



GEORGIA **Municipality of Martvili**

PUBLIC EXPENDITURE AND FINANCIAL ACCOUNTABILITY (PEFA) PERFORMANCE ASSESSMENT REPORT

Based on PEFA 2016 Methodology

October 2018



Municipality of Martvili - Georgia

Public Expenditure and Financial Accountability (PEFA) Performance Assessment Report

The PEFA Secretariat confirms that this report meets the PEFA quality assurance requirements and is hereby awarded the '**PEFA CHECK**'.

PEFA Secretariat
October 23, 2018

CURRENCY AND INDICATIVE EXCHANGE RATES
LOCAL CURRENCY UNIT: GEORGIAN LARI (GEL)
1 US\$ = GEL 2.4010

Fiscal Year
January 1 – December 31

Preface

The PEFA assessment was done at the request of the Ministry of Finance, by the World Bank with funding support from the European Union. The assessment team thanks the Government of Georgia for their cooperation, peer reviewers and the PEFA Secretariat for their guidance.

The team that conducted the assessment comprised of Patrick Piker Umah Tete (Task Team leader), Mariam Dolidze (Co-Task Team leader), John Short (Lead Consultant), Lasha Gotsiridze (Consultant) and Papuna Petriashvili (Consultant).

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Abbreviations and Acronyms

BDD	Basic Data and Directions
CoA	Chart of Account
CSO	Civil Society Organization
COFOG	Classification of the Functions of Government
E-	Electronic-
EC	European Commission
EU	European Union
GDP	Gross Domestic Product
Ge-GP	Georgian E-Government Procurement System
GEL	Georgian Lari
GFS	Government Finance Statistics
GFSM	Government Finance Statistics Manual
CHU	Subnational Harmonization Unit
GIZ	Gesellschaft für Internationale Zusammenarbeit (German Corporation for International Development)
GP	Government Procurement
GRS	Georgia Revenue Services
IBP	International Budget Partnership
IFI	International Financial Institution
IMF	International Monetary Fund
IPPF	International Professional Practices Framework
IPSAS	International Public Sector Accounting Standards
ISSAI	International Standards of Supreme Audit Institutions
IT	Information Technology
KFW	Kreditanstalt für Wiederaufbau (German Development Bank)
LEPL	Legal Entity of Public Law
MPD	Municipality Development Document
MOE	Municipal Owned Enterprise
MOF	Ministry of Finance
NBG	National Bank of Georgia
NGO	Non-Governmental Organization
N(N)LE	Non-entrepreneurial (Non-commercial) Legal Entity
PBO	Parliament Budget Office
PEFA	Public Expenditure and Financial Accountability
PFM	Public Financial Management
PFMIS	Public Financial Management Information System
PPP	Public–Private partnership
RTGS	Real time gross settlement system
SAO	State Audit Office
SPA	State Property Agency
SWOT	Strengths Weakness Opportunities Threats
TSA	Treasury Single Account
WB	World Bank

