Units; • Instruction no 11 dated 6.5.2016 of the MoF, “On Asset Management at Public Sector Units; • Instruction no. 118 dated 6.05.2016 of the MoF, On disposal of financial assets and buildings; • http: /www.arsimi.gov.al/al/ministria/buxheti-dhe-financat/menaxhimi-financar-dhe-kontrolli • IMF: June 2016 - Report on the Government Finance Statistics • Report on public assets sold during Year 2016 • Law No. 7980, dated 27.07.1995, "On the sale of land". • Law no. 10270, dated 22.04.2010 "On the Right of Privatization of State Land in Use and Tax on the Right to Use it", amended by law 24/2012, dated 15.03.2012 • DCM No. 413, dated 25.06.2014 "On the definition of criteria and procedures for the sale of land in use, necessary areas and additional functionalities of enterprises, commercial companies, privatized state-owned facilities, privatized, Buildings or buildings sold by the former Agricultural Cooperatives as well as buildings constructed based on building permits " • DCM no.603, dated 31.08.2016 "On some additions to DCM no.413, date 25.06.2014" On the determination of the criteria and procedures for the sale of land in use, necessary areas and additional functional sites of enterprises, Commercial companies, privatized privately owned state facilities, buildings or buildings sold by former Agricultural Cooperatives, as well as buildings constructed based on building permits " • Instruction no. 5, dated 20.01.2015 pursuant to Law no. 10270, dated 22.04.2010. • Law no. 9967, dated 24.07.2008 "On the adoption of the Normative Act with the Law No. 4, dated 09.07.2008" On the privatization and the use of commercial companies and state institutions of special enterprises or facilities, main means and means of turnover of these enterprises" • DCM No.926, dated 29.12.2014 "On the criteria for the evaluation of state property, which is privatized or transformed and for the sale procedure" • Guideline No. 5222, dated 26.06.2015, on the implementation of DCM No. 926, dated 29.12.2014 "On the criteria for the evaluation of state property, which is privatized or transformed and for the sale procedure" • Treasury Report on Fixed assets • Law no.9967, dated 24.07.2008 "On the adoption of the normative act, with the power of law no. 4, dated 09.07.2008, of the Council of Ministers "On the privatization and use of commercial enterprises and state institutions of enterprises or special facilities for the main means and means of turnover of these enterprises" • Law no 9901, dated 14.4.2008 "On Traders and Companies" • Law no.7926, dated 20.04.1995 "On the transformation of state-owned enterprises into commercial companies" • DCM no.819, dated 29.11.2007 "On privatization of assets of enterprises or state institutions" • DCM no.119, dated 18.3.2000 "On privatization procedures by auction of state bills of shares of commercial companies operating in non-strategic sectors" • DCM no.230, dated 4.4.1998 "On the Privatization of Shares of State-Owned Capital in Joint Venture Companies" • DCM no.428, dated 09.06.2010 "On the criteria of state property valuation, which is privatized or transformed and for the sale procedure". • DCM No.738, dated 08.09.2010 "On the determination of the criteria and procedures for the sale of land in use, necessary and additional functional areas, of privatized, privatized enterprises, companies or state facilities, and of buildings built on the basis of building permits " • Law no. 9235, dated 29.7.2004 "On the Restitution and Compensation of Property"

PI-13	• Law No. 9665, dated 18.12.2006, "On State Borrowing, State Debt and State Loan Guarantees in the Republic of Albania (amended by the Law No. 181/2014); • Directive of the Minister of Finance No. 22, dated 05.10.2011, "For the publication of data of general government debt and the drafting of its report"; • Directive of the Minister of Finance No. 36, dated 10.08.2009, "For drafting the register of state debt and state loan guarantees"; • Directive of the Minister of Finance No. 30, dated 26.12.2013, "For emissions by the Government of the Republic of Albania Treasury Bills in Registration Form"; • Directive of the Minister of Finance No. 31, dated 26.12.2013, "For emissions from the Republic of Albania Government Bonds in Registration Form". • Law No 181/2014, “On some changes and additions in law no 9665 dated 18.12.2006: On State borrowing, state DEBT AND STATE LOAN GUARANTEES in the Republic of Albania • Instruction No. 30, dated 26.12.2013, "On the issue of the government securities of the Republic of Albania, Treasury Bills. • No. 31, dated 26.12.2013, "On the issue of the government securities of the Republic of Albania, Treasury Bonds. • Agreement on the organization of Albanian Government Securities Auctions, Settlement of Operations and the Maintenance of the Securities Register entered into force on 20.01.2015 • Debt Management Strategy 2016-2018 (DMS) approved by the COM Decision No. 401, dated 01.06.2016 "For the approval of medium-term debt management strategy 2016-2018". • Report for the Parliamentary Commission for Economy & Finance on DMS implementation dated 08.03.2016. • Law No. 9936, dated 26.06.2008, "On the management of the budgetary system in the Republic of Albania", amended • Report analysis dated 18.04.2017 on liquidity and debt for Y2017 and Y2018 (Produced by MoF)
PI-14	• Budget documentation for Y2013, Y2014 and Y2015; • MoF annual budget instructions on the preparation of the medium-term budgets to local governments • DCM No.34 dated 29.01.2014 “On the Approval of Macroeconomic and Fiscal Framework for 2015-2017” • DCM No.68 dated 28.01.2015, “On the Approval of Macroeconomic and Fiscal Framework for 2016-2018” • DCM No.695 dated 31.07.2015, “On the Approval of Macroeconomic and Fiscal Framework for 2016-2018, revised” • DCM No.80 dated 03.02.2016, “On the Approval of Macroeconomic and Fiscal Framework for 2017-2019” • MTBP 2015-2017
PI-15	• MTBP Document 2014-2016 • MTBP Document 2015-2017 (revised version) • MTBP Document 2016-2018 (revised version) • Draft National Health Strategy February 2017 • Ministry of Education Strategy approved by DCM No.11, dated 11.01.2016 • https://drive.google.com/drive/folders/0Bw2p64LR8mgGWG85ZXdsbkN4ZjA?usp=sharing (about relevant strategies) • Prime Ministers’ Order No.93, dated 07.08.12, "On preparation of National Sectorial and Inter-Sectorial Strategies for the Period 2013-2020 and preparation of Strategic Documents for the Period 2013-2020 in frame of National Strategy of Integration” • Prime Ministers Order No.18 dated 22.01.14, "On the establishment of inter-ministerial committee for strategic planning", amended with Prime Ministers Order no.113 dated 26.08.15 • http://www.financa.gov.al/files/userfiles/Programimi_EkonomikoFiskal/Kuadri_Makroekonomik_dhe_Fiskal/Kuadri_Makroekonomik_e_Fiskal_per_Periudhen_2017-2019_(VKM_Nr_80_dt_3_2_2016).pdf

PI-16	• Budget documentation for Y2014, Y2015 and Y2016; • MTBP 2016-2018 • Guidelines for preparation of the medium-term budget program 2017-2019 (dated 5th August 2016) • MoF (2012) – Standard Instruction on the Medium-Term Budget Preparation; and • Standard Instruction on Budget Execution • Draft National Health Strategy February 2017 • Ministry of Education Strategy approved by DCM No.11, dated 11.01.2016 • https://drive.google.com/drive/folders/0Bw2p64LR8mgGWG85ZXdsbkN4ZjA?usp=sharing (about relevant strategies) • Prime Ministers' Order No.93, dated 07.08.12, "On preparation of National Sectorial and Inter-Sectorial Strategies for the Period 2013-2020 and preparation of Strategic Documents for the Period 2013-2020 in frame of National Strategy of Integration" • Prime Ministers Order No.18 dated 22.01.14, "On the establishment of inter-ministerial committee for strategic planning", amended with Prime Ministers Order no.113 dated 26.08.15 • http://www.financa.gov.al/files/userfiles/Programimi_EkonomikoFiskal/Kuadri_Makroekonomik_dhe_Fiskal/Kuadri_Makroekonomik_e_Fiskal_per_Periudhen_2017-2019_(VKM_Nr_80_dt_3_2_2016).pdf • http://www.financa.gov.al/al/raportime/buxheti/udhezime/udhezime-vjetore-te-buxhetit/udhezimet-vjetore-per-pergatitjen-e-buxhetit/viti-20161482852356 • Decision of Council of Ministers no 230 date 30.3.2016 "For the approval of preparatory budget ceilings for 2017-2019" • Budget Instruction no.4, date 29.02.2016 "For preparation of MTBP 2017-2019" which was sent to the line ministries and agencies through Official letter Prot.no. 2985/1, dated 29.2.2016 • Official letter no. 3470/2. date 12.4.2016, for submission of budget ceilings • The calendar of hearings related to MTBP 2017-2019 • http://www.financa.gov.al/files/userfiles/Buxheti/Programi_Buxhetor_Afatmesem_ne_Vite/PBA_2017-2019_Faza_III_Shkurt_2017.pdf • MTBP 2017-2019, approved with the documents: no.514 13.7.2016 (phase I); no.938 28.12.2016 (phase II) and reviewed in the beginning of 2017, with the approved budget law. • http://www.financa.gov.al/files/userfiles/Buxheti/Programi_Buxhetor_Afatmesem_ne_Vite/PBA_e_Rishikuar_2016-2018.pdf • http://www.financa.gov.al/files/userfiles/Buxheti/Programi_Buxhetor_Afatmesem_ne_Vite/PBA_2017-2019_Faza_III_Shkurt_2017.pdf
PI-17	• Law no.9936 dated 26.06.2008, "On the Management of the Budgetary System in the Republic of Albania" (as amended June 2016) • PHASE I-Budget Instruction no.4, date 29.02.2016 "For preparation of MTBP 2017-2019", (sent to line ministries and agencies with the Official Letter no 2985/1, prot. date 29.2.2016 • Budget ceilings sent with Official letter no.3470/2. date 12.4.2016 and approved by DCM No.230 date 30.3.2016 "For the approval of preparatory budget ceilings for 2017-2019" • Budget Instruction no. 4, dated 29.02.2016 "For preparation of MTBP 2017-2019" • PHASE II- Complementary Budget Instruction no.4/2, dated 8.7.2016 "For preparation of MTBP 2017-2019", sent to line ministries and agencies with the official letter no.2985/13, date 8/7/2016. • DCM no.515, dated 13.7.2016 On budget ceilings, sent to line ministries with official letter no.3470/10 date 19.7.2016 • Official letter no.18560, dated 12.12.2013 (Y2014) for submission of draft budget law to CoM • Official letter no. dated 28.10.2014 (FY2015) for submission of draft budget law to CoM • Official letter no.15134/1.prot, dated 17.11.2015 (Y2016) for submission of draft budget law to CoM • CoM Official letter no.5202/4 dated 13.01.2016 "On the approval of Budget Law 2016" and the copy of the approved Law submitted to MoF • Official letter of CoM to MoF no.3542/3 dated 20.10.2014 "On some amendments of Budget Law 2014 No.185/2014".

