



GEORGIA

PUBLIC EXPENDITURE AND FINANCIAL ACCOUNTABILITY (PEFA) PERFORMANCE ASSESSMENT

MUNICIPALITY SYNTHESIS REPORT

Based on PEFA 2016 Methodology

October 2018

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Abbreviations and Acronyms

COFOG	Classification of the Functions of Government
E-	Electronic-
EC	European Commission
GEL	Georgian Lari
GFS	Government Finance Statistics
GIZ	Gesellschaft für Internationale Zusammenarbeit (German Corporation for International Development)
IT	Information Technology
PEFA	Public Expenditure and Financial Accountability
PFM	Public Financial Management
PFMIS	Public Financial Management Information System
SAO	State Audit Office
TSA	Treasury Single Account

Executive Summary

1. The purpose of this PEFA assessment synthesis report is to provide an objective analysis of the present performance of the PFM system in Georgia's municipalities using PEFA indicators. The synthesis report provides a collective assessment of PFM in three municipalities¹ assessed by the World Bank funded by the European Union, plus twelve municipalities² assessed with support from GIZ. These assessments used the 2016 PEFA methodology but only the three assessments by the World Bank followed the PEFA CHECK quality assurance process. The field assessments by the World Bank, which covered financial years 2015-2017, were done in May-June 2018 with PEFA CHECK issued by the PEFA Secretariat on October 23, 2018. With regard to the twelve municipalities assessed by GIZ, ten were assessed in 2017 and two in 2018.

2. The PEFA assessment municipality synthesis report is mainly based on the analysis of the indicators for the three municipalities (Tbilisi, Batumi and Martvili with scores presented in the summary table³) that followed the PEFA CHECK quality assurance process, but strong similarities are also pointed out amongst the twelve municipalities whose assessments did not follow this process. Annex 1 presents the PEFA scores of all the 15 municipalities and highlights the dimensions where there are compatible⁴ findings based on the application of the 2016 methodology. Under subnational PEFA indicator for Higher Local Governments (HLG-1) on the transfers from a higher-level government, two out of the three dimensions (representing 67%) have compatible scores across the fifteen municipalities. Out of PEFA's 94 dimensions for the 31 indicators, 47 dimensions (representing 50%) of the fifteen municipalities have compatible scores. The similarities of the scores of the last two municipalities (Lagodeski and Mtskheta) assessed in 2018 increased to 59 dimensions (representing 63%)⁵.

3. The assessment covered expenditures by subnational government budgetary units. Revenues are collected by the Georgia Revenue Services on behalf of the municipalities. This was considered to be not applicable. There are no extra-budgetary units and no local government below the municipality level. Two out of the three have municipality owned enterprises.

4. Overall, the results of the PEFA show that public financial management systems in Georgian municipalities are strong and have improved as the Government's PFM Reform Action Plan has been implemented. Budget reliability in the municipality context depends for the most part on the reliability of information on grants received from the national government. The challenges in producing accurate total revenue projections have been mixed. As a result, the aggregate expenditure side of the budget has also been variable as well as the expenditure composition both by administrative type and by economic type. The variability in scoring would appear to be reflective of the size of the municipality in terms of budget and

¹ The three municipalities are Tbilisi, Batumi and Martvili.

² The twelve municipalities are Lanckhuti, Akhalkalaki, Gurjaani, Khashuri, Dusheti, Kutaisi, Oni, Poti, Rustavi, Zestafoni, Lagodeski and Mtskheta.

³ The evidence for the scores is presented in detail in Chapter 3 of the PEFA Assessment Report for each of the municipalities.

⁴ Compatibility was determined based on the correct application of the 2016 PEFA methodology in terms of evidence and its application and not the scores.

⁵ The approach to assessing PI-24.4 on procurement complaint management, PI-26 on internal audit, PI-30 on external audit and PI-31 on legislative scrutiny of audit reports, followed the 2016 methodology more closely compared to the assessments conducted in 2017.

population⁶ with the smaller municipality⁷ scoring less well than the two larger municipalities. This is supported by the results of the other 12 municipality scores though not consistently so.

5. This overall result has been achieved in the context of strengths in virement and the existence of supplementary budgets which reflect the unpredictable timeliness of central government grants. The process of controlling budget allocations to match the availability of cash has been supported by good cash forecasting with budgetary units having certainty in the availability of funds to execute their budgets at the time of planning. There are no arrears which reflect strong commitment controls.

6. Georgia has an impressive array of information regarding the finances of the budgetary central government and this is replicated in the municipalities. The Chart of Accounts, which underpins budget preparation, execution and reporting, is comprehensive and consistent with GFS standards. Information is included in the budget on a timely basis. As a result, the budget documents include most of the basic, and some of the supplementary information, required to support a transparent budget process. Generally, this score could be improved further by including information on financial assets and financial implications of new policy initiatives.

7. There is complete data regarding operations for public bodies as these are included in the budget documentation. Taken together with estimates of revenue and expenditure for spending units and their supported agencies, the whole of the municipality government is included in the budget documents. Information on performance plans and achievements in service delivery outputs and outcomes across the municipality sectors is variable. Independent evaluation of performance could be improved. However, the tracking of resources to service delivery units reflects the positive accounting system.

8. Public access to fiscal information is strong with most of required elements made available, including a citizens' (summary) budget in the two largest municipalities.

9. The Georgian Treasury consolidates cash balances in the treasury single account on a daily basis for all central and municipality budgetary units. A cash flow forecast is prepared annually for the year to come and is updated quarterly on the basis of actual inflows and outflows often due to relatively frequent supplementary budgets. Budgetary units are able to plan and commit expenditure for one year in advance on the basis of quarterly ceilings, in accordance with the budgeted appropriations and commitment releases at that time.

10. The payroll and personnel systems are strong. Procurement databases include data on what has been procured, value of procurement, and who has been awarded contracts. However, the appeals process is not wholly independent as 3 members of the appeals board are from State Procurement Agency whose chairman is at the same time chairman of the dispute review board, with a prevailing vote. Internal controls on non-salary expenditure have strong segregation of duties, effective commitment controls and compliance with payment rules and procedures. The internal audit function is operating well under the guidance of the Ministry of Finance's Central Harmonization Unit. Internal audit activities are focused on evaluations of the adequacy

⁶ Total expenditure budget and population data for the 15 municipalities are shown in Annex 2.

⁷ Population fewer than 10,000.

and effectiveness of internal controls, and they focus on high risk areas. Accounts reconciliation and financial data integrity are areas of strengths.

11. The situation with respect to the annual financial reports is mixed. The financial reports for the municipality budgetary units are prepared annually and are comparable with the approved budget, but they are not consolidated for the whole of the operations of the municipality. Moreover, the financial statements are not submitted for external audit. The municipalities follow the national accounting standards which are still evolving to comply with international accounting standards. External audit is an area of significant strength in terms of standards, but the frequency of audit means that there is often a significant time gap between audits given that they are not done annually. Legislative scrutiny does not meet PEFA standards as it is not carried out by the Sakrebulo⁸ but is delegated to the State Parliament. None of the municipality audits was addressed by the respective Sakrebulo.

12. An overriding feature of PFM in Georgia has been the development and good use of Information Technology (IT). The use of IT solutions for budget preparation, budget execution (accounts, commitment control, and cash management), personnel and payroll, revenue services, and procurement has contributed greatly to strengthen these areas at both the central and local government levels though not uniformly so. The IT solutions combined with good internet coverage and enhance personnel skills through training, have resulted in Georgia's PFM's positive effectiveness and efficiency. However, weaknesses in the systems continue to exist that impact on key fiscal and budgetary outcomes.