Executive Summary

1. The purpose of this PEFA assessment is to provide an objective analysis of the present performance of the PFM system in the Municipality of Martvili against the PEFA indicators. This PEFA establishes a PEFA baseline using the 2016 PEFA methodology.
2. The assessment covers expenditures by subnational government budgetary units. Revenues are collected by the Georgia Revenue Services on behalf of the municipality; therefore, this was considered not applicable. There are no extra-budgetary units and no local government below the municipality level. The assessment team visited the municipality from June 5 to 9, 2018 (fieldwork for the assessment). The financial years covered for indicators that required assessing over three years were 2015 to 2017.
3. Overall, the results of the PEFA show that public financial management systems in the Municipality of Martvili are strong in terms of budget execution and control as the country's PFM Reform Action Plan has been implemented. There is weakness in terms of the aggregate expenditure side of the budget performing according to plan as information on grants, a major source of revenue, is lacking. There is an impressive array of information regarding the finances of the municipality. The budget documents include all of the basic information required to support a transparent budget process.
4. The main area of weakness is found with respect to progress towards a comprehensive medium-term expenditure framework based on a program budgeting for results approach. There is a detailed budget calendar but its effectiveness is hindered by the timing of information on grants and the absence of internal municipality forecasts. These aspects mean that budgetary units do not prepare their budgets with consideration of ceilings. A medium-term approach is not taken to expenditure budgeting. The budget is presented for the up-coming year only with no focus on determining medium-term expenditures aligned to even the basic of strategic plans and medium-term budgets. Improvements can be achieved by rolling over expenditures into the medium-term to focus on ongoing policy. However, this may be difficult given the uncertainty of revenue planning which needs to be resolved first. The legislature has adequate time to carry out its scrutiny function of the budget.
5. The municipality works in conjunction with the Georgian Treasury which, based on its cash inflows and outflows forecasts, deposits a part of its cash in commercial banks through daily auctions. The consolidation of cash balances in a Treasury Single Account (TSA) and commercial banks is made on a daily basis and published on the Treasury website. The municipality prepares cash flow forecast annually for the year to come by quarter. It is updated on the basis of actual inflows and outflows, particularly for supplementary budgets. Budgetary units are able to plan and commit expenditure for one year in advance on the basis of adjusted quarterly ceilings, in accordance with the budgeted appropriations and commitment releases. Management of budget releases has been successful in controlling arrears.
6. The payroll system score is strong. All government contracts are procured through Georgian E-Government Procurement System. Eighty-eight percent of the value of contracts is procured through competitive procurement methods. All the key procurement information is made available to the public. However, the appeals process is not wholly independent. Internal controls on non-salary expenditure have strong segregation of duties, effective commitment controls and compliance with payment rules and procedures.

This achievement is ensured by the established Public Finance Management Information System (PFMIS). The internal audit function is strong and focuses on evaluations of the adequacy and effectiveness of internal controls. Accounts reconciliation and financial data integrity are also areas of strengths. Data integrity is good as access and changes to records is restricted and recorded, and results in a sufficient audit trail. 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. There are no material concerns regarding data accuracy.

7. The situation with respect to the annual financial reports is mixed. The consolidated budget execution report for budgetary units is prepared annually and is comparable with the approved budget. The financial statements generally contain full information on revenue, expenditure, financial and tangible assets, liabilities, guarantees and long-term obligations but just cover the Municipality Hall and are not consolidated with other spending units that operate under the municipality. The annual budget execution reports and financial statements are not submitted for external audit but are submitted to the Mayor and the Sakrebulo. The municipality applies the current national accounting standards to its financial statements.

8. 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 one every three years and is dependent on risk analysis and the State Audit Office's work program, given its resources. The audits highlighted relevant material issues and systemic and control risks. Audit recommendations for the municipality are followed up and monitored by the executive. Legislative scrutiny does not meet PEFA standards as it is not carried out by the Sakrebulo but is delegated to the State Parliament. None of the audits of Martvili were addressed at any level.

10. An overriding feature of PFM in Georgia has been the development and good use of Information Technology in budget preparation, budget execution (accounts, commitment control, and cash management), personnel and payroll, revenue services, and procurement. 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. This applies even to the smallest of municipalities such as Martvili. 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.

Aggregate Fiscal Discipline

11. While strong revenue administration ensures that revenues are efficiently collected, aggregate fiscal discipline is impeded by the poor information on grants and their transfer during the year. The planned budget is circumvented by numerous supplementary budgets. 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 and strong external audit function enhances fiscal discipline. Internal audit is regular and effective. Sakrebulo scrutiny could provide an effective prop to fiscal discipline, but it is lacking.

Strategic Allocation of Resources

12. The Chart of Accounts caters to a multi-dimensional analysis of expenditure. There is no medium-term perspective in expenditure budgeting linked to strategic plans. Their absence impedes a strategic allocation of resources aligned to the municipality's priorities. Better management of investment would improve the strategic allocation of resources as it would ensure that recurrent cost implication of investment is better factored into the budget process and investments are also selected to generate the best return.