PI-18	• http://www.financa.gov.al/al/raportime/buxheti/ligjet • https://www.parlament.al/projektligj/projektligj-per-buxhetin-e-vitit-2016/ • Complementary Instruction No. 1, dated 15.1.2016 "On budget execution of Y 2016" • Parliamentary scrutiny session of factual budget of year 2013 (dated 14.10.2014) • Report dated 02.11.2015 of the Economy and Finance Parliamentary Commission for the draft law "On the approval of factual budget of Y 2014" • https://www.parlament.al/projektligj/projektligji-per-buxhetin-e-vitit-2015/
PI-19	• Revenue reports on collections; • Monthly, progressive, and annual revenue reconciliation reports with Treasury; • General Directorate of Customs Audit Working Plan for Y2016, No.23629/7 dated 14.10.2015; • General Directorate of Customs Internal Regulation approved by Minister of Finance Order No.35 dated 08.03.2016 • www.dogana.gov.al • Customs Instruction Manual on Risk Management and Right of Exercising Control based on Risk analysis, No.6118/2 dated 31.03.2016 • Order No.21187/1 dated 08.09.2016 of General Director of Customs, "On the Establishment and Functioning of the Risk Management Commission" • General Directorate of Customs Excise Working Plan for Y2016, No.2371 dated 28.01.2016 • General Directorate of Customs Stock of Arrears Y2016 • https://www.tatime.gov.al/shkarko.php?id=939 • www.tatime.gov.al • https://www.tatime.gov.al/c/8/42/51/klientet-tatimpaguesit • https://www.tatime.gov.al/c/6/legjislacioni • https://www.tatime.gov.al/c/7/e-sherbime • List of Decisions of Risk Management Commission of General Directorate of Taxation (Official Documents/Letters) • Annual Compliance Risk Management Plan for Y2016 of General Directorate of Taxation; • Operational Plan of General Directorate of Taxation, 2017 • Document of General Analysis of Sectorial Objectives of General Directorate of Taxation, October 2016 • Summary of Strategy of Compliance, October 2016 • Report of General Directorate of Taxation (No.71871 dated 30.03.2017) on indicator 4 of PFM strategy "Improved Tax Administration". • Report on fiscal controls performed during Y2016 by the General Directorate of Taxation • Report on tax arrears for Y2016 • Action plan based on the recommendations of IMF • Law on Tax Procedures (2008); • Law on National Taxes (2008); • Law on Income Tax (1998); • Law on Value Added Tax (2014); • Financial Statements for Y2015; • Fiscal Risks Assessment and Mitigation - Budget 2017 Explanatory Note Extract by MoF • http://www.qkr.gov.al/information-on-procedure/business-registration/

PI-20	• Monthly, progressive, and annual revenue reconciliation reports with Treasury • General Directorate of Taxation Statistical Reports on Tax Incomes for Y2016 and Y2017 • Treasury Directorate reports on Revenues • General Directorate of Customs Revenue Reports • Social Insurance Institute Financial Reports

PI-21	• Law no.9936 dated 26.06.2008, “On the Management of the Budgetary System in the Republic of Albania” (as amended June 2016) • Budget Directorate reports; • Instruction No.2, “Standard Procedures of Budget Preparation”, Ministry of Finance, dated 6 February, 2012 • http://www.financa.gov.al/al/raportime/thesari/ecuria-e-investimit-te-projekteve • Fiscal bulletin Q1, Q2, Q3, Q4 Y2016 • List of accounts managed by Treasury • List of accounts outside TSA • Normative Act No.1, dated 17.9.2014 "On some amendments and additions in Law no.185/2013, “On Budget of Y2014”. (http://www.financa.gov.al/al/legjislacioni/buxheti-thesari-borxhi/buxheti/buxheti-ne-vite/buxheti-2014) • Normative Act No.2, dated 29.12.2014 "On some amendments and additions in Law no.185/2013, “On Budget of Y2014””, as amended. • Normative Act No.1, dated 29.7.2015 " On some amendments and additions in Law no.160/2014, “On Budget of Y2015” • Normative Act No.2, dated 11.12.2015 “On some amendments and additions in Law no.160/2014, “On Budget of Year 2015”, as amended (http://www.financa.gov.al/al/legjislacioni/buxheti-thesari-borxhi/buxheti/buxheti-ne-vite/buxheti-2015) • Normative Act No.3, dated 28.12.2015, “On some amendments and additions in Law no.160/2014, “On Budget of Year 2015”, as amended
PI-22	• Former Arrears Unit reports for expenditure arrears FY2016, Y2015 and Y2014; • Strategy for Clearance and Prevention of Arrears Accumulated by the Central Government Decision No. 50 dated February 2, 2014; • Stock of arrears reports for Y2014/2015/2016 of Ministry of Health • Stock of Arrears reports for Ministry of Transport and Infrastructure (MTI) • Official letter No.1294/1 dated 16.03.2017 “On the Arrears of MTI” • Law No.48/2014 dated 20.05.2014, “On the delayed payments in contractual and commercial commitments” • Arrears report for Q1 2017 • On arrears: http://www.financa.gov.al/al/raportime/shlyerja-e-detyrimeve-te-prapambetura
PI-23	• Law no.152/2013 (as amended) "On the civil servant" and the relevant bylaws and guidelines, • Council of Ministers Decision no.117, dated 05.03.2014 “On the contents, procedure and administration of personnel file for the Central Personnel Registry", • DCM 188, dated 15.03.2017 On Salaries • Internal Regulation of Ministry of Finance 2016 • Staff register of Ministry of Finance • Common Guideline between the Minister of Finance and State Minister for Innovation and Public Administration (Instruction no. 4, date 13,12,2016 "On form, the elements and the fulfillment of the salary payroll for the units of the general government”) • Instruction no. 2, date 06,02,2012 "On standards of budget enforcement procedures". • Complementary Instruction of Ministry of Finance No.2 dated 09.01.2015 on Budget Implementation of Y2015” • Law No. 7961 on the Labor Code of 12 July 1995, amended by Law No. 136/2015 • Law No. 10 107 on Healthcare, 30 March 2009; • Law No. 7952 on the Pre-university Education System, 21 June 1995; • Law No. 8872 on Vocational Education and Training, 29 March 2002, amended by Law No. 10/011 of 30 October 2008 and Law No. 10434 of 23 June 2011; • Law No. 8461 on Higher Education, 25 February 1999; • Law No. 9355 on Social Aid and Services, 10 March 2005
PI-24	• SAI Report on budget execution Y2015, Y2014, Y2013 • PPC annual reports (including complaints report) Year 2014, Year 2015, Year 2016 • Law no. 47/2017 On some changes and additions in the procurement law no.9643 dated 20.11.2006