13. A review of the PEFA indicators shows the following areas of strength:

- budget classification is comprehensive and consistent with GFS/COFOG;
- budget documentation includes basic and some supplementary information required to support a transparent budget process but there is need to add debt stock, financial assets and contingent liabilities;
- all expenditure and revenue are included in financial reports: there are no subnational government operations outside financial reports;
- there is good public access to fiscal information;
- public asset management is good with respect to monitoring financial assets and strong on transparency of asset disposal but improvement is required in the monitoring of non-financial assets;
- legislative scrutiny of budgets is effective and efficient;
- accounting for revenue is strong;
- predictability of in-year resource allocation is good but improvements are required to reduce the number of supplementary adjustments to no more than twice in a year;
- management of expenditure arrears and payroll controls are strong;
- procurement is good but improvements are required in the management of procurement complaints because of conflict of interest arising by having members of the State Procurement Agency who are involved in the procurement process being part of the dispute review board;
- internal controls on non-salary expenditure are strong;

⁸ The elected governing body of the municipality.

- internal audit is effective guided by the Center for Harmonization Unit under Ministry of Finance;
- accounts reconciliations and financial data integrity are strong; and
- in-year budget report coverage and timing is strong while accuracy can be improved by not only covering expenditure information at payment stage but also at the commitment stage.

14. A review of the PEFA scores shows the following areas of weakness where there is room for improvement:

- earmarked grants outturn that need to improve to have a positive impact on the indicator on transfers from a higher-level government;
- revenue out-turn where improvements are required in revenue composition and producing accurate total revenue projections;
- performance information for service delivery has variable scores amongst municipalities but there is need to improve on performance evaluation;
- fiscal risk management related to monitoring public corporations owned by a municipality needs improvement;
- public investment management needs improvement;
- debt management needs improvement especially with regard to strengthening the recording and reporting of debt and guarantees and developing a debt management strategy;
- fiscal strategy needs improvement especially with regard to fiscal impact of policy proposals;
- medium-term perspectives in expenditure budgeting needs improvement especially with regard to improving medium-term expenditure ceilings and consistency of budgets with previous year estimates;
- budget preparation process needs improvement mainly because its effectiveness is hindered by the timing of information on grants which limits the time available to prepare the budget. There is also the need to improve on budget submission to the legislature;
- annual financial reporting needs improvement in the submission of financial reports for external audit,
- improvement in accounting standards and coverage of the financial reports;
- external audit of financial reports for municipalities is not annually done; and
- legislative scrutiny of audit reports needs to be improved by ensuring that the Sakrebulo are involved in the scrutiny of audit reports.

15. Georgia has a PFM Strategy for 2018-2021 and the findings of this report, particularly the weaknesses in the PFM systems of municipalities will be recommended to be considered in the strategy and action plan.

SUMMARY TABLE

Georgia SN 2018 PEFA Scores						
	Tbilisi	Batumi	Martvili	Mode	Median	Mean
Indicator/Dimension						
HLG-1. Transfers from a Higher-Level Government	D+	D+	D+	D+	D+	D+
HLG-1.1. Outturn of transfers from higher-level government	A	A	A	A	A	A
HLG-1.2. Earmarked grants outturn	D	D	D	D	D	D
HLG-1.3. Timeliness of transfers from higher-level government	A	A	A	A	A	A
Pillar I: Budget Reliability						
PI-1 Aggregate Expenditure Out-Turn	A	B	D	D/B/A	B	B
1.1 Aggregate expenditure out-turn	A	B	D	D/B/A	B	B
PI-2 Expenditure Composition Out-Turn	B+	B+	D+	B+	B+	C+
2.1 Expenditure composition out-turn by function	B	B	D	B	B	C
2.2 Expenditure composition out-turn by economic type	B	B	D	B	B	C
2.3 Expenditure from contingency reserves	A	A	A	A	A	A
PI-3 Revenue Out-Turn	C+	D+	D	D+	D+	C
3.1 Aggregate revenue out-turn	B	C	D	B/D/C	C	C
3.2 Revenue composition out-turn	C	D	D	C	C	C
Pillar II: Transparency of Public Finances						
PI-4 Budget Classification	A	A	A	A	A	A
4.1 Budget classification	A	A	A	A	A	A
PI-5 Budget Documentation	A	B	B	B	B	B
5.1 Budget documentation	A	B	B	B	B	B
PI-6 Subnational Government Operations Outside Financial Reports	A	A	A	A	A	A
6.1 Expenditure outside financial reports	A	A	A	A	A	A
6.2 Revenue outside financial reports	A	A	A	A	A	A
6.3 Financial reports of extra-budgetary units	NA	NA	NA	NA	NA	NA
PI-7 Transfers to Sub-National Governments	NA	NA	NA	NA	NA	NA
7.1 Systems for allocating transfers	NA	NA	NA	NA	NA	NA
7.2 Timeliness of information on transfers	NA	NA	NA	NA	NA	NA
PI-8 Performance Information for Service Delivery	B+	B	D+	B	B	C+
8.1 Performance plans for service delivery	B	B	D	B	B	C
8.2 Performance achieved for service delivery	B	B	D	B	B	C
8.3 Resources received by service delivery units	A	A	A	A	A	A
8.4 Performance evaluation for service delivery	B	D	D	D	D	C
PI-9 Public Access to Fiscal Information	B	B	B	B	B	B
9.1 Public access to fiscal information	B	B	B	B	B	B
Pillar III: Management of Assets and Liabilities						
PI-10 Fiscal Risk Management	C	D	NA	C/D	C/D	C
10.1 Monitoring of public corporations	C	D	NA	C/D	C/D	C
10.2 Monitoring of sub-national government (SNG)	NA	NA	NA	NA	NA	NA

Georgia SN 2018 PEFA Scores						
	Tbilisi	Batumi	Martvili	Mode	Median	Mean
10.3 Contingent liabilities and other fiscal risks	NA	NA	NA	NA	NA	NA
PI-11 Public Investment Management	C	B+	C	C	C	C+
11.1 Economic analysis of investment proposals	D	A	D	D	D	C
11.2 Investment project selection	C	C	C	C	C	C
11.3 Investment project costing	B	B	C	B	B	B
11.4 Investment project monitoring	B	A	B	B	B	B
PI-12 Public Asset Management	B	B	B	B	B	B
12.1 Financial asset monitoring	B	C	B	B	B	B
12.2 Non-financial asset monitoring	C	C	D	C	C	C
12.3 Transparency of asset disposal	A	A	A	A	A	A
PI-13 Debt Management	C+	B	C+	C+	C+	C+
13.1 Recording and reporting of debt and guarantees	C	B	C	C	C	C
13.2 Approval of debt and guarantees	A	A	A	A	A	A
13.3 Debt management strategy	D	D	D	D	D	D
Pillar IV: Policy-Based Fiscal Strategy and Budgeting						
PI-14 Macroeconomic and Fiscal Forecasting	NA	NA	NA	NA	NA	NA
14.1 Macroeconomic forecasts	NA	NA	NA	NA	NA	NA
14.2 Fiscal forecasts	NA	NA	NA	NA	NA	NA
14.3 Macro-fiscal sensitivity analysis	NA	NA	NA	NA	NA	NA
PI-15 Fiscal Strategy	B	B	D+	B	B	C+
15.1 Fiscal impact of policy proposals	D	D	D	D	D	D
15.2 Fiscal strategy adoption	A	A	C	A	A	B
15.3. Reporting on fiscal outcomes	A	A	C	A	A	B
PI-16 Medium Term Perspective in Expenditure Budgeting	C+	C+	D	C+	C+	D+
16.1 Medium-term expenditure estimates	A	A	D	A	A	B
16.2 Medium-term expenditure ceilings	D	D	D	D	D	D
16.3 Alignment of strategic plans and medium-term budgets	B	B	D	B	B	C
16.4 Consistency of budgets with previous year estimates	D	D	D	D	D	D
PI-17 Budget Preparation Process	B	B	D+	B	B	C+
17.1 Budget calendar	C	B	C	C	C	C
17.2 Guidance on budget preparation	A	A	D	A	A	B
17.3 Budget submission to the legislature	C	C	C	C	C	C
PI-18 Legislative scrutiny of budgets	A	A	B+	A	A	A
18.1 Scope of budget scrutiny	A	A	B	A	A	A
18.2 Legislative procedures for budget scrutiny	A	A	A	A	A	A
18.3 Timing of budget approval	A	A	A	A	A	A
18.4 Rules for budget adjustments by the executive	A	A	A	A	A	A
Pillar V: Predictability and Control in Budget Execution						
PI-19 Revenue Administration	NA	NA	NA	NA	NA	NA
19.1 Rights and obligations for revenue measures	NA	NA	NA	NA	NA	NA