Efficient Use of Resources for Service Delivery

13. 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 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, weaknesses in the production of consolidated annual financial statements limit the impact of audits which in turn limits the effectiveness of oversight. These are offset, however, by the strength of the annual budget execution reports. This is limited, however, in terms of information on the initial specification and subsequent realization of annual targets for outputs and objectives. The lack of the Sakrebulo's involvement in external audit reports misses the opportunity for the municipality to formally scrutinize them. The activities of the municipality's internal audit unit also contribute to ensuring service delivery in this regard.

14. The status of PFM in the municipality can be attributed to strong management of the PFM reform program in Georgia at the central and municipality government levels (summarized in section 5). Since 2007 impressive progress has been made at the Revenue Services; 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 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 in the agenda of PFM reform.¹ 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.

¹ Georgia PFM reform report (cited in Annex 3A)

TABLE 1: OVERVIEW OF THE SCORES OF THE PEFA INDICATORS

Summary Assessment 2018 ratings for the Municipality of Martvili							
PFM Performance Indicator		Scoring Method	Dimension Ratings				Overall Score
			1	2	3	4	
HLG	Transfers from a higher-level of government	M1	A	D	A		D+
Pillar I: Budget reliability							
PI-1	Aggregate expenditure outturn		D				D
PI-2	Expenditure composition outturn	M1	D	D	A		D+
PI-3	Revenue outturn	M2	D	D			D
Pillar II: Transparency of public finances							
PI-4	Budget classification		A				A
PI-5	Budget documentation		B				B
PI-6	Subnational government operations outside financial reports	M2	A	A	NA		A
PI-7	Transfers to subnational governments	M2	NA	NA			NA
PI-8	Performance information for service delivery	M2	D	D	A	D	D+
PI-9	Public access to fiscal information		B				B
Pillar III: Management of assets and liabilities							
PI-10	Fiscal risk reporting	M2	NA	NA	NA		NA
PI-11	Public investment management	M2	D	C	C	B	C
PI-12	Public asset management	M2	B	D	A		B
PI-13	Debt management	M2	C	A	D		C+
Pillar IV: Policy-based fiscal strategy and budgeting							
PI-14	Macroeconomic and fiscal forecasting	M2	NA	NA	NA		NA
PI-15	Fiscal strategy	M2	D	C	C		D+
PI-16	Medium-term perspective in expenditure budgeting	M2	D	D	D	D	D
PI-17	Budget preparation process	M2	C	D	C		D+
PI-18	Legislative scrutiny of budgets	M1	B	A	A	A	B+
Pillar V: Predictability and control in budget execution							
PI-19	Revenue administration	M2	NA	NA	NA	NA	NA
PI-20	Accounting for revenue	M1	A	NA	NA		A
PI-21	Predictability of in-year resource allocation	M2	A	B	A	C	B+
PI-22	Expenditure arrears	M1	A	NA			A
PI-23	Payroll controls	M1	A	A	A	B	B+
PI-24	Procurement	M2	NA	A	A	D	B
PI-25	Internal controls on non-salary expenditure	M2	A	A	A		A
PI-26	Internal audit	M1	A	B	A	A	B+
Pillar VI: Accounting and reporting							
PI-27	Financial data integrity	M2	A	NA	A	A	A
PI-28	In-year budget reports	M1	A	A	B		B+
PI-29	Annual financial reports	M1	C	D	C		D+
Pillar VII: External scrutiny and audit							
PI-30	External audit	M1	D	D	C	A	D+
PI-31	Legislative scrutiny of audit reports	M2	D	D	D	D	D

1. Introduction

1.1 Rationale and Purpose

15. The purpose of this PEFA assessment is to conduct a review of Public Finance Management (PFM) Reform in Georgia and provide a base line of PEFA scores using the 2016 methodology. The assessment of Martvili's PFM using the methodology was one of three subnational assessments carried out with the cities of Tbilisi (repeat assessment) and Batumi. These subnational assessments followed on from the Central Government (repeat) assessment carried out earlier in 2018.

16. These assessments have been carried out to facilitate the continued development of the Government's common vision and goals in respect of Public Finance System Reform.