PI-25	• Law “On the financial management and Control” no. 10 296, dated 8.7.2010 as amended with Law no.110/2015, dated 15.10.2015 • Law no.9936 dated 26.06.2008, “On the Management of the Budgetary System in the Republic of Albania” (as amended June 2016) • http://www.financa.gov.al/al/raportime/buxheti/ligjet • Law No.147/2015, “On budget of year 2016”, (http://www.financa.gov.al/al/legjislacioni/buxheti-thesari-borxhi/buxheti/buxheti-ne-vite/buxheti-2016/ligji-i-buxhetit-2016 • Complementary Instruction No.1, dated 15.1.2016 "On budget implementation of Year 2016 • Law No.130/2016 "On budget of Year 2017" (http://www.financa.gov.al/al/legjislacioni/buxheti-thesari-borxhi/buxheti/buxheti-ne-vite/buxheti-2017/ligji-i-buxhetit-2017) • Complementary Instruction No.8, dated 13.1.2017 "On budget execution of Year 2017" (http://www.financa.gov.al/al/legjislacioni/buxheti-thesari-borxhi/buxheti/buxheti-ne-vite/buxheti-2017/udhezimi-plotesues-nr-8-date-13-01-2017-per-zbatimin-e-buxhetit-te-vitit-2017) • Complementary Instruction no.8/1, dated 6.03.2017 "on the amendment and addition in the Complementary Instruction No.8 dated 13.01.2017" (http://www.financa.gov.al/al/legjislacioni/buxheti-thesari-borxhi/buxheti/buxheti-ne-vite/buxheti-2017/udhezimi-plotesues-nr-8-date-06-03-2017-per-zbatimin-e-buxhetit-te-vitit-2017) • Law no.9936 dated 26.06.2008, “On the Management of the Budgetary System in the • Republic of Albania” (as amended June 2016) (http://www.financa.gov.al/al/legjislacioni/buxheti-thesari-borxhi/buxheti/ligjet) • Instruction No.2, dated 06.02.2012, “On standard procedures of budget execution” • Instruction No.3, dated 16.01.2015, "On the amendment and addition in Instruction No.2 dated 06.02.2012" (http://www.financa.gov.al/al/legjislacioni/buxheti-thesari-borxhi/buxheti/udhezime/udhezime-standarde-te-buxhetit/udhezime-standarte-per-zbatimin-e-buxhetit) • http://www.financa.gov.al/files/userfiles/Drejtorite/Drejtoria_e_Pergjithshme_rregullatore_Kontrolluese/Njesia_e_Harmonizimit_dhe_Kontrollit_Financiar/Aktet_ligjore_ne_fushen_e_menaxhimit_publik/ligji_ne_anglisht_i_rregulluar_pa_shenime_16.9.16.docx • http://www.financa.gov.al/files/userfiles/Drejtorite/Drejtoria_e_Pergjithshme_rregullatore_Kontrolluese/Raporte/Annual_PIFC_Report_2015.doc • Law No.10296 dated 8/7/2010 Amended by the Law No. 110/2015, date 15.10.2015 “On Financial Management and Control” • Internal Audit report for Y2016 of Treasury Activity (dated 27.03.2017) • Financial management report of Treasury for year 2016 (statistical data) • PIFC annual report 2016 (MoF) • Ministry of Finance order no. 89, dated 28.12.2015 on the methodology for performance monitoring of the public units

PI-26	• Law no 114 dated 22.10.2015 “On Internal Auditing on Public Sector” • “On functioning of Public Internal Financial Control System (PIFC) in the general government units for the year 2015” Albania Public Finance Management Strategy 2014 – 2020, Government of Albania, 2014 • Albania Public Finance Management Strategy 2014 – 2020, Government of Albania 2014 • List of completed internal audits during 2016 for Ministry of Health • Audit reports for Y2016 of Ministry of Health • http://www.financa.gov.al/files/userfiles/Drejtorite/Drejtoria_e_Pergjithshme_rregullatore_Kontrollu ese/Akte_ligjore/Ligji_114,_22.10.2015.pdf • http://www.financa.gov.al/files/userfiles/Drejtorite/Drejtoria_e_Pergjithshme_rregullatore_Kontrollu ese/Raporte/Annual_PIFC_Report_2015.doc • Law No.114/2015 “On Internal Audit in the Public Sector” • Order No.86 dated 10.12.2015 “On the approval of code of ethics for internal auditors in public sector” • DCM No.83, dated 03.02.2016, “On the approval of the criteria of establishment of internal audit units in public sector” • DCM No.116, dated 17.02.2016 “On the organization, functioning and composition of the commission of qualification of internal auditors in public sector and definition of training fees’’ • DCM No.160, dated 02.03.2016, “On the functioning, competences and composition of the internal auditing committees in public units” • Manual of Internal Audit 2016 approved by Ministers’ of Finance Order No.100 dated 25.10.2016 • Order of Minister of Finance No.22 dated 06.03.2017, “On the approval of the methodology for the external assessment of quality of internal audit in public sector” • Order of Minister of Finance No.37 dated 16.03.2016, “On the approval of regulation of the procedures of certification of internal auditors in public sector” • Order No.3 dated 08.01.2016 of the Minister of Finance, “On the approval of regulation for continuous professional training of internal auditors in public sector” • List of completed internal audits during 2016 for Ministry of Transport and Infrastructure • Audit reports for Y2016 of Ministry of Transport and Infrastructure • List of completed internal audits during 2016 for Ministry of Education • Audit reports for Y2016 of Ministry of Education • List of completed internal audits during 2016 of Social Insurance Institute • Audit reports for Y2016 of Social Insurance Institute
PI-27	• Financial Statements for Y2016 • DCM No.352 dated 11.05.2016, “On Establishment of State Database of Government Financial Information System” • Order No.89 dated 12.11.2014 of Minister of Finance, “On the implementation of the Manual of Users and on new functional developments of Government Financial Information System” • Financial Reconciliation documents
PI-28	• http://www.financa.gov.al/al/raportime/thesari/treguesit-fiskal-sipas-buxhetit-te-konsoliduar • Multi-year commitment reports for Y2016 and Y2017 • http://www.financa.gov.al/al/raportime/thesari • http://www.financa.gov.al/al/raportime/thesari/pagesa-te-kryera-nga-drejtoria-e-pergjithshme-e-thesarit/pagesat-e-kryera-2016 • http://www.financa.gov.al/al/raportime/thesari/pagesa-te-kryera-nga-drejtoria-e-pergjithshme-e-thesarit/pagesat-e-kryera-2017 • http://www.financa.gov.al/al/raportime/thesari/pasqyrat-financiare

PI-29	• Financial Statements for Y2014, Y2015 and Y2016 • Law no.9936 dated 26.06.2008, "On the Management of the Budgetary System in the • Republic of Albania" (as amended June 2016) • Law No. 9928/2004 on Accounting and Financial Statements, dated 29 April, 2004 • Albania Public Finance Management Strategy 2014 – 2020, Government of Albania, 2014 • Instruction No.14 dated 28.12.2006 of Ministry of Finance • Instruction No.20 dated 27.12.2007 of Ministry of Finance • Financial reports calendar • Multi-year commitment reports for Y2016 and Y2017 • http://www.financa.gov.al/al/raportime/thesari
PI-30	• Law No.154/2014 on the Organization and Functioning of the High State Control, dated 27 November 2014 • Article no.162-165 of Albanian Constitution • Official letters of receipt of financial report by the Ministry of Finance to SAI; respectively Y2013-No.557/3 dated 24.06.14, Y2014-No.544/3 dated 05.06.15; Y2015-No.597/1 dated 01.06.16 • Official Letters of submission of SAI audit reports to the Parliament: Y2013 report - No. 557/5 prot., dated 03.10.14, Y2014 report - No. 544/9 prot. dated 19.10.15; Y2015 report- No.597/4 Prot. dated 04.10.16 • Statistical data provided by SAI on the recommendation provided to audited institutions and the reaction of the management
PI-31	• https://www.parlament.al/projektligj/projektligj-per-miratimin-e-buxhetit-faktik-te-shtetit-per-vitin-2014/ • https://www.parlament.al/projektligj/projektligj-per-miratimin-e-buxhetit-faktik-te-shtetit-per-vitin-2015/ • https://www.parlament.al/projektligj/projektligji-per-miratimin-e-buxhetit-faktik-te-shtetit-per-vitin-2013/ • Parliament Internal regulation approved with Decision No.166, dated 16.12.2004, last amended with Decision No.95/2014, dated 27.11.2014 • Economic and Finance Parliamentary Commission Report dated 02.11.15, "On the draft law for the approval of actual budget of year 2014" • Parliamentary Commission Calendar of Y 2017 Budget Review, dated 10.11.2016 • Law no.9936 dated 26.06.2008, "On the Management of the Budgetary System in the • Republic of Albania" (as amended June 2016)[i]