Georgia SN 2018 PEFA Scores						
	Tbilisi	Batumi	Martvili	Mode	Median	Mean
19.2 Revenue risk management	NA	NA	NA	NA	NA	NA
19.3 Revenue audit and investigation	NA	NA	NA	NA	NA	NA
19.4 Revenue arrears monitoring	NA	NA	NA	NA	NA	NA
PI-20 Accounting for Revenue	A	A	A	A	A	A
20.1 Information on revenue collections	A	A	A	A	A	A
20.2 Transfer of revenue collections	NA	NA	NA	NA	NA	NA
20.3 Revenue accounts reconciliation	NA	NA	NA	NA	NA	NA
PI-21 Predictability of In-Year Resource Allocation	B+	B+	B+	B+	B+	B+
21.1 Consolidation of cash balances	A	A	A	A	A	A
21.2 Cash forecasting and monitoring	B	B	B	B	B	B
21.3 Information on commitment ceilings	A	A	A	A	A	A
21.4 Significance of in-year budget adjustments	C	C	C	C	C	C
PI-22 Expenditure Arrears	A	A	A	A	A	A
22.1 Stock of expenditure arrears	A	A	A	A	A	A
22.2 Expenditure arrears monitoring	NA	NA	NA	NA	NA	NA
PI-23 Payroll Controls	B+	B+	B+	B+	B+	B+
23.1 Integration of payroll and personnel records	A	A	A	A	A	A
23.2 Management of payroll changes	A	A	A	A	A	A
23.3 Internal control of payroll	A	A	A	A	A	A
23.4 Payroll audit	B	B	B	B	B	B
PI-24 Procurement Management	B	B	B	B	B	B
24.1 Procurement monitoring	NA	NA	NA	NA	NA	NA
24.2 Procurement methods	B	A	A	A	A	A
24.3 Public access to procurement information	A	A	A	A	A	A
24.4 Procurement complaints management	D	D	D	D	D	D
PI-25 Internal Controls on Non-Salary Expenditure	A	A	A	A	A	A
25.1 Segregation of duties	A	A	A	A	A	A
25.2 Effectiveness of expenditure commitment controls	A	A	A	A	A	A
25.3 Compliance with payment rules and procedures	A	A	A	A	A	A
PI-26 Internal Audit	B+	B+	B+	B+	B+	B+
26.1 Coverage of internal audit	A	A	A	A	A	A
26.2 Nature of audits and standards applied	B	B	B	B	B	B
26.3 Implementation of internal audits and reporting	A	A	A	A	A	A
26.4 Response to internal audits	A	A	A	A	A	A
Pillar VI: Accounting and Reporting						
PI-27 Financial Data Integrity	A	A	A	A	A	A
27.1 Bank account reconciliation	A	A	A	A	A	A
27.2 Suspense accounts	NA	NA	NA	NA	NA	NA
27.3 Advance accounts	A	A	A	A	A	A
27.4 Financial data integrity processes	A	A	A	A	A	A

Georgia SN 2018 PEFA Scores						
	Tbilisi	Batumi	Martvili	Mode	Median	Mean
PI-28 In-Year Budget Reports	B+	B+	B+	B+	B+	B+
28.1 Coverage and comparability of reports	A	A	A	A	A	A
28.2 Timing of in-year budget reports	A	A	A	A	A	A
28.3 Accuracy of in-year budget reports	B	B	B	B	B	B
PI-29 Annual Financial Reports	D+	D+	D+	D+	D+	D+
29.1 Completeness of annual financial reports	C	C	C	C	C	C
29.2 Submission of reports for external audit	D	D	D	D	D	D
29.3 Accounting standards	C	C	C	C	C	C
Pillar VII: External Scrutiny and Audit						
PI-30 External Audit	D+	D+	D+	D+	D+	D+
30.1 Audit coverage and standards	C	C	D	C	C	C
30.2 Submission of audit reports to the legislature	D	D	D	D	D	D
30.3 External audit follow-up	NA	B	C	B/C	B	B
30.4 Supreme Audit Institution (SAI) independence	A	A	A	A	A	A
PI-31 Legislative Scrutiny of Audit Reports	D	D	D	D	D	D
31.1 Timing of audit report scrutiny	D	D	D	D	D	D
31.2 Hearings on audit findings	D	D	D	D	D	D
31.3 Recommendations on audit by the legislature	D	D	D	D	D	D
31.4 Transparency of legislative scrutiny of audit reports	D	D	D	D	D	D

1. Introduction

1. 1. Rationale and Purpose

16. The purpose of this synthesis PEFA assessment is to conduct a review of Public Finance Management (PFM) in municipalities in Georgia using the 2016 PEFA methodology. There were three PEFA assessments carried out in Tbilisi, Batumi and Martvili. These subnational assessments followed on from the Central Government⁹ assessment carried out in 2017 and 2018 for twelve municipalities¹⁰.

17. These assessments have been carried out to facilitate the continued development of the Government's common vision and goals in respect of Public Finance Management reforms for both central and subnational government.

18. Coverage of the assessment by World Bank: The assessments covered the three municipalities including their executive spending units and Assembly (Sakrebulo), as well as the central government agencies that the municipalities interact with in relation to PFM: State Procurement Agency, State Audit Office, and Ministry of Finance but only in terms of the delivery of services by the municipality. Service delivery by the central government has been assessed through the central government PEFA. There are no extrabudgetary units and no local government below the municipality level. Tbilisi and Batumi have public corporations. The time period covered is fiscal years 2015 to 2017 (the last fiscal year). Field assessment was done in May-June 2018 (time of assessment).

19. The draft reports have been subjected to a peer review process from the municipalities, the Ministry of Finance, World Bank, EC and GIZ as well as the PEFA Secretariat whose review related to the compliance with the 2016 PEFA methodology. The PEFA CHECK was issued by the PEFA Secretariat on October 23, 2018.

20. The full assessment team¹¹ visited Tbilisi on its main fact-finding mission from 17 to 26 May 2018. Follow up was conducted from 28 May to 1 June, and 18th June 2018. A draft report (in English) was submitted to the municipality on 10 July 2018 along with the scoring and summary of key features in Georgian. The assessment team met with the Vice Mayor, Head of Finance Department and Deputy Head of Finance Department on 18 July 2018 to discuss the draft report. The full assessment team visited Batumi on its main fact-finding mission from June 11 to 16, 2018. A draft report (in English) was submitted to the municipality on July 10, 2018 along with the scoring and summary of key features in Georgian. The assessment team met with the Mayor, Vice Mayor, Head of Finance and Budget Department and Head of Budget Department on July 16, 2018 to discuss the draft report. The full assessment team visited Martvili on its main fact-finding mission from June 5 to 9, 2018. A draft report (in English) was submitted to the municipality on July 10, 2018 along with the scoring and summary of key features in Georgian. The

⁹ Both the 3 municipality and central government PEFA's were conducted by the World Bank funded by the EC

¹⁰ Conducted by GIZ

¹¹ John Short, Lasha Gotsiridze and Papuna Petriashvili

assessment team met with the Head of Administration and Head of Unit of the Finance Department on July 17, 2018 to discuss the draft report.

21. In addition to these three municipalities, another 10 municipalities in Georgia were subject to assessments in 2017 based on the 2016 PEFA methodology covering the period 2014 to 2016 (time of assessment) and a further 2 municipalities were added in 2018 (time of assessment) covering the period 2015 to 2017, supported by GIZ. The results of these assessments have been used to complement the findings from the three PEFAs conducted for Tbilisi, Batumi and Martvili.

2. Methodology

22. The assessment of three municipalities¹²: Tbilisi, Batumi and Martvili was carried out using the 2016 PEFA Framework supported by the Subnational Field Guide. All 31 indicators (and their 94 dimensions) were assessed and followed the methodology without deviation in terms of coverage and application. Those indicators that were not applicable have been scored as Not Applicable (NA). PEFA methodology training was conducted on 15th and 16th May 2018 for all the three municipalities as well as officials from central government.