1.2 Assessment Management and Quality Assurance

Box 1.1 Assessment Management and Quality Assurance Arrangements

PEFA Assessment Management Arrangements

- Oversight Team Chair & Members:
 - Mercy Miyang Tembon, Country Director, World Bank; and Giorgi Kakauridze, Deputy Minister, Ministry of Finance, Georgia (co-chairs)
 - Assessment Manager Daniel Boyce, Governance Practice Manager, The World Bank
- Assessment Team Leader Patrick Piker Umah Tete, Sr. Financial Management Specialist and Mariam Dolidze, Sr. Economist and Co-Task Leader, The World Bank; John Short, Lasha Gotsiridze and Papuna Petriashvili (consultants)

Review of Concept Note

- Concept Note was circulated to Georgian Government on May 16, 2018 and other peer reviewers on May 15, 2018.
- Invited Reviewers: Natia Gulua, Deputy Head of Budget Department, Ministry of Finance; David Surmava, First Vice Mayor, Martvili Municipality; Irakli Khmaladze, Project Manager Economics, Regional Development and Public Finance, EU Delegation; Ketj Vardiashvili, GIZ; Holy Tiana Razafimahefa Rame, Sr Public Finance Specialist who handed over to Julia Dhimitri, Public Sector Specialist, PEFA Secretariat; Donald Mphande, Lead Financial Management Specialist, World Bank; Ousmane Maurice Megnan Kolie, Sr. Financial Management Specialist, World Bank; and Arun Manuja, Sr. Financial Management Specialist, World Bank.

Reviewers who provided comments and did not

- Irakli Khmaladze, Project Manager Economics, Regional Development and Public Finance, EU Delegation (no comments received); Natia Gulua, Deputy Head of Budget Department, Ministry of Finance (5/17/2018); Arun Manuja, World Bank (5/24/2018); D Mphande, World Bank (05/24/2018); Ousmane Maurice Megnan Kolie, World Bank (5/23/2018); Julia Dhimitri, PEFA Secretariat (05/23/2018); Ketj Vardiashvili GIZ (no comments received); and David Surmava, First Vice Mayor, Martvili Municipality (05/25/2018).
- Date of final concept note sent to PEFA Secretariat (05/30/2018)

Review of the Assessment Report

- Draft circulated August 7, 2018
- Invited reviewers and date they provided comments
 - Julia Dhimitri PEFA Secretariat - August 31, 2018
 - Ousmane Maurice Megnan Kolie, World Bank - August 31, 2018
 - Irakli Khmaladze, Project Manager Economics, Regional Development and Public Finance, EU Delegation - September 12, 2018
 - Ketevan Vardiashvili GIZ - September 11, 2018
 - Natia Gulua Deputy Head of Budget Department – Head of Budget Policy Unit Ministry of Finance of Georgia - September 14, 2018
 - David Surmava, First Vice Mayor, Martvili Municipality (comments incorporated prior to the review).

PEFA CHECK

- The two stages of the PEFA CHECK were complied with the Concept Note and the response to comments on the draft report.

17. A substantial number of Martvili Municipality officials participated in the assessment, readily providing most of the information and documentation used for the assessment, as well as their views and insights on all the subjects covered. In addition, the State Audit Office and Procurement Agency were consulted in relation to their interaction with the municipality. Additionally, the assessment has benefited from the earlier central government PEFA with respect to revenue administration issues and the triangulation with the private sector. As well, this allowed for interaction with Ministry of Finance particularly on IT and reporting as well as supervision of internal audit. There was also overlap in terms of assessors. Some development partners (WB and GIZ) participated in the assessment in their capacities as reviewers of the Concept Note and draft report. The EC funded the assessment and was informed on the process and also reviewed the draft report. This review was carried out in the context of overall PFM involvement in Georgia rather than in Martvili where no development partners are directly involved.

1.3 Assessment Methodology

18. **Coverage of the Assessment:** The assessment covers the municipality of Martvili, its executive, spending units and Assembly (Sakrebulo), as well as the services supplied by the central government agencies that it interacts 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. Martvili does not have any public corporations. The time period covered is fiscal years 2015 to 2017 (the last fiscal year) and the time of assessment is June 2018.