Annex 3C. List of persons interviewed

	Nam e	Position	Institution
1	Erjon Luci	Deputy Minister	Ministry of Finance
2	Gelardina Prodani	Secretary General	Ministry of Finance
3	Mimoza Dhembi	General Director of Budget	Ministry of Finance
4	Lavdrim Sahitaj	General Director of Treasury	Ministry of Finance
5	Kesjana Halili	General Director of Harmonization of Public Internal Financial Control	Ministry of Finance
6	Ilda Malile	General Director of Debt Management Department	Ministry of Finance
7	Fran Brahimi	Director of Local Government Finance Department	Ministry of Finance
8	Vanina Jakupi	Director of Management of Reforms in Public Finances	Ministry of Finance
9	Gentjan Opre	Director of Budget Analysis and Programming	Ministry of Finance
10	Xhoana Agolli	Director, Budget Monitoring and Management Directorate	Ministry of Finance
11	Mimoza Peco	Director, Treasury Operations Directorate	Ministry of Finance
12	Dritan Fino	Director of Harmonization of Financial Management and Control	Ministry of Finance
13	Anisa Kume	Head of Budget Risk Management Sector, Budget Monitoring and Management Directorate	Ministry of Finance
14	Ina Dhaskali	Head of Sector of Budget Programming	Ministry of Finance
15	Marjus Borokoci	Head of Strategy and Risk Unit, General Debt Management Directorate	Ministry of Finance
16	Emanuela Zenelaj	Specialist, Directorate of Management of Reforms in Public Finances	Ministry of Finance
17	Roza Naun	Director of Finance	Ministry of Finance
18	Anxhela Kasapi	Reporting Unit Specialist, General Treasury Directorate	Ministry of Finance
19	Aurela Velo	Director of Business Processing	Ministry of Finance
20	Olta Prifti	IT Director	Ministry of Finance
21	Endri Ducka	Director of Public Property Management	Ministry of Finance
22	Belina Memeti	Head of Financial Market Division, General Debt Management Department	Ministry of Finance
23	Veronika Rusi	Head of Projects Assessment Sector, Public Investments Directorate	Ministry of Finance
24	Manjola Fagu	Human Resources Department	Ministry of Finance
25	Zarina Taja	Head of Drafting Fiscal Laws Unit	Ministry of Finance
26	Mariel Frroku	Specialist at Local Government Finance Department	Ministry of Finance

27	Sajmir Lacej	Director of Fiscal Policies Analysis and Monitoring	Ministry of Finance
28	Luljeta Nano	Secretary General	Supreme Audit Institution
29	Manjola Naco	General Director of Compliance and Performance Audit	Supreme Audit Institution
30	Lindita Milo	General Director	Supreme Audit Institution
31	Argita Frasheri	Director of Financial Statistics	Bank of Albania
32	Oriana Arapi	Unit Director, Strategic Planning and Development Unit	Prime Ministers' Office
33	Evis Qaja	Director, Strategic Planning Directorate	Prime Ministers' Office
34	Saimir Kadiu	Director of Budget and Finance Department	Ministry of Health
35	Petro Mersini	Director of Hospitals Department	Ministry of Health
36	Skender Dreni	IA unit Director	Ministry of Health
37	Shpresa Bello	Director of Pharmacy Department	Ministry of Health
38	Erol Como	Director, Primary Health Department	Ministry of Health
39	Enkelejdi Joti	Director of Tirana University Hospital Center	Ministry of Health
40	Daniela Nika	Deputy Director of Tirana University Hospital Center	Ministry of Health
41	Albana Ahmeti	Public Health Institute	Ministry of Health
42	Alban Ylli	Public Health Institute	Ministry of Health
43	Sonila Rreshka	Specialist	Ministry of Health
44	Flutura Pullaci	Hospital Performance and Continuing Education Director	Tirana University Hospital Center
45	Florian Nurce	Head of Budget Sector	Ministry of Education
46	Mirela Bimo	Director of Finance	Ministry of Education
47	Zamira Gjini	Director of Higher Education	Ministry of Education
48	Mimoza Leno	Regional Education Directorate	Ministry of Education
49	Skender Jaku	IA unit Director	Ministry of Education
50	Besmir Ali	Administrator	Polytechnic University of Tirana
51	Teuta Dobi	Director	"Sami Frasheri" High School of Tirana
52	Grigor Gjeci	Director of Rural Development Policies & Head of Management Authority	Ministry of Agriculture, Rural Development and Water Administration
53	Vasilika Vjero	General Director	General Directorate of Taxation
54	Borjana Shaka	Head of Enforcement Collection	General Directorate of Taxation
55	Rudina Kici	Secretary	Parliamentary Economic and Financial Committee
56	Idlir Gjata	Advisor	Parliamentary Economic and Financial Committee
57	Alma Kondakciu	Advisor	Parliamentary Economic and Financial Committee

58	Elona Sevrani	Director of General Accounts Department	INSTAT
59	Adriana Sheti	Department of Public Property	Ministry of Economic Development, Tourism, Trade and Entrepreneurship
60	Eduard Ahmeti	Head of Public Procurement Agency	Public Procurement Agency
61	Evis Shurdha	Head of Public Procurement Committee	Public Procurement Committee
62	Elton Haxhi	Representative of Tax Committee	Foreign Investors Association of Albania (FIAA)
63	Gentian Beqiri	Director of Budget and Finance	Ministry of Transport and Infrastructure
64	Belinda Ikonomi	General Director	General Directorate of Customs
65	Arjana Dyrmishi	Adviser to the General Director	General Directorate of Customs
66	Astrit Hado	Head of Social Insurance Institute	Social Insurance Institute
67	Ali Emini	Deputy General Director	Social Insurance Institute
68	Vjosana Isufaj	Finance Department	Social Insurance Institute
69	Sokol Lula	IA unit director	Social Insurance Institute
70	Ramadan Ndreaj	Director of IA Unit	Ministry of Transport and Infrastructure
71	Shpresa Kallaku	Head of Finance Sector	Immovable Property Registration Office (IPRO)
72	Dashamir Xhika	General Director	Albanian Road Authority
73	Alma Lleshi	Head of Budget Planning Sector	Albanian Road Authority
74	Afrim Qendro	Deputy General Director	Albanian Road Authority
75	Leke Tushaj	Director of Quality Assurance Directorate	Albanian Road Authority
76	Agron Tyli	Director of Internal Services	Albanian Road Authority
77	Ervina Sinani	Specialist, Supporting Services Directorate	Albanian Road Authority
78	Ervin Bushati	Member of Parliament	Parliamentary Economic and Financial Committee
79	Aranita Brahaj	Executive Director	Albanian Institute of Science AIS Open Data Albania (NGO)

Annex 4. Tracking change in performance based on previous version of PEFA

This annex presents a comparison with the previous assessment, published in January 2012, that used the 2011 version of the framework. It was prepared in compliance with the Guidance on reporting performance changes in PEFA 2016 from previous assessments that applied PEFA 2005 or PEFA 2011 available at www.pefa.org.

Indicator/Dimension	Score previous assessment	Score current assessment	Description of requirements met in current assessment	Explanation of change (include comparability issues)
A. PFM-OUTTURNS: Credibility of the Budget				
PI-1 Aggregate expenditure outturn compared to original approved budget	A	A	Aggregate expenditure outturn excluding donor funded projects was between 95% and 105% of the approved aggregate budgeted expenditure: 97.3 % in 2016, 102.9% in 2015 and 104.9% in 2014.	No change in performance.
PI-2 Composition of expenditure outturn compared to original approved budget	D+	D+	Scoring method M1 (weakest link)	
(i) Extent of the variance in expenditure composition during the last three years, excluding contingency items	D	D	The composition variance between the expenditures outturn by function and the budgeted expenditure exceeds 20 percent in all the three years of assessment: 21.2 % in 2014, 23.4% in 2015 and 24% in 2016.	No change in performance.
(ii) The average amount of expenditure actually charged to the contingency vote over the last three years.	A	A	Actual expenditure charged to a contingency vote was on average at 0.1 % of the original budget.	No change in performance.
PI-3 Aggregate revenue outturn compared to original approved budget	D	A	Actual revenue was between 97% and 106% of budgeted revenue in 2014 and 2016.	During the assessment period, Albania's forecasts have been more realistic than in the past and the deviation from of the budgeted revenues from the outturn significantly smaller
PI-4 Stock and monitoring of expenditure payment arrears	NR	B+	Scoring method M1 (weakest link)	
(i) Stock of expenditure	NR	A	The stock of expenditure arrears of the central government was	Improvement in performance.

payment arrears and a recent change in the stock.			reduced significantly during the last two years and was below 2% of total expenditure at the end of 2016.	
(ii) Availability of data for monitoring the stock of expenditure payment arrears.	NR	B	Data on the stock of central government expenditure arrears was collected and published every four months during 2015 and 2016. Information on arrears includes age profile and is broken down by expenditure category.	
B. KEY CROSS-CUTTING ISSUES: Comprehensiveness and Transparency				
PI-5 Classification of the budget	A	A	The budget classification and Chart of Accounts are based on economic, administrative, and functional (and sub-functional) classification and can produce information.	No change in performance.
PI-6 Comprehensiveness of information included in budget documentation	B	A	For the BCG, Albania fulfills 8 elements, out of the 9 elements for this dimension. For the FY 2011 assessment only 6 out the 9 elements were met.	Improvement in performance.
PI-7 Extent of unreported government operations.	A	B+	Scoring method M1 (weakest link)	
(i) Level of unreported government operations	A	B	Information on expenditure outside financial reports is incomplete and only available for 17 of 63 EBUs: the available evidence suggests that the total amount unreported is less than 5% of BCG expenditure.	Unlikely to be a change in performance, other than fact that data may no longer be comprehensive.
(ii) Income/expenditure information on donor-funded projects	A	A	The organic budget law requires all GOA revenue to be paid into the Treasury Single Account, and this is followed. In addition, the figures for foreign grants in Annex 5 show that the 90% threshold Is met.	No change in performance.
PI-8 Transparency of inter-governmental fiscal relations.	B+	B	Scoring method M2 (average)	
(i) Transparency and objectivity in the horizontal allocation amongst Subnational Governments	B	C	The horizontal allocation of unconditional and specific grants to subnational governments from central government is determined by transparent, rule based systems.	The share of discretionary grants increased significantly. These grants' allocation was not formula based.