23. The full PEFA CHECK procedures have been followed for these three municipalities. A Concept Note was subject to review by Ministry of Finance and municipality officials as well as other interested parties (World Bank, EC, GIZ and PEFA Secretariat). Draft reports were submitted for review and final versions addressing all comments were produced for each of the municipalities¹³.

24. The mean scores have been calculated for each dimension by converting an A score to a 4; B to a 3; C to a 2 and D to a 1 and calculating the average and then converting back to the ordinal scoring method rounding down or up as appropriate. M1 (weakest link) and M2 (average) methodology was then applied, as appropriate, to generate the overall indicator score. The mean, median and mode scores under the Summary Table are based on the scores for the three municipalities (Tbilisi, Batumi and Martvili).

25. With respect to the assessments of the 10 municipalities carried out in 2017 and the 2 carried out in 2018, the same level of rigor had not been adopted. Desk based research underpinned the initial 10 assessments with some contact with the municipalities. The findings of the Central Government and the 3 SN PEFAS were used to refine the approach of the 2 carried out in 2018, particularly with respect to indicators covering procurement, internal audit, external audit and its scrutiny. Where the scoring from these 12 assessments is compatible with the scoring methodology for Tbilisi, Batumi and Martvili, they are used to complement these scores in this synthesis report. Annex 1 presents all 15 municipalities' set of scores and highlights those dimensions that are fully compatible¹⁴.

¹² Separate PEFA Reports are available for each municipality

¹³ The PEFA Check for all three municipalities was issued on October 23, 2018

¹⁴ Annex 1 has been compiled from the summary table in each of the assessment reports (in Georgian). Adjustments for incorrect aggregations that may have occurred (M1 and M2) have been made. A translation of the Kutaisi PEFA report was made available which was used to identify any methodological difference in individual dimensions.

3. Inter-Governmental Fiscal Relationships

Legal Basis

26. The legal basis for decentralization is encompassed in the framework for governance as specified above. In 2006 Georgia completely revamped its system of local government. Other than in the five largest cities, genuine self-government was established only at the district level while governance structures (separate budgets, elected public officials, etc.) were completely abolished at the levels below and above districts (i.e., in settlement and regions). As a result, the number of subnational government units in the country dropped from about one thousand to just seventy: five self-governing cities (Tbilisi; Kutaisi; Batumi; Rustavi and Poti), 64 district-wide municipalities, and the Autonomous Republic of Adjara.

27. The law on self-government (enacted in June 2014) provides simple and straight forward governance structure. Each municipality has directly elected local council (Sakrebulo); executive branch on the level of these municipalities are managed by directly elected Mayors. Heads of municipalities appoint representatives, or as they are called ‘village trustees’ (rtsmunebuli) for each village within respective municipalities. Adjara because of its status of autonomous republic has higher level of self-governance than other regions and warrants 2 tiers of the subnational levels. There are nine territorial administrative units (mkhare) or regions in Georgia: Guria; Imereti; Kakheti; Mtskheta-Mtianeti; Racha-Lechkhumi and Kvemo Svaneti; Samegrelo and Zemo Svaneti; Samtskhe-Javakheti; Kvemo Kartli and Shida Kartli (administratively breakaway South Ossetia is part of Shida Kartli region). Governors of these regions are appointed by the Prime-Minister and play a coordination role.

28. The system of intergovernmental finances went through the major changes as a result of reforms in 2007. The system that existed before 2007 had de-concentrated district branches for all major line ministries (health, education, social welfare), while current local governments did not receive any responsibilities in these sectors other than communal affairs, local roads, kindergartens, and some public health programs and supplementary financing of healthcare. However, in addition to designating a number of specific functions as municipal responsibilities, the organic law on Local Self-Government also contains: (a) a “general competence” clause allowing local governments to perform functions beyond those specifically enumerated in the law as long as they are not explicitly disallowed in the legislation; and (b) in addition a clause that allows for delegation of functions to local authorities by law or through intergovernmental agreements. All other sectors are now mostly administered directly from the central government’s line ministries and agencies. Nevertheless, at the subnational level, expenditures are reported on social programs (10.6 percent of consolidated SNG expenditures in 2017) and some health services (3 percent of consolidated SNG expenditures also in 2017).

29. The Budget Code provides for a centralized PFM system built around a Treasury Single Account and a PFMIS which incorporates salary and other expenses as well as commitment controls. This covers both central and local government. There are no earmarked revenues or extrabudgetary units in Georgia. Municipalities collect fees and charges for services. The Georgia Revenue Services collects property taxes on behalf of the municipalities and there is sharing of some parts of income tax between central and local government. The importance of own revenues is related to size of a municipality – small municipalities

collect about 25 per cent of their total funds with the rest (75 per cent) being provided in grants from the center. For large municipalities some 64 per cent is from own revenue and 36 per cent from grants¹⁵. External control is exercised by the State Audit Office which reports to Parliament. The Budget Code provides for public hearings on the budget. The audit reports relating to municipalities are not scrutinized by the municipality Sakrebulo.

30. The size of the municipalities varies considerably in terms of population with some as small as 4,000 while Tbilisi has in excess of 1 million. Municipalities are responsible for providing local roads, water and sewage, refuse collection, parks and cultural amenities such as museums and kindergarten schooling. Municipalities are independent of central government but rely on grants and this reliance varies depending on the size of the municipality.

Basis of Intergovernmental Grants

31. The Budget Code includes the following types of transfers¹⁶ to the Autonomous Republics and Local Self-Government Units:

- **Equalization transfer** (66.3% of total in 2016) is the amount defined by the special formula and allocated from the state budget of Georgia for the municipal budget. It aims to equate different financial opportunities of municipalities with consideration of their economic potential. In addition, the municipality uses the revenue received by equalization transfer to its own discretion to implement its own powers. The rule of calculation of equalization transfer is determined by the budget code and order of the Minister of Finance of Georgia¹⁷. For the purposes of the equalization transfer formula, the Minister of Finance of Georgia annually determines the total amount of expenditures and non-financial assets of municipalities that cannot be less than 4% of GDP of the year to be planned. According to the formula the size of the equalization transfer for each municipality depends on the forecast of potential revenues, by taking into account the tendency of the past years.
- The size of the Equalization Transfer made to each Local Authority Budget is calculated with the following equation: $T=E-R$.

Whereby:

T – Transfer to be allocated to the Local Authority Budget;

E – Total amount of increase of expenditures and non-financial assets of a local self-government body, which is calculated based on statistical data (number of population, number of children under 6 years of age, number of adolescents from 6 up to 18 years of age, number of population with the social and economic status indicator (rating point) less than threshold value established by the Government of Georgia, the area of a local self-government body concerned and the length of local roads) and equalization coefficients, with a distinction made between self-governing towns and municipalities; and

¹⁵ Based on the three municipalities assessed, which include one small (Martvili) and two large municipalities (Tbilisi and Batumi).

¹⁶ Transfers are assessed in the Central Government PEFA PI-7 Transfers to sub-national governments and scored A in the 2018 PEFA.

¹⁷ Decree N904 of the Minister of Finance of Georgia of December 30, 2009 on Approval of the Equalization transfer Calculation Instruction.

R – Budget revenues of local self-government body (except for grants), which is calculated for each self-government body based on the forecast for the current year and the trend shown by actual indicators for last 3 years.

- **Special transfer** (5.5% of total in 2016) is allocated from the state budget of Georgia for municipal budget or the budget of Autonomous Republic in order to eliminate the effects of natural disasters, ecological and other disasters, hostilities, epidemics and other emergency situations (damages), as well as to assist municipalities in the implementation of other activities. This transfer is allocated only if the reserve fund of the respective municipality budget is not enough for financing the measures envisaged to eliminate the above-mentioned events.
- **Capital Transfer** (26.9% of total in 2016) allocated to municipalities according to the rule approved by Government Degree #23 implies that:
 - Special commission is created which among others includes Deputy Minister of Finance, Budget Department representative of the MOF, Deputy Minister of Regional Development and representatives of respective department dealing with coordination with municipalities from MRDI;
 - Municipalities submit proposal of different capital projects to the commission;
 - Criteria for selecting the projects is defined by the decree¹⁸;
 - Municipalities are obliged to co-finance the projects at least by 5%;
 - Commission allocates available funds per specific projects and money is transferred to the municipality according to the contract amount and actual performance.
- **Targeted transfer** (1.3% of total in 2016) will be transferred from one budget to another budget for the financial security of delegated authority.