19. **The full assessment team** visited Martvili on its main fact-finding mission 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 assessment team met with the Head of Administration and Head of Unit of the Finance Department Budget Department on July 17, 2018 to discuss the draft report.

20. **Sources of Information:** The list of information for each of the indicators is found in Annex 3c. A full list of persons met is provided in Annex 3b.

21. **Other methodological issues for the preparation of the report:** The assessment was carried out using the 2016 PEFA Framework supported by the Subnational Field Guide. All applicable 31 indicators (and their 94 dimensions) were assessed and followed the methodology without deviation in terms of coverage and application. Scores are reported in Chapter 3. PEFA methodology training was conducted on 15th and 16th May 2018 for all the three municipalities that were being assessed in 2018 as well as officials from central government. This training was delivered by Jens Kromann Kristensen, the Head of the PEFA Secretariat and John Short, a consultant carrying out the municipality PEFAs.

2. Country Background Information

2.1 Country Economic Situation

22. According to the latest census and National Statistics Office of Georgia, the 2017 population of Georgia is 3.726 million.² According to 2017 data, GDP per capita is GEL 10,231.4³. According to Geostat, the average monthly wage in 2016 was GEL 940⁴. According to the LEPL Social Service Agency of the Ministry of Labor, Health and Social Affairs of Georgia, 476,000 people are socially assisted.⁵

23. **Economic Growth.** In 2017, GDP real growth was 5.0 percent, which is one of the highest rates in the region. Most trading partner countries have been recovering from a crisis in 2015-2016 and had a positive impact on Georgia's economy through trade, remittance and tourism channels. In 2017, the nominal figure of the gross domestic product was GEL 38,042.2 million, which is 11.8 percent higher than the previous year, and GDP per capita was GEL 10,231.4 (US\$ 4,078.5).

24. In 2017, the private sector continued to lead economic growth. There was significantly improved net trade balance mainly arising from recovery in the external environment and improved competitiveness of Georgian products. Exports of goods increased by 24 percent and proceeds from services mainly from tourism improved by 20 percent. In 2017, the turnover of business sector increased by 19.4 percent, but preliminary results showed that the number of people employed in the business sector declined by around 7,000 people⁶. However, the cost of labor continued to increase as the level of real wages went up, which indicates improvements in labor productivity in the private sector but with limited job creation.

25. **Inflation.** In 2017, the National Bank's inflation target was 4 percent⁷ However, an upward trend in inflation was observed due to an increased excise on oil and higher world prices. The 2017 GDP deflator was 6.5 percent.

26. **Exchange Rate.** In 2017, the GEL appreciated by 2.1 percent against the US\$⁸. This stable appreciation of the national currency was mainly caused by an improved foreign demand and by increased remittances and tourism that is associated with the developments in major trading partner countries. During this period, the GEL depreciated by 11.1 percent against the Euro. The nominal effective exchange rate of GEL, which is the average exchange rate of GEL against the trade-weighted exchange rate of the major trading partners, depreciated by 1.1 percent.

² http://www.geostat.ge/?action=page&p_id=472&lang=geo

³ <https://mof.ge/images/File/newbdd/2019-BD-Tables-sen-01-4-new-BDD.pdf>

⁴ http://www.geostat.ge/index.php?action=page&p_id=148&lang=geo

⁵ http://ssa.gov.ge/index.php?lang_id=GEO&sec_id=1195

⁶ In the fourth quarter of 2017 compared to the 2016.

⁷ https://www.nbg.gov.ge/uploads/mpc/2014/2015_2017/ziritadi_mimartulebebi.pdf

⁸ Comparing exchange rates in the first and the last day of 2017. <https://mof.ge/images/File/newbdd/19-22%20BDD-GADAMUSHAVEBULI-16.08.2018-ganaxlebuli-programa.pdf>

27. **Foreign Trade.** In 2017, turnover of foreign trade in Georgian goods amounted to US\$ 10,687 million, which is 25.3 percent lower than the previous year. Exports amounted to US\$ 2,731 million (29.2% more), and imports were US\$ 7,956 million (9.1% more).⁹

28. **Remittances.** Since the second half of 2016, the dynamics of remittances changed positively. In 2017 net remittance increased by 22.3 percent compared to 2016. They included net remittance increases of 19.1 percent from Russia, 98.3 percent from Israel, 11.4 percent from the US, 19.4 percent from Turkey, 16.6 percent from Greece and 18.1 percent from Italy.