			These represent 60.8 percent of total transfers to LGUs	
(ii) Timeliness and reliable information to SN Governments on their allocations	B	B	By December each year, LGUs know the amounts of unconditional and specific transfers they are going to receive	No change in performance.
(iii) Extent of consolidation of fiscal data for general government according to sectoral categories	A	A	Financial statements for all subnational governments social security funds and central government are published each month on a consolidated basis. Auditing of LGUs is conducted once in two years by the Supreme Audit.	No change in performance
PI-9 Oversight of aggregate fiscal risk from other public sector entities.	C+	C+	Scoring method M1 (weakest link)	While dimensions (ii) and (iii) have changed, there is no change in the score at the indicator level.
(i) Extent of central government monitoring of autonomous entities and public enterprises	C	C	Government receives financial reports from most public corporations and extra budgetary units within nine months of the end of the fiscal year. No consolidation report is done. The two SSFs are reported on monthly basis	No change in performance.
(ii) Extent of central government monitoring of SN government's fiscal position	A	A	The net fiscal position for all subnational governments are published each month on a consolidated basis for all LG and quarterly on a unit level. Auditing of LGUs is conducted once in two years by the Supreme Audit. In 2016 the government started to monitor on quarterly basis data on expenditure arrears that LGUs have created during the past years.	No change in performance.
PI-10 Public access to key fiscal information	B	A	The government makes available to the public 5 of the 6 listed types of information	The external audit reports on the government consolidated operations have been made public during the past years within 6 months from the completed audit.
C. BUDGET CYCLE				
C(i) Policy-Based Budgeting				

PI-11 Orderliness and participation in the annual budget process	A	B	Scoring method M2	
(i) Existence of, and adherence to, a fixed budget calendar	A	B	A clear annual budget calendar exists, but some deviations are experienced in its implementation. The 2016 calendar allowed MDAs around a month from receipt of the budget instruction, which is viewed as sufficient to meaningfully complete their detailed estimates on time.	Deterioration in performance due to reduced time provided to MDAs to produce budget submissions.
(ii) Guidance on the preparation of budget submissions	A	B	The set of instructions used for MTBP and budget preparation is comprehensive, covers total budget expenditures for the full fiscal year, and provides clear guidance to budgetary units. In 2016, the final expenditure ceilings were approved by the Council of Ministers after the supplementary instruction for annual budget preparation was issued by the Ministry of Finance, but well before the deadline for annual budget submissions.	Slippage in performance due to late approval of the expenditure ceilings by the Council of Ministers.
(iii) Timely budget approval by the legislature	A	B	The budget for 2014 was approved in the last days of 2013 and was made public only in the middle of January. Budgets for 2015 and 2016 were approved well before the start of the respective fiscal years.	Slippage in performance due to late approval of the 2014 budget.
PI-12 Multi-year perspective in fiscal planning, expenditure policy and budgeting	C+	C+	Scoring method M2	
(i) Multiyear fiscal forecasts and functional allocations	C	C	Forecasts of fiscal aggregates (based on the main categories of economic classification) are prepared for at least two years on a rolling annual basis. No link between forward forecasts and subsequent budget estimates is provided	No change in performance.
(ii) Scope and frequency of debt sustainability analysis	A	A	DSA for external and domestic debt is undertaken annually.	No change in performance.

(iii) Existence of costed sector strategies	C	C	Statements of sector strategies exist for several major sectors but costed strategies are inconsistent with aggregate fiscal forecasts.	No change in performance.
(iv) Linkages between investment budgets and forward expenditure estimates	C	C	Many investment decisions have weak links to sector strategies and their recurrent cost implications are included in forward budget estimates only in a few (but major) cases.	No change in performance.
C(ii) Predictability and Control in Budget Execution				
PI-13 Transparency of taxpayer obligations and liabilities	A	A	Scoring method M2	No change in performance.
(i) Clarity and comprehensivenes s of tax liabilities	A	A	The legislative base for taxes of all types and customs duties is comprehensive, clear, and readily accessible to payers through Tax and Customs Internet websites and other means of communication. The tax and customs laws define the base, rate, application, administrative procedures, for the taxes in force and the methods of payment, including the right to readdress. The legal and regulatory framework set strictly limited discretionary powers for tax and custom officials.	No change in performance.
(ii) Taxpayer access to information on tax liabilities and administrative procedures	A	A	GDT's (www.tatime.gov.al) and GDC's (http://www.dogana.gov.al/#) websites contains comprehensive, clear and readily accessible information on: (i) all laws, regulations and procedures pertaining to revenue administration- tax and custom duties, social insurance contributions and non-tax revenue. Information is customized and tailored to the specific needs of payer segments and the main revenue obligation areas, including the right to redress. Payer's right and obligations are summarized into the payer's card, which is a	No change in performance.

			public document aimed at fostering cooperation between the revenue authorities and payers. Both GDT and GDC supplement these efforts with active taxpayer's education campaign and other means of communications, such as TV, radio, newspaper, Frequently Asked Questions, presentations, social media, etc. For more information, please refer to PI-19.1 of PEFA 2016 Framework.	
(iii) Existence and functioning of a tax appeal mechanism.	B	B	There is a well-defined process governing the rights of the taxpayer to appeal any administrative act and decision that affects the taxpayer's rights and liabilities. The taxpayer may file an appeal with the Directorate of Tax Appeal (DTA) within 1 month of receiving the administrative act that has been delivered by the tax administration. Within this month, the taxpayer shall pay or make a bank guarantee regarding the liabilities contained in the notice of assessment, together with late payment interests up to the payment date. As for the fines, neither are paid, nor placed a guarantee. DTA has 90 days in which to conduct the required analysis, gather any additional data relevant to the case, and issue a decision. The decision can be to uphold, cancel or reduce the amount of the assessment originally issued. Any decisions that increase the assessment must be referred to the assessing entity for consideration and for the issuance of a subsequent decision. If the DTA does not issue a decision within 90 days, or if the taxpayer is unhappy with the decision rendered, the	No change in performance.

			taxpayer may appeal the decision to the courts for a judicial review. Not only the taxpayers, but also the regional tax office which has imposed the fine and penalty subject of disagreement has also the right to appeal DTA's decision. Many stakeholders have raised concerns regarding the objectivity, efficiency, and fairness of the tax appeal mechanisms. For instance, a recent report from the Albanian Council of Investments, 2013 IFC's Study on Taxpayers' compliance costs, etc. in 2015 only 9% of appeals were decided in favor of the taxpayers; according to TADAT assessment administrative reviews completed within the statutory deadlines of 30, 60 and 90 days, account for only 4%, 31% and 65% respectively. Since January 1st 2017, the Directorate of Tax Appeals will be part of the MoF.	
PI-14 Effectiveness of measures for taxpayer registration and tax assessment	B	B	Scoring method M2	No change in performance.
(i) Controls in the taxpayer registration system	C	C	The National Business Center (NBC) undertake all registration activities for almost all businesses, but a small percentage such as governmental organizations and institutions, and syndicates, which are registered directly by the GDT. NBC transmits to the GDT electronically in real time basis the registration database. There is a grey economy, composed of unregistered, self-employed entrepreneurs who are not part of the tax net. Since January 2012, all employed/self-employed citizens are required to file a tax declaration, using	No change in performance.

			their social insurance number in the social data registry. The tax database is linked to the business registration and social services (pension and health) databases, but no others government registers, i.e. registers of immovable property, automobiles, ships, business licenses; as well as other important third party sources, i.e. banks and financial intermediary institutions, etc. that could assist in identifying individuals and businesses who fail to register according to the law. In 2016 as part of the government campaign against informal economy, GDT has assigned significant resources to it with positive results.	
(ii) Effectiveness of penalties for non-compliance with registration and declaration obligations	A	A	The 2008 Tax Procedures Order no 24 stipulates that fines and late payment charges are an integral part of tax obligations. Fines and charges may apply to non-filings, non-payments and late payments for taxes and social charges. They are applied automatically by the IT system and their current level is considered sufficiently high to encourage compliance with the regulations. Discussions with the representatives from the business community also confirmed this viewpoint, although some issues related to enforcement were raised by them.	No change in performance.
(iii) Planning and monitoring of tax audit and fraud investigation programs	B	B	In January 2015, GDT supported by the IMF implemented a new IT system- C@TS. At present, the compliance risk is assessed automatically through the IT system and risk criteria would benefit from use of more comprehensive information from internal and external sources. All audits are conducted based on a monthly	No change in performance.