¹⁸ Government of Georgia Decree #23 On approval of the Selection procedures and criteria of Local Self-government and Regional projects' to be financed from the Fund of Projects to be implemented in the Regions of Georgia, prescribed by the state budget of Georgia

4. Conclusions of the Analysis of Subnational PFM Systems

4.1 Integrated Assessment Across the Performance Indicators

Budget Reliability

32. Budget reliability in the municipality context depends for the most part on the reliability of information on grants received from the national government. This indicator scored A in terms of total grants and timely distribution, but with weakness on targeted grants (Score D) which are a small element of the grants total. The challenges in producing accurate total revenue projections have been mixed with a Score C mean and Score D+ median and mode. Revenue composition variation scored C. As a result, the aggregate expenditure side of the budget has also been variable with a mode of D/B/A but median and mean of B, with the expenditure composition both by administrative type and by economic type both scoring B for mode and median and averaging C. The variability in scoring would appear to be reflective of the size of the municipality in terms of budget and population with the smaller municipality¹⁹ scoring less well. This is supported by the results of the other 12 municipality scores presented in the annex though not consistently so.

33. This overall result has been achieved in the context of strengths in virement (Score A) and the existence of supplementary budgets (Score C) which reflects the timeliness of central government grants. The process of controlling budget allocations to match the availability of cash has been supported by good cash forecasting (Score A) with budgetary units having certainty in the availability of funds to execute their budgets as planned (Score A). There are no arrears (Score A) which reflects the strong commitment control.

Transparency of Public Finances

34. Georgia has an impressive array of information regarding the finances of the budgetary central government and this is replicated in the municipalities. The Chart of Accounts, which underpins budget preparation, execution and reporting, is comprehensive and consistent with GFS standards (Score A). Information is included in the budget on a timely basis. As a result, the budget documents include most of the basic, and some of the supplementary information, required to support a transparent budget process (Score B) although the additional twelve municipalities score C. Generally, this score could be improved further by including information on financial assets and financial implications of new policy initiatives. These two aspects result from a weakness in the accounting system and the medium-term budgeting process.

35. There is complete data regarding operations for public bodies as these are included in the budget documentation. Taken together with Estimates of Revenue and Expenditure for Spending Units and their supported agencies, the whole of the municipality government is included in the budget documents (Score A). Information on performance plans and achievements in service delivery outputs and outcomes across the government sectors is variable reflecting some weakness in formulation and tracking of expenditure

¹⁹ Population fewer than 10,000.

performance (mean score C but mode and median B) though independent evaluation needs improvement (mean score C but mode and median D). However, the tracking of resources to service delivery units scores A in all municipalities reflecting the positive accounting system in this regard.

36. Public access to fiscal information is strong (score B) with most of required elements made available, including a citizens' (summary) budget in the two largest municipalities.

Management of Assets and Liabilities

37. The management of the public investment program is variable. Economic analysis is conducted in one municipality based on the loan financed program and complementary own financed investment but absent elsewhere (mode and median score D and mean score C) with project selection scoring C. Where absent, this reflects a clear weakness. Monitoring of investment implementation is rated at mean score B as all of the municipalities have a monitoring system in place. However, public investment management in the other 12 municipalities all score D.

38. Out of the 15 municipalities, only two (Tbilisi and Batumi) have public corporations to monitor. Reporting of risks associated with public corporations is wholly lacking in one municipality even though Municipality Owned Enterprises (MOEs) are audited while in another, timely reporting is not carried out which reflects weakness in the area. Financial asset monitoring scores B in two of the three municipalities while non-financial asset monitoring is relatively weak, scoring C in two municipalities and a D in the third. Disposal of assets is transparent (Score A). Debt management is commensurate with the need of the individual municipality (mean score C), but an internal debt management strategy is nonexistent (Score D) is delegated to the individual lender and reflects a weakness in the system. The national structure of loan approval is followed by municipalities and central government alike (Score A).

Policy-Based Fiscal Strategy and Budgeting

39. Generally good progress has been made towards a comprehensive medium-term expenditure framework based on a program budgeting for results approach (mean score B, mode and median score A). The smaller municipality confines its coverage to the budget year only which is a weakness. Municipalities produce a detailed budget calendar, but its effectiveness is hindered by the timing of information on grants which has limited the time available for budget preparation (mean, mode and median Score C). While this is a weakness, one municipality has been proactive and has counteracted this by generating internal forecasts to give enough time to factor in ceilings. The legislature has adequate time to carry out its scrutiny function (mean, mode and median Score A). A medium-term approach is taken to expenditure budgeting. However, baseline multi-year ceilings are just notional based on the approved forward estimates of the most recently approved prior budget (Score D). The budget is presented for the up-coming year and the following two fiscal years in the two larger city municipalities with a focus on determining medium term expenditures aligned to strategic plans and medium-term budgets. Improvements on these weaknesses can be achieved by explaining any changes from previous expenditure estimates (mean Score D). The municipality fiscal strategy is related to not having a recurrent deficit that cannot be financed from savings and this is achieved and reported though the smaller municipality only addresses the budget year (mean Score B, mode and median Score A) but the

fiscal impact of any individual policy proposals are not presented which reflect a weakness in the procedures (Score D).

Predictability and Control in Budget Execution

40. Revenue administration is carried out by the Georgia Revenue Services. A revenue report is prepared monthly for the each of the municipality management (Score A).

41. All municipalities work in conjunction with the Georgian Treasury and based on cash inflows and outflows forecasts, deposit a part of its cash in commercial banks through daily auctions. The consolidation of cash balances in TSA and commercial banks is made on a daily basis and published on the Treasury website (Score A). Municipalities prepare cash flow forecast annually for the year to come and broken-down by quarter. It is updated on the basis of actual inflows and outflows, particularly for supplementary budgets (Score B). Budgetary units are able to plan and commit expenditure for one year in advance on the basis of quarterly ceilings, in accordance with the budgeted appropriations and commitment releases (Score A). Management of budget releases has been successful in controlling arrears (Score A). There are, however, in-year budget adjustments which result from the timing of the release of grants from central government on a quarterly basis that need improvement to reduce the number of adjustments to no more than twice in a year (Score C).

42. All elements of the payroll system score an A. The budgetary units maintain their respective personnel databases under the E-Treasury (payroll module) system that is managed by State Treasury. Personnel and payroll records are reconciled at least monthly, before salaries are paid to staff bank accounts. Reconciliation between payroll records in E-Treasury and the personnel records takes place once an employee is appointed and registered in the system in the municipality. Personnel records are updated monthly in time for the month's payments. Updates are real-time and reflected in the payroll module of the E-Treasury system. Changes to the payroll records are restricted to authorized persons in the budgetary units. The changes are certified by an authorized person and approved by the head of the unit. Payroll audits are conducted by the State Audit Office as part of the financial audits and this exposes any control weaknesses and accountability issues. These are not carried out annually (Score B).

43. All government contracts are procured through the Georgian E-Government Procurement System (Ge-GP). Databases or records are maintained for all contracts including data on what has been procured, value of procurement, and who has been awarded contracts. The data are accurate and complete for all procurement methods for goods, services and works. As this is not specific to the municipality it is deemed Not Applicable. Generally, the value of contracts are procured through competitive procurement methods (Score A). All the key procurement information is made available to the public (Score A). However, the appeals process is not wholly independent as 3 members of the appeals board are from State Procurement Agency which is a weakness in terms of international best practice as the Chairman of State Procurement Agency is at the same time Chairman of the dispute review board, with prevailing vote (Score D).