<table>
<tr><td></td><td></td><td></td><td>plan developed by the GDT-headquarter with inputs from regional tax offices. Around 60 percent of audit cases of the monthly audit plan are selected through the IT system. 40 percent of audit cases are selected from the regional tax offices, and may be subject to abuse by tax inspectors. The audit plan covers the main taxes. Audit of large taxpayers is conducted by the Large Taxpayer Office (LTO); however, it does not focus on other important taxpayer segments with high-compliance risks, i.e. high wealth individuals. Hence, full implementation of a modern CRM approach would improve audit coverage by including taxpayer segments with high-compliance risk.</td><td></td></tr>
<tr><td>PI-15 Effectiveness in collection of tax payments</td><td>D+</td><td>D+</td><td>Scoring method M1 (weakest link)</td><td></td></tr>
<tr><td>(i) Collection ratio for gross tax arrears</td><td>D</td><td>D</td><td>The average debt collection ratio (the percentage of tax arrears at the beginning of the fiscal year, which was collected during that fiscal year) in the two most recent FY was 17%. The stock of tax arrears is significant accounting for 60% of total tax collection.
<table>
<tr><th></th><th>FY 2016: Total (in 000/Leke)</th><th>FY 2015: Total (in 000/ Leke)</th></tr>
<tr><td>A. Total tax arrears</td><td>147,068,069</td><td>100,373,038</td></tr>
<tr><td>B. Total tax collection</td><td>215.335.824</td><td>195.423.764</td></tr>
<tr><td>C. tax arrears older than 12 months</td><td>102.048.433</td><td>68.655.670</td></tr>
<tr><td>Ratio A/B</td><td>68.29%</td><td>51%</td></tr>
</table>
Source: MoF, GDT</td><td>No change in performance.</td></tr>
<tr><td>(ii) Effectiveness of transfer of tax collections to the Treasury by the</td><td>A</td><td>A</td><td>The implementation of the new Treasury system has resulted in same-day clearance of all revenue collection accounts and</td><td>No change in performance.</td></tr>
</table>

revenue administration			their deposit in the Treasury Single Account (TSA).	
(iii) Frequency of complete accounts reconciliation between tax assessments, collections, arrears records, and receipts by the Treasury	A	A	Through the C@T system, GDT reflects amounts levied and paid by each payer automatically "in real time" when a tax return is e-filed and when payment is made, as well as reassessment done by the tax authority. GDT updates individual files automatically daily by the C@T system once payments are made and reached the banks of the second level and treasury. GDT carries out a monthly reconciliation by tax type and reconciles payments and transfer to the treasury. Each tax type payment is reconciled against total payment as payment may be made in aggregate for different tax types. If a payment is not made by the due date, interest is accrued and a notice is issued. As a result, both GDC and GDT who are responsible for more than 90 percent of domestic revenue collection undertake complete reconciliation of assessment, collection, arrears, and transfers to the treasury at least monthly.	No change in performance.
PI-16 Predictability in the availability of funds for commitment of expenditures	B+	B+	Scoring method M1 (weakest link)	
(i) Extent to which cash flows are forecasted and monitored	A	B	Treasury Department prepares a cash flow forecast for the whole year and updates it based on actual cash flows and outflows upon receipt of the updated source information. One of important types of the source information – debt service schedule, is updated only quarterly, other types of information are updated more frequently.	2011 score was too optimistic
(ii) Reliability and horizon of periodic in-year information to	A	A	Budgetary units receive reliable information on monthly commitment ceilings for the whole year in January.	No change in performance.

MDAs on ceilings for expenditure				
(iii) Frequency and transparency of adjustments to budget allocations above the level of management of MDAs	B	B	Two significant budget adjustments took place in 2016 through budget rectifications approved by the National Assembly. One of the two episodes took place very close to the end of the fiscal year. The practice of end-of year adjustments is viewed by the line ministries as not fully transparent.	No change in performance.
PI-17 Recording and management of cash balances, debt and guarantees	B+	C	Scoring method M2	
(i) Quality of debt data recording and reporting.	B	B	Domestic and foreign debt and guaranteed debt records are complete, accurate, and updated quarterly. Most information is reconciled quarterly. Comprehensive management and statistical reports covering debt service, stock, and operations are produced at least annually.	No change in performance.
(ii) Extent of consolidation of the government's cash balances.	B	D	Balances on accounts outside TSA exceed TSA balance. Reports on the status of accounts outside TSA are collected monthly, however most of balances outside TSA are not consolidated	2011 score was too optimistic
(iii) Systems for contracting loans and issuance of guarantees.	A	C		2011 score was too optimistic .
PI-18 Effectiveness of payroll controls	B+	C+	Scoring method M1 (weakest link)	No change in performance.
(i) Degree of integration and reconciliation between personnel records and payroll data.	B	B	Databases not linked. Monthly review of all changes and reconciliations.	No change in performance.
(ii) Timeliness of changes to personnel records and the payroll.	A	A	Changes are updated monthly, generally in time for the next payroll.	No change in performance.

(iii) Internal controls of changes to personnel records and the payroll.	A	C	Controls exist, but are not adequate to ensure full integrity of data.	The 2011 score was too optimistic.
(iv) Existence of payroll audits to identify control weaknesses and/or ghost workers.	B	B	Payroll audits are covered on a 2-3 year cycle, reflecting the budget institutions' risk assessments and available audit resources.	No change in performance.
PI-19 Competition, value for money and controls in procurement	B+	A	Scoring method M2	
(i) Transparency, comprehensiveness, and competition in the legal and regulatory framework.	B	A	For FY 2016 the legal framework met all six listed requirements for this dimension.	Improvement in performance. In 2011 only five of the six requirements were met. The improvement was done through mandatory publication of all procurement plans by CAs in the e-portal
(ii) Use of competitive procurement methods.	A	B	In 2016, 70% of all procurement went through competitive process.	Deterioration in performance due to an increased use of noncompetitive procedures. The electronic procurement system reported that in 2010, 84.8% of procurements by value used the open international and open competitive process.
(iii) Public access to complete, reliable, and timely procurement information.	B	A	For FY 2016 all key procurement information elements are complete and reliable for government units representing 90% by value and made publicly available. All the required data are available and freely accessible on e-portal including procurement plans for each contracting authority, contract notices for announced procurement procedures, winner award announcements, signed contracts announcements, and notifications of procurement procedures.	Improvement in performance due to mandatory publication of all procurement information on e-portal.
(iv) Existence of an independent administrative procurement	A	A	The independent Public Procurement Complaints Commission (PPC) is in place and functioning. All seven criteria	Further improvement in performance (not captured in the score). The PPC autonomy is enhanced by amendment to

complaints system.			listed for this dimension have been met.	the PPL. PPC's members are now elected and report to the Parliament.
PI-20 Effectiveness of internal controls for non-salary expenditure	C+	C+	Scoring method M1 (weakest link)	
(i) Effectiveness of expenditure commitment controls	C	C	Expenditure commitment control procedures exist and are partially effective, but they may not comprehensively cover all expenditures or they may occasionally be violated.	No change in performance .
(ii) Comprehensiveness, relevance and understanding of other internal control rules/procedures.	C	C	Other internal control rules and procedures consist of a basic set of rules for processing and recording transactions, which are understood by those directly involved in their application.	No change in performance.
(iii) Degree of compliance with rules for processing and recording transactions	A	A	Compliance with the controls is generally high.	No change in performance.
PI-21 Effectiveness of internal audit	C+	C	Scoring method M1 (weakest link)	
(i) Coverage and quality of the internal audit function.	C	C	Systems review audits quality is uncertain and cannot justify the higher rating implicit in the statistics presented above.	No change in performance.
(ii) Frequency and distribution of reports	A	C	Reports are issued regularly for all audited entities, and comply to a fixed schedule required by legislation. The reports are distributed only to audited entities, and may not be submitted to Ministry of Finance and SAI.	The score in 2011 was too optimistic.
(iii) Extent of management response to internal audit function.	B	C	Management implementation of recommendations is 55% within a one-year period.	The percentage of the implementation dropped from previous assessment, reported at the level of 77%.
C(iii) Accounting, Recording and Reporting				
PI-22 Timeliness and regularity of accounts reconciliation	A	A	Scoring method M2 (Average of dimensions)	
(i) Regularity of bank reconciliation	A	A	Bank reconciliation for all active central government bank accounts takes place at	No change in performance.

			least on monthly basis, at aggregate and detailed levels and usually within one week from the end of the month.	
(ii) Regularity and clearance of suspense accounts and advances	A	A	Reconciliation of suspense accounts takes place at least monthly, within a month from the end of each month, and cleared on timely manner. Advance payments are not allowed.	No change in performance.
PI-23 Availability of information on resources received by service delivery units	C	C	While there is no comprehensive reporting of the resources available to front line service delivery units on a regular basis during the year, the individual components of their budgets are available, or can be requested, by units such as schools. However, there is no monthly, consolidated financial budget for line management and accountability purposes.	No change in performance.
PI-24 Quality and timeliness of in-year budget reports	C+	C+	Scoring method M1 (weakest link)	
(i) Scope of reports in terms of coverage and compatibility with budget estimates.	C	C	Expenditure is captured at payment stage.	No change in performance.
(ii) Timeliness of the issue of reports	A	A	Reports are prepared monthly and issued within four weeks.	No change in performance
(iii) Quality of information	A	C	There are some concerns about accuracy of information which may not always be highlighted in the report, but this does not undermine their basic usefulness.	The 2011 assessment was over optimistic.
PI-25 Quality and timeliness of annual financial statements	A	A	Scoring method M1 (weakest link)	
(i) Completeness of the financial statements	A	A	A consolidated government statement is prepared annually and includes full information on revenue, expenditure and financial assets and liabilities.	No change in performance.
(ii) Timeliness of submissions of	A	A	The annual statements are submitted within six months after year end.	No change in performance.

the financial statements				
(iii) Accounting standards used	A	A	National accounting standards are applied for all statements, but there is no disclosure of the differences between national accounting standards and IPSAS.	No change in performance.
C(iv) External Scrutiny and Audit				
PI-26 Scope, nature, and follow-up of external audit	C+	C+	Scoring method M1 (weakest link)	No change in performance.
(i) Scope/nature of audit performed (including adherence to auditing standards)	C	B	Central government entities representing at least 75% of the total expenditures are audited annually	Improvement in performance. The previous assessment recorded a coverage of 70%.
(ii) Timeliness of submission of audit reports to the Legislature	A	A	Audit reports are submitted to the legislature on average within four months from the receipt of the financial statements	No change in performance.
(iii) Evidence of follow up on audit recommendations	A	C	A formal response is made, though delayed or not very thorough and there is little evidence on following up.	Decrease in performance due to the lower interest of line ministries in addressing the audit recommendations.
PI-27 Legislative scrutiny of the annual budget law	B+	B+	Scoring method M1 (weakest link)	
(i) Scope of the legislature scrutiny	A	B	The National Assembly scrutiny focuses on the annual budget aggregates and details of expenditures and revenue, not the medium-term fiscal forecasts and priorities	The 2011 assessment was too optimistic
(ii) Extent to which the legislature's procedures are well established and respected.	A	A	The National Assembly has clear and well documented procedures for budget review embedded in its General Rules of Procedure. Internal organizational arrangements for the budget review are well developed and assign specific roles to the Assembly committees and technical staff.	No change in performance.
(iii) Adequacy of time for the legislature to provide a response to budget proposals both the detailed estimates and,	B	B	National Assembly had a full month to review budget proposal for 2016.	No change in performance.

where applicable, for proposals on macro-fiscal aggregates earlier in the budget preparation cycle (time allowed in practice for all stages combined)				
(iv) Rules for in-year amendments to the budget without ex-ante approval by the legislature	B	A	Clear rules for budget adjustments by the executive exist and set strict limits on the extent and nature of amendments that could be undertaken without the National Assembly involvement.	
PI-28 Legislative scrutiny of external audit reports	A	C+	Scoring method M1 (weakest link)	Change in performance
(i) Timeliness of examination of audit reports by the legislature	A	A	Scrutiny of audit reports is completed within a month from the receipt of audit reports, well within the three month limit (for the A rating).	No change in performance.
(ii) Extent of hearing on key findings undertaken by the legislature	A	C	In-depth hearings take place and include SAI and Ministry of Finance officials only.	The 2011 assessment was over optimistic.
(iii) Issuance of recommended actions by the legislature and implementation by the executive	A	B	Actions are recommended to the executive, some of which are implemented.	Decrease in performance due to less interest by the line ministries to address these recommendations.

Note: As per agreement with the Government, the donor indicators from the 2011 PEFA Methodology (D1-3) have not been assessed as they are no longer considered relevant, given Albania's transition from the IDA to IBRD status.

Results matrix using the PEFA 2011 methodology

year	for PI-1 total exp. Outturn	for PI-2.1 composition variance	for PI-2.3 contingency share
2014	104.9%	21.2%	
2015	102.9%	23.4%	0.1%
2016	97.3%	24.0%	

For PI 2.2

year	composition variance
2016	6.0%
2015	7.7%
2014	6.4%

For PI 3

year	total revenue deviation	composition variance
2016	97.0%	4.7%
2015	92.4%	9.8%
2014	99.6%	9.2%

Annex 5. Calculation sheets for PI-1, PI-2 and PI-3

Calculation Sheets for PFM Performance Indicators PI-1, PI-2.1 and PI-2.3

Calculations sheet templates can be accessed in the PEFA website at https://pefa.org/pefa-assessment-templates

Table 1 - Fiscal years for assessment

Year 1 =	2014
Year 2 =	2015
Year 3 =	2016

Table 2

Data for year =	**2014**					
administrative or functional head	**budget**	**actual**	adjusted budget	deviation	absolute deviation	percent
General Public Services	26,702	24,401.00	26,028.2	-1,627.2	1,627.2	6.3%
Defense	12,261	12,756.00	11,951.7	804.3	804.3	6.7%
Public Order and Safety	22,526	24,199.00	21,958.1	2,240.9	2,240.9	10.2%
Economic affairs	36,766	50,873.00	35,839.0	15,034.0	15,034.0	41.9%
Environmental protection	1,592	916	1,551.6	-635.6	635.6	41.0%
Housing and community amenities	21,180	30,607.00	20,645.9	9,961.1	9,961.1	48.2%
Health	38,709	41,881.00	37,732.1	4,148.9	4,148.9	11.0%
Recreation, culture, and religion	2,128	6,031.00	2,073.8	3,957.2	3,957.2	190.8%
Education	40,042	46,802.00	39,031.6	7,770.4	7,770.4	19.9%
Social protection	127,070	131,356.00	123,864.5	7,491.5	7,491.5	6.0%
Other expenses	65,856	15,050.00	64,195.4	-49,145.4	49,145.4	76.6%
allocated expenditure	394,831	384,872	384,872.0	0.0	102,816.3	
interests	46,400	40,075				
contingency	4,500	1,500				
total expenditure	445,731	426,447				
aggregate outturn (PI-1)						95.7%

composition (PI-2) variance						26.7%
contingency share of budget						0.3%

Table 3

Data for year = 2015

administrative or functional head	**budget**	**actual**	adjusted budget	deviation	absolute deviation	percent
General Public Services	32,962.86	3,713.00	32,205.9	-28,492.9	28,492.9	0.884711
Defense	10,779.74	10,623.00	10,532.2	90.8	90.8	0.008621
Public Order and Safety	24,521.65	25,152.00	23,958.6	1,193.4	1,193.4	0.049813
Economic affairs	35,921.33	57,994.00	35,096.5	22,897.5	22,897.5	0.652417
Environmental protection	1,678.38	1,382.00	1,639.8	-257.8	257.8	0.157235
Housing and community amenities	24,437.58	27,939.00	23,876.4	4,062.6	4,062.6	0.17015
Health	40,984.08	38,578.00	40,043.0	-1,465.0	1,465.0	0.036585
Recreation, culture, and religion	2,608.33	6,517.00	2,548.4	3,968.6	3,968.6	1.557253
Education	40,398.84	44,691.00	39,471.2	5,219.8	5,219.8	0.132244
Social protection	131,436.81	132,429.00	128,418.6	4,010.4	4,010.4	0.031229
Other expenses	58,704.40	46,129.00	57,356.4	-11,227.4	11,227.4	0.195748
allocated expenditure	404,434.01	395,147	395,147.0	0.0	82,886.2	
interests	49,200	38,643				
contingency	5,500	*2,952*[72]				
total expenditure	459,134.01	433,790				
aggregate outturn (PI-1)						94.5%
composition (PI-2) variance						21.0%
contingency share of budget						0.6%

Table 4

Data for year = 2016

[72] In the budgets for 2015 and 2016, contingency funds were approved as single line items, but in the final data on budget execution for the same years, spending from contingency funds is distributed by functional classification and this is how it is shown in these tables. Nevertheless, it was possible to obtain the totals on the actual contingency spending from the legal acts that approved final budget rectifications for 2015 and 2016 (budget rectification legal acts dated December 16, 2015 and December 28, 2016). Formulas for calculation of the total spending for the respective years were adjusted to avoid double counting.

administrative or functional head	**budget**	**actual**	adjusted budget	deviation	absolute deviation	percent
General Public Services	36,488	22,443	35,709.9	-13,266.9	13,266.9	0.371519
Defense	11,665	10,338	11,416.6	-1,078.6	1,078.6	0.094477
Public Order and Safety	25,793	25,447	25,242.7	204.3	204.3	0.008095
Economic affairs	29,468	44,801	28,839.4	15,961.6	15,961.6	0.553464
Environmental protection	2,834	2,729	2,773.5	-44.5	44.5	0.016047
Housing and community amenities	17,988	27,902	17,604.6	10,297.4	10,297.4	0.584927
Health	43,595	41,802	42,665.3	-863.3	863.3	0.020235
Recreation, culture, and religion	3,148	6,356	3,081.3	3,274.7	3,274.7	1.062767
Education	37,827	46,079	37,019.8	9,059.2	9,059.2	0.244711
Social protection	137,516	139,230	134,582.9	4,647.1	4,647.1	0.03453
Other expenses	44,500	15,360	43,551.0	-28,191.0	28,191.0	0.64731
allocated expenditure	390,821.92	382,487.0	382,487.0	0.0	86,888.6	
interests	43,000	36,259.0				
contingency	3,000	*3,800*				
total expenditure	436,821.92	418,746				
aggregate outturn (PI-1)						95.9%
composition (PI-2) variance						22.7%
contingency share of budget						0.9%

Table 5 - Results Matrix

	for PI-1	for PI-2.1	for PI-2.3
year	total exp. Outturn	composition variance	contingency share
2014	95.7%	26.7%	0.6%
2015	94.5%	21.0%	
2016	95.9%	22.7%	