44. Internal controls on non-salary expenditure scores an A in all dimensions with strong segregation of duties, effective commitment controls and compliance with payment rules and procedures. This achievement is ensured by the established PFMIS. The internal audit function is strong. Internal audit activities are focused

on evaluations of the adequacy and effectiveness of internal controls, and they focus on high risk areas but have yet to be extended to systems audits (Score B). Internal audit activities are guided by the Center for Harmonization Unit, a department of the Ministry of Finance which ensures consistency of all internal audit activities (Score A). The response to internal audit recommendations shows that implementation is very good (Score A) in the three municipalities, though less so, in the two additional municipalities where internal audit was assessed (Scores C and B).

Accounting and Reporting

45. Accounts reconciliation and financial data integrity are areas of strength. The bank reconciliation for all active central government bank accounts takes place on a daily basis through the Real-Time Gross Settlement System (Score A). There are no active expenditure suspense accounts. Advances are reconciled in a timely manner (Score A). Data integrity is good (Score A) as access and changes to records is restricted and recorded, and results in a sufficient audit trail.

46. With respect to in-year budget reports, coverage and classification of data allows for direct comparison to the original budget. Information includes all budget estimates for the budgetary units. Consolidated budget execution reports are prepared quarterly and issued to the Sakrebulo as well and are published within 14 days from the end of the quarter (Score A). There are no material concerns regarding data accuracy. Information on expenditure is provided at the payment stage (Score B).

47. The situation with respect to the annual financial reports is mixed (overall Score of D+). The consolidated budget execution report for budgetary units are prepared annually and are comparable with the approved budget. There is also detailed analysis of performance. The financial statements generally contain full information on revenue, expenditure, financial and tangible assets, liabilities, guarantees and long-term obligations but just cover the City Hall and are not consolidated with other spending units that operate under the municipality (Score C). The annual budget execution reports and financial statements are not submitted for external audit but are submitted to the Mayor and the Sakrebulo (Score D) which is a weakness as it impairs local scrutiny. Municipalities apply the current national accounting standards for their financial statements (Score C).

External Scrutiny and Audit

48. While external audit standards are an area of significant strength, annual audit coverage is not mandatory. The timing of audits should take place at least once every three years (Score C) and is dependent on risk analysis and the State Audit Office's work program given its resources²⁰. The audits highlighted relevant material issues and systemic and control risks. Audit recommendations for the municipalities are followed up and monitored (mean Score B, median B, mode B/C).²¹ The independence of the SAO is assured by the Constitution of Georgia and the Law of Georgia on State Audit Office (Score A).

²⁰ This dimension is related to PI-10.2 Monitoring of subnational governments in the Central Government PEFA which scores C in the 2018 Georgia Central Government PEFA as audits are not conducted annually and a consolidated overview report is not produced.

²¹ There was no recommendation for one municipality, so it was scored Not Applicable based on the PEFA methodology.

49. However, legislative scrutiny of these accounts cannot be considered to be good practice (Score D). The Sakrebulo does not participate in legislative scrutiny of audit reports and this aspect of external scrutiny is left to Parliament. This is a clear weakness with respect to local accountability.

4.2 Effectiveness of the Internal Control Framework

50. An effective internal control system plays a vital role across every pillar in addressing risks and providing reasonable assurance that operations meet the control objectives. The objectives of the internal control framework are: a budget executed in an orderly, ethical, economical, efficient and effective manner; in the main accountability for results; compliance with applicable laws and regulations; and safeguarding of resources against loss, misuse and damage.

51. The internal control environment is generally sound. The scores in related indicators and dimensions reinforce that controls associated with the day-to-day transaction of the budgetary municipality government are functioning and result in good data integrity regarding the activities of these entities. The laws and regulations provide the legal framework, and allow for specific roles and responsibilities, segregation of duties, and operating processes. The system embeds access controls and audit trails that support the internal control framework.

52. The current compliance-based approach supports continuous improvement in the control environment given the strengths in commitment controls and associated compliance with rules and procedures.

53. There is a risk-based approach supported by a strong internal and external audit and oversight function. Risk assessment is an important part of the control framework that applies to internal audit and analysis. Similarly, certain activities, such as advances, and payroll, receive a level of attention in the ex-ante control process.

54. Control activities are generally strong, in particular with regard to segregation of duties and reconciliation of accounts. Budget rules for supplementary estimates and virement are met.

55. Information and communication of internal control awareness is continuously promoted through targeted and cross-cutting training. Monitoring is strong through the processes of internal and external audit, with follow-up improving.

56. In addition to these controls on financial transactions, the budget execution reporting system provides some information on performance relating to service delivery, which enhances the overall control environment. In addition, the Internal Audit Unit and the State Audit Office conducts financial and compliance audits. In one municipality the Sakrebulo Audit Commission makes recommendations on service delivery performance which could be a model for other municipalities.

4.3 Strengths and Weaknesses of PFM

57. An overriding feature of PFM in Georgia has been the development and good use of Information Technology. This use of IT is not only at the central government level but also at the municipality level as the

systems are unified for the whole of the government sector. The application of IT has been developed in-country based on business processes in each of the subject areas (redefined as necessary) and not on the reconfiguration of business practices to suit particular software. This adoption of IT solutions combined with the internet as a vehicle for its implementation by competent and trained personnel (with appropriate control) has been fundamental to the development of strengths in PFM. The integration of IT, internet and personnel enhanced skills through training, has resulted in PFM's positive effectiveness and efficiency.

58. The development of IT for use in budget preparation, budget execution (accounts, commitment control, and cash management), personnel and payroll, revenue services, and procurement has contributed greatly to strengths in these areas at both the central and local government levels though not uniformly so. There are consequently weaknesses as identified in the above analysis of the pillars that impact on key fiscal and budgetary outcomes.

Aggregate Fiscal Discipline

59. Aggregate fiscal discipline, is achieved due to control over spending during budget execution, as well as relatively realistic revenue forecasts. Strong revenue administration ensures that revenues are efficiently collected. However, there are weaknesses in forecasting own revenues that could counteract the timeliness of information on grants from central government. The planned budget on an aggregate basis is affected by supplementary budgets (particularly in the smaller municipality) which is caused by grants often being greater than forecast on a quarterly basis. Treasury operations and cash management enables expenditures to be managed within the available resources. Control of contractual commitments is effective and has removed expenditure arrears. The periodic strong external audit function enhances fiscal discipline but could improve with annual audits. The activities of the Internal Audit Unit also provide an effective prop to fiscal discipline.

Strategic Allocation of Resources

60. The Chart of Accounts caters to a multi-dimensional analysis of expenditure. There is a good link between the medium-term perspective in expenditure budgeting and strategic plans in the program budget approach to achieving results that is consistent with a strategic allocation of resources in the municipality's priorities document. However, this is less so in the smaller municipality which has only a one-year focus in preparing its budget. There is an emphasis on the overall fiscal framework by the central government which feeds into the municipality's priority planning. There is some variability in the management of public investment related to size of the municipalities with the smaller municipalities having weaker capacity. Overall improvement of the investment process would enhance the strategic allocation of resources to ensure that recurrent cost implication of investment is factored into the budget process and public investments are also selected to generate the best return.

Efficient use of Resources for Service Delivery

61. The current weaknesses in competitive bidding in the procurement system with respect to the appeals and dispute process could have adverse implications for the efficiency in service delivery. Nevertheless, the involvement of the State Procurement Agency in the "no objection" process is valuable for the municipalities who may not have the internal expertise or independence. The strengths in the accountability mechanisms

make external audits effective as counter checks on inefficient use of resources, but this is limited by their infrequency. However, the overall weaknesses in the production of consolidated annual financial statements limit the impact of audits which in turn limits the effectiveness of oversight which in turn is weak. These are offset, however, by the strength of the annual budget execution reports which includes information on the realization of annual targets for outputs and objectives. The activities of the Internal Audit Unit provide a counterbalance to the infrequency of external audit and the weakness that exist from the absence of their scrutiny. External evaluation of performance targets and outcomes would support the efficient use of resources in service delivery units.

4.4 PFM Reform

62. In 2014 Parliament enacted the Law on Local Self-Government, replacing the law of 2005. By the new law, the own competences of the municipalities were expanded and the system of internal institutional arrangement of self-governance has been changed. The law also included provisions for further fiscal decentralization and since 2016 certain types of personal income tax are also directed towards the local budget together with the property tax which historically had always been a local tax.

63. All reforms have taken place at the municipality level as well as the central government level. However, as the evidence of the PEFA assessments has shown, not all have been fully implemented at the municipality level nor have they been fully extended to municipalities. The status of PFM in Georgian municipalities can be attributed to strong management of the PFM reform program in Georgia at both the central and government levels. Since 2007 impressive progress has been made at the Revenue Service; important reforms were implemented at the Treasury Service; and the Treasury Single Account was extended, which now includes local governments and all public entities. Also, the web-based Public Finance Management Information System (PFMIS) was launched. The State Audit Office has transformed from the traditional control-inspection function to the new function of modern financial and compliance audit in line with international best practice. The legal and methodological basis for internal audit and control has been established and is being rolled out throughout the Government. Since its establishment, the Academy of the Ministry of Finance has been developed into the key provider of training related to the PFM reforms and initiatives. Ongoing reforms include new approaches in the instruments and practices of Parliamentary Scrutiny of the PFM system. The importance of independent fiscal institutions and the role of the Budget Office of the Parliament are also understood and remain on the agenda of PFM reform. However, scrutiny of audit reports on municipalities is confined to the Parliament rather than the municipality Sakrebulo which is a weakness that the PEFA methodology has identified.

Annex 1: Georgia Subnational PEFA Scores

	Tbilisi	Batumi	Martvili	Lanckhuti	Akhalkalaki	Gurjaani	Khashuri	Dusheti	Kutaisi	Oni	Poti	Rustavi	Zestafoni	Lagodeski	Mtskheta
Indicator/Dimension															
HLG-1. Transfers from a higher-level government	D+	D+	D+	A	A	B+	A	A	A	A	A	B+	A	D+	C+
HLG-1.1. Outturn of transfers from higher-level government	A	A	A	A	A	B	A	A	A	A	A	A	A	A	A
HLG-1.2. Earmarked grants outturn	D	D	D	A	A	A	A	A	A	A	A	B	A	D	C
HLG-1.3. Timeliness of transfers from higher-level government	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A
PI-1 Aggregate expenditure out-turn	A	B	D	A	B	C	B	D	A	B	A	A	B	D	D
1.1 Aggregate expenditure out-turn	A	B	D	A	B	C	B	D	A	B	A	A	B	D	D
PI-2 Expenditure composition out-turn	B+	B+	D+	C+	D+	C+	D+	C+	C+	D+	B*	D+	D+	D+	D+
2.1 Expenditure composition out-turn by function	B	B	D	B	D	C	D	C	B	B	B	C	D	D	D
2.2 Expenditure composition out-turn by economic type	B	B	D	C	C	B	C	C	C	D	B	D	C	D	D
2.3 Expenditure from contingency reserves	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A
PI-3 Revenue out-turn	C+	D+	D	C	C+	C+	C	D+	B+	B+	B+	C	D+	D	D+

	Tbilisi	Batumi	Martvili	Lanckhuti	Akhalkalaki	Gurjaani	Khashuri	Dusheti	Kutaisi	Oni	Poti	Rustavi	Zestafoni	Lagodeski	Mtskheta
3.1 Aggregate revenue out-turn	B	C	D	B	B	A	B	C	A	A	A	B	C	D	D
3.2 Revenue composition out-turn	C	D	D	D	C	D	D	D	B	B	B	D	D	D	C
PI-4 Budget classification	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A
4.1 Budget classification	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A
PI-5 Budget documentation	A	B	B	C	C	C	C	C	C	C	C	C	C	C	C
5.1 Budget documentation	A	B	B	C	C	C	C	C	C	C	C	C	C	C	C
PI-6 Subnational government operations outside financial reports	A	A	A	C	A	A	B	B	A	A	B	B	A	A	A
6.1 Expenditure outside financial reports	A	A	A	C	A	A	B	B	A	A	B	B	A	A	A
6.2 Revenue outside financial reports	A	A	A	C	A	A	B	B	A	A	B	B	A	A	A
6.3 Financial reports of extra-budgetary units	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
PI-7 Transfers to sub-national governments	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
7.1 Systems for allocating transfers	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
7.2 Timeliness of information on transfers	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
PI-8 Performance information for service delivery	B+	B	D+	C+	C	C+	C+	C	C+	C	C+	C+	C+	B	C+
8.1 Performance plans for service delivery	B	B	D	C	C	C	C	C	C	C	C	C	C	C	C
8.2 Performance achieved for service delivery	B	B	D	C	D	C	C	D	C	D	C	C	C	C	C

	Tbilisi	Batumi	Martvili	Lanckhuti	Akhalkalaki	Gurjaani	Khashuri	Dusheti	Kutaisi	Oni	Poti	Rustavi	Zestafoni	Lagodeski	Mtskheta
8.3 Resources received by service delivery units	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A
8.4 Performance evaluation for service delivery	B	D	D	D	D	D	D	D	D	D	D	D	D	A	C
PI-9 Public access to fiscal information	B	B	B	C	D	D	D	D	B	D	C	C	D	D	C
9.1 Public access to fiscal information	B	B	B	C	D	D	D	D	B	D	C	C	D	D	C
PI-10 Fiscal risk management	C	D	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
10.1 Monitoring of public corporations	C	D	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
10.2 Monitoring of sub-national government (SNG)	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
10.3 Contingent liabilities and other fiscal risks	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
PI-11 Public investment management	C+	B+	C	D	D	D	D	D	D	D	D	D	D	D	D
11.1 Economic analysis of investment proposals	D	A	D	D	D	D	D	D	D	D	D	D	D	D	D
11.2 Investment project selection	C	C	C	C	C	D	C	C	C	C	D	C	C	D	D
11.3 Investment project costing	B	B	C	D	D	D	D	D	D	D	C	D	D	D	D
11.4 Investment project monitoring	B	A	B	D	D	D	D	D	D	D	D	D	D	D	D
PI-12 Public asset management	B	B	B	C	D+	C+	C	C	C	D+	D+	C	C	C+	D
12.1 Financial asset monitoring	B	C	B	C	D	C	C	C	C	D	D	C	C	C	D
12.2 Non-financial asset monitoring	C	C	D	C	D	C	C	C	C	D	D	C	C	C	D
12.3 Transparency of asset disposal	A	A	A	C	C	B	C	C	C	C	C	C	C	B	D
PI-13 Debt	C+	B	C+	D	D	D	D	D	D	D	D	D	D	C	C

	Tbilisi	Batumi	Martvili	Lanckhuti	Akhalkalaki	Gurjaani	Khashuri	Dusheti	Kutaisi	Oni	Poti	Rustavi	Zestafoni	Lagodeski	Mtskheta
management															
13.1 Recording and reporting of debt and guarantees	C	B	C	D	D	D	D	D	D	D	D	D	D	C	C
13.2 Approval of debt and guarantees	A	A	A	D	D	D	D	D	D	D	D	D	D	C	C
13.3 Debt management strategy	D	D	D	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
PI-14 Macroeconomic and fiscal forecasting	NA	NA	NA	C	C	C	C	C	C	C	C	C	C	B	B
14.1 Macroeconomic forecasts	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
14.2 Fiscal forecasts	NA	NA	NA	C	C	C	C	C	C	C	C	C	C	B	B
14.3 Macro-fiscal sensitivity analysis	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
PI-15 Fiscal strategy	B	B	D+	D	D	D	D	D	D	D	D	D	D	D	D
15.1 Fiscal impact of policy proposals	D	D	D	D	NA	NA	D	D	D	D	D	D	D	D	D
15.2 Fiscal strategy adoption	A	A	C	NA	D	D	NA	NA	NA	NA	NA	NA	NA	NA	NA
15.3. Reporting on fiscal outcomes	A	A	C	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
PI-16 Medium term perspective in expenditure budgeting	C+	C+	D	D+	D+	D+	D+	D+	D+	D+	D+	D+	D+	C+	C+
16.1 Medium-term expenditure estimates	A	A	D	B	A	D	A	A	A	B	A	A	A	B	B
16.2 Medium-term expenditure ceilings	D	D	D	D	D	A	D	D	D	D	D	D	D	A	A
16.3 Alignment of strategic plans and medium-term budgets	B	B	D	D	D	D	D	D	D	D	D	D	D	D	D
PI-17 Budget preparation process	B	B	D+	B+	B+	B+	B+	B+	B+	B+	B+	B+	B+	B+	B+
17.1 Budget calendar	C	B	C	A	A	A	A	A	A	A	A	A	A	A	A
17.2 Guidance on budget preparation	A	A	D	A	A	A	A	A	A	A	A	A	A	A	A