Calculation Sheets for Expenditure by Economic Classification Variance PI-2.2

Table 1 - Fiscal years for assessment

Year 1 =	2016
Year 2 =	2015
Year 3 =	2014

Table 2

Data for year = 2016

Economic head	budget	actual	adjusted budget	deviation	absolute deviation	percent
Compensation of employees	71,286	67,540	68,808.7	-1,268.7	1,268.7	1.8%
Use of goods and services	43,638	44,329	42,121.5	2,207.5	2,207.5	5.2%
Consumption of fixed capital	59,988	59,478	57,903.3	1,574.7	1,574.7	2.7%
Interest	43,000	36,259	41,505.7	-5,246.7	5,246.7	12.6%
Subsidies	1,750	1,725	1,689.2	35.8	35.8	2.1%
Grants	33,067	28,629	31,917.9	-3,288.9	3,288.9	10.3%
Social benefits	176,093	175,287	169,973.5	5,313.5	5,313.5	3.1%
Other expenses	5,000	5,499	4,826.2	672.8	672.8	13.9%
Total expenditure	433,822	418,746	418,746.0	0.0	19,608.5	
composition variance						4.7%

Table 3

Data for year = 2015

Economic head	budget	actual	adjusted budget	deviation	absolute deviation	percent
Compensation of employees	76,154	72,489	72,822.7	-333.7	333.7	0.5%
Use of goods and services	39,714	42,409	37,976.7	4,432.3	4,432.3	11.7%
Consumption of fixed capital	68,000	61,622	65,025.4	-3,403.4	3,403.4	5.2%
Interest	49,200	38,643	47,047.8	-8,404.8	8,404.8	17.9%
Subsidies	1,760	1,760	1,683.0	77.0	77.0	4.6%
Grants	27,644	31,177	26,434.7	4,742.3	4,742.3	17.9%
Social benefits	168,162	162,093	160,805.8	1,287.2	1,287.2	0.8%
Other expenses	23,000	23,597	21,993.9	1,603.1	1,603.1	7.3%
Total expenditure	453,634	433,790	433,790.0	0.0	24,283.6	
composition variance						5.6%

Table 4

Data for year =	**2014**					
Economic head	**budget**	**actual**	adjusted budget	deviation	absolute deviation	Percent
Compensation of employees	74,016	71,373	71,284.4	88.6	88.6	0.1%
Use of goods and services	35,289	33,124	33,986.6	-862.6	862.6	2.5%
Consumption of fixed capital	67,260	60,794	64,777.7	-3,983.7	3,983.7	6.1%
Interest	46,400	40,075	44,687.6	-4,612.6	4,612.6	10.3%
Subsidies	1,600	1,599	1,541.0	58.0	58.0	3.8%
Grants	22,456	20,538	21,627.2	-1,089.2	1,089.2	5.0%
Social benefits	159,210	161,856	153,334.2	8,521.8	8,521.8	5.6%
Other expenses	35,000	35,588	33,708.3	1,879.7	1,879.7	5.6%
Total expenditure	441,231	424,947	424,947.0	0.0	21,096.3	
composition variance						5.0%

Table 5 - Results Matrix

year	total expenditure deviation	composition variance
2016	0	4.7%
2015	0	5.6%
2016	0	5.0%

Calculation Sheets for Revenue composition outturn (February 1, 2016)

Table 1 - Fiscal years for assessment

Year 1 =	2016
Year 2 =	2015
Year 3 =	2014

Table 2

Data for year =	2016					
Economic head	**budget**	**actual**	adjusted budget	deviation	absolute deviation	percent
	Tax revenues					
Taxes on income, profit, and capital gains	24,314	29,151	23,715.9	5,435.1	5,435.1	22.9%
Taxes on payroll and workforce	32,073	31,412	31,284.1	127.9	127.9	0.4%
Taxes on property			0.0	0.0	0.0	
Taxes on goods and services	137,916	131,390	134,523.6	-3,133.6	3,133.6	2.3%
Taxes on exports	50,689	48,467	49,442.2	-975.2	975.2	2.0%
Other taxes	37,219	35,794	36,303.5	-509.5	509.5	1.4%
	Social contributions					
Social security contributions	66,871	66,688	65,226.1	1,461.9	1,461.9	2.2%
Other social contributions	11,630	12,465	11,343.9	1,121.1	1,121.1	9.9%
	Grants					
Grants from foreign governments	8,000	11,077	7,803.2	3,273.8	3,273.8	42.0%
Grants from international organizations	5,000	3,562	4,877.0	-1,315.0	1,315.0	27.0%
Grants from other government units			0.0	0.0	0.0	
	Other revenue					
Property income	6,000	1,168	5,852.4	-4,684.4	4,684.4	80.0%
Sales of goods and services			0.0	0.0	0.0	
Fines, penalties, and forfeits	3,400	2,738	3,316.4	-578.4	578.4	17.4%
Transfers not elsewhere classified	15,500	15,001	15,118.7	-117.7	117.7	0.8%
Premiums, fees, and claims related to nonlife insurance and standardized guarantee schemes			0.0	0.0	0.0	
Sum of rest	3,780	3,581	3,687.0	-106.0	106.0	2.9%
Total revenue	402,392	392,494	392,494.0	0.0	22,839.5	
overall variance						97.5%
composition variance						5.8%

Table 3

Data for year =	2015					
Economic head	**Budget**	**actual**	adjusted budget	deviation	absolute deviation	percent
	Tax revenues					
Taxes on income, profit, and capital gains	23,546.97	24,963	21,699.4	3,263.6	3,263.6	15.0%
Taxes on payroll and workforce	35,317.15	30,415	32,546.0	-2,131.0	2,131.0	6.5%
Taxes on property	0		0.0	0.0	0.0	

Taxes on goods and services	135,253.7	125,600	124,641.1	958.9	958.9	0.8%
Taxes on exports	57,859	44,925	53,319.1	-8,394.1	8,394.1	15.7%
Other taxes	42,740	34,558	39,386.4	-4,828.4	4,828.4	12.3%
	Social contributions					
Social security contributions	58,988.03	62,436	54,359.6	8,076.4	8,076.4	14.9%
Other social contributions	9,801	10,971	9,032.0	1,939.0	1,939.0	21.5%
	Grants					
Grants from foreign governments	10,000	10,001	9,215.4	785.6	785.6	8.5%
Grants from international organizations	2,000		1,843.1	-1,843.1	1,843.1	100.0%
Grants from other government units			0.0	0.0	0.0	
	Other revenue					
Property income	873	1,479	804.5	674.5	674.5	83.8%
Sales of goods and services			0.0	0.0	0.0	
Fines, penalties, and forfeits	3,400	2,388	3,133.2	-745.2	745.2	23.8%
Transfers not elsewhere classified	15,127	17,346	13,940.1	3,405.9	3,405.9	24.4%
Premiums, fees, and claims related to nonlife insurance and standardized guarantee schemes			0.0	0.0	0.0	
Sum of rest	6,000	4,367	5,529.2	-1,162.2	1,162.2	21.0%
Total revenue	400,905.9	369,449	369,449.0	0.0	38,208.1	
overall variance						92.2%
composition variance						10.3%

Table 4 **2014**

Economic head	**Budget**	**actual**	adjusted budget	deviation	absolute deviation	percent
	Tax revenues					
Taxes on income, profit, and capital gains	23,007	21,479	23,021.6	-1,542.6	1,542.6	6.7%
Taxes on payroll and workforce	28,503	28,852	28,521.0	331.0	331.0	1.2%
Taxes on property			0.0	0.0	0.0	
Taxes on goods and services	118,382	123,710	118,456.9	5,253.1	5,253.1	4.4%
Taxes on exports	54,268	46,746	54,302.3	-7,556.3	7,556.3	13.9%
Other taxes	36,357	32,606	36,380.0	-3,774.0	3,774.0	10.4%
	Social contributions					
Social security contributions	53,929	61,493	53,963.1	7,529.9	7,529.9	14.0%
Other social contributions	9,919	8,515	9,925.3	-1,410.3	1,410.3	14.2%
	Grants					
Grants from foreign governments	8,500	10,186	8,505.4	1,680.6	1,680.6	19.8%
Grants from international organizations			0.0	0.0	0.0	
Grants from other government units			0.0	0.0	0.0	
	Other revenue					
Property income	2,100	3,338	2,101.3	1,236.7	1,236.7	58.9%
Sales of goods and services			0.0	0.0	0.0	
Fines, penalties, and forfeits	2,900	3,168	2,901.8	266.2	266.2	9.2%
Transfers not elsewhere classified	13,366	11,150	13,374.5	-2,224.5	2,224.5	16.6%
Premiums, fees, and claims related to nonlife insurance and standardized guarantee schemes			0.0	0.0	0.0	
Sum of rest	2,800	3,012	2,801.8	210.2	210.2	7.5%
Total revenue	354,031	354,255	354,255.0	0.0	33,015.3	
overall variance						100.1%
composition variance						9.3%

Table 5 - Results Matrix

year	total revenue deviation	composition variance
2016	97.5%	5.8%
2015	92.2%	10.3%
2014	100.1%	9.3%

[i] In addition to the documents listed in this Annex, other reports and statistical data provided by institutions upon request, has been consulted by the team.