	Tbilisi	Batumi	Martvili	Lanckhuti	Akhalkalaki	Gurjaani	Khashuri	Dusheti	Kutaisi	Oni	Poti	Rustavi	Zestafoni	Lagodeski	Mtskheta
17.3 Budget submission to the legislature	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C
PI-18 Legislative scrutiny of budgets	A	A	B+	C+	C+	C+	C+	C+	C+	C+	C+	C+	C+	B+	B+
18.1 Scope of budget scrutiny	A	A	B	C	C	C	C	C	C	C	C	C	C	B	B
18.2 Legislative procedures for budget scrutiny	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A
18.3 Timing of budget approval	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A
18.4 Rules for budget adjustments by the executive	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A
PI-19 Revenue administration	NA	NA	NA	A	A	A	A	A	A	A	A	A	A	C	C
19.1 Rights and obligations for revenue measures	NA	NA	NA	A	A	A	A	A	A	A	A	A	A	C	C
19.2 Revenue risk management	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
19.3 Revenue audit and investigation	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
19.4 Revenue arrears monitoring	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
PI-20 Accounting for revenue	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A
20.1 Information on revenue collections	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A
20.2 Transfer of revenue collections	NA	NA	NA	A	A	A	A	A	A	A	A	A	A	A	A
20.3 Revenue accounts reconciliation	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
PI-21 Predictability of in-year resource allocation	B+	B+	B+	B	B	B	B	B	B	B	B	B	B	B	B
21.1 Consolidation of cash balances	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A
21.2 Cash forecasting and monitoring	B	B	B	B	B	A	B	B	B	B	B	B	B	B	B
21.3 Information on	A	A	A	B	B	B	B	B	B	B	B	B	B	B	B

	Tbilisi	Batumi	Martvili	Lanckhuti	Akhalkalaki	Gurjaani	Khashuri	Dusheti	Kutaisi	Oni	Poti	Rustavi	Zestafoni	Lagodeski	Mtskheta	
commitment ceilings																
21.4 Significance of in-year budget adjustments	C	C	C	D	D	D	D	D	D	D	D	D	D	D	D	
PI-22 Expenditure arrears	A	A	A	C+	D	C+	C+	C+	C+	D	D	C	C+	C+	C+	
22.1 Stock of expenditure arrears	A	A	A	A	D	A	B	B	A	D	D	C	A	A	A	
22.2 Expenditure arrears monitoring	NA	NA	NA	C	D	C	C	C	C	D	D	C	C	C	C	
PI-23 Payroll controls	B+	B+	B+	D+	D+	D+	D+	D+	D+	D+	D+	D+	D+	D+	D+	
23.1 Integration of payroll and personnel records	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	
23.2 Management of payroll changes	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	
23.3 Internal control of payroll	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	
23.4 Payroll audit	B	B	B	D	D	D	D	D	D	D	D	D	D	D	D	
PI-24 Procurement management	B	B	B	A	A	A	A	A	A	A	A	A	A	A	B+	B+
24.1 Procurement monitoring	NA	NA	NA	A	A	A	A	A	A	A	A	A	A	A	A	A
24.2 Procurement methods	B	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A
24.3 Public access to procurement information	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A
24.4 Procurement complaints management	D	D	D	A	A	A	A	A	A	A	A	A	A	A	D	D
PI-25 Internal controls on non-salary expenditure	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A
25.1 Segregation of duties	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A
25.2 Effectiveness of expenditure commitment controls	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A
25.3 Compliance with payment rules and procedures	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A

	Tbilisi	Batumi	Martvili	Lanckhuti	Akhalkalaki	Gurjaani	Khashuri	Dusheti	Kutaisi	Oni	Poti	Rustavi	Zestafoni	Lagodeski	Mtskheta
PI-26 Internal audit	B+	B+	B+	D+	D+	D+	D+	D+	D+	D+	D+	D+	D+	B+	C+
26.1 Coverage of internal audit	A	A	A	C	C	C	C	C	C	C	C	C	C	A	A
26.2 Nature of audits and standards applied	B	B	B	C	C	C	C	C	C	C	C	C	C	B	B
26.3 Implementation of internal audits and reporting	A	A	A	D	D	D	A	C	D	C	D	D	D	A	A
26.4 Response to internal audits	A	A	A	D	D	D	D	D	D	D	D	D	D	B	C
PI-27 Financial data integrity	A	A	A	B+	B+	B+	B+	B+	B+	B+	B+	B+	B+	A	A
27.1 Bank account reconciliation	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A
27.2 Suspense accounts	NA	NA	NA	A	A	A	A	A	A	A	A	A	A	A	A
27.3 Advance accounts	A	A	A	C	C	C	C	C	C	C	C	C	C	A	A
27.4 Financial data integrity processes	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A
PI-28 In-year budget reports	B+	B+	B+	B+	D	B+	B+	B+	B+	B+	D+	B+	B+	B	B+
28.1 Coverage and comparability of reports	A	A	A	A	D	A	A	A	A	A	A	A	A	A	A
28.2 Timing of in-year budget reports	A	A	A	B	D	B	B	B	B	B	D	B	B	B	B
28.3 Accuracy of in-year budget reports	B	B	B	B	D	B	B	B	B	B	D	B	B	B	B
PI-29 Annual financial reports	D+	D+	D+	C+	D	D+	D+	D+	C+	D	D	D+	D+	C+	D
29.1 Completeness of annual financial reports	C	C	C	C	D	C	C	C	C	D	D	C	C	C	D
29.2 Submission of reports for external audit	D	D	D	A	D	D	D	D	A	D	D	D	D	B	D
29.3 Accounting standards	C	C	C	C	D	C	C	C	C	D	D	C	C	C	D
PI-30 External audit	D+	D+	D+	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	D+	D+
30.1 Audit coverage and standards	C	C	D	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	D	D

	Tbilisi	Batumi	Martvili	Lanckhuti	Akhalkalaki	Gurjaani	Khashuri	Dusheti	Kutaisi	Oni	Poti	Rustavi	Zestafoni	Lagodeski	Mtskheta
30.2 Submission of audit reports to the legislature	D	D	D	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	D	D
30.3 External audit follow-up	NA	B	C	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	D	D
30.4 Supreme Audit Institution (SAI) independence	A	A	A	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	A	A
PI-31 Legislative scrutiny of audit reports	D	D	D	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	D	D
31.1 Timing of audit report scrutiny	D	D	D	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	D	D
31.2 Hearings on audit findings	D	D	D	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	D	D
31.3 Recommendations on audit by the legislature	D	D	D	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	D	D
31.4 Transparency of legislative scrutiny of audit reports	D	D	D	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	D	D

Annex 2: Budget and Population of Municipalities

	Tbilisi	Batumi	Martvili	Lanckhuti	Akhalkalaki	Gurjaani	Khashuri	Dusheti	Kutaisi	Oni	Poti	Rustavi	Zestafoni	Lagodeski	Mtskheta
Actual expenditure 2016 (GEL 000)	725,501.6	130,120.0	11,321.0	8,848.5	8,048.4	10,886.2	12,826.9	6,787.0	53,284.9	3,439.7	14,121	36,619.0	13,384.0	14,179.7	12 982.7
Population	1,150,000	163,400	4,425	8,000	8,295	8,024	26,135	6,167	147,900	3,000	47,900	125,103	24,208	5,148	7,940