29. **Foreign Direct Investment.** According to the preliminary data, the volume of direct foreign investments in Georgia increased by 16.2 percent in 2017 and amounted to US\$ 1,862 million. The largest foreign investors in Georgia are Azerbaijan (US\$ 482 million) and Turkey (US\$ 279 million).

Significant Economic Challenges and Ongoing Reforms

30. Over the past decades, the economy of Georgia has undergone significant changes. Developments with trade partners, as well the high dollarization in the country, have had a significant impact on the Georgian economy. Georgia does not have any special natural resource. Therefore, the success of the Georgian economic growth is dependent on the country's institutional development and structural reforms. Through reforms implemented over the last decade Georgia has been able to establish simple regulations for doing business, low tax rates and a favorable tax regime, access to simple e-services, and institutions geared toward private sector development. The most important task was to create a public sector free from corruption. The Government is committed to continue its reform program particularly in the area of public financial management so as to improve resource allocation to better reflect strategic priorities and maintain fiscal discipline. The combination of a strong PFM system and an energized private sector are seen as key stimulators of economic growth and low inflation.

31. The overall reform program aims at providing high quality infrastructure, strengthening human capital, creating an open and competitive trade environment, establishing effective and well-developed financial systems, promoting a competitive business environment, entrepreneurship and innovation, and productivity growth throughout the country. This is important to accelerate the growth of the country's economic development and to achieve the goal of increasing the income of the population.

32. Over the medium-term Georgia's development plan will pursue four targets including: (i) *Education Reform* whose main objective is to fill the gap between the employment market and the qualifications and competencies of citizens and to focus on preparation of skills that are lacking but demanded in the labor market. In this regard, it is especially vital to implement vocational education reform to enable the population to retrain in areas where the demand on employment is high and qualified workers are few. However, at the same time it is important to increase the quality of general education to ensure an appropriate basic level knowledge by high school graduates enabling young people to make the informed choices in career planning; (ii) *Economic Development Reform* where additional institutional and tax regime reforms are necessary to further increase investment and improve the business environment; (iii) *Spatial Arrangement Reform* that includes the

⁹ <https://mof.ge/images/File/newbdd/19-22%20BDD-GADAMUSHAVEBULI-16.08.2018-ganaxlebuli-programa.pdf> pages: 57-59

construction of major infrastructure to maximize the use of the country's transit and tourism potential. For this purpose, it is planned to complete the construction of the East-West Expressway quickly and to develop additional road and basic infrastructure. This will increase Georgia's potential as a transit site between Europe and Asia. In addition, construction of the road and tourism infrastructure connecting the country's historically important regions, as well as those regions significant for winter and summer tourism along with other tourism infrastructure such as accommodation is especially important for strengthening the country's tourism potential. This in turn increases the country's economic development opportunities and creates new jobs and income for the population; (iv) *Open Government Reform* that will introduce inclusive decision-making principles that enable all interested parties to be involved in the process. This will also involve further development and improvement of "One Window Principle" and increased access to *e-services* for the simplification of doing business.

33. Table 2.1 below shows that per capita income in real terms has been growing each year. GDP real growth grew to 5% in 2017 while inflation from 2014 to 2017 was highest in 2017 at 6%. Total foreign reserves have increased since 2014. Both public and foreign debt are stable and low relative to most countries.

TABLE 2.1: SELECTED ECONOMIC INDICATORS¹⁰

	2014	2015	2016	2017
GDP (GEL million)	29,150.5	31,755.6	34,028.5	38,042.2
GDP per capita (US\$)	3,676.2	3,766.6	3,864.6	4,078.5
GDP real growth (%)	4.6%	2.9%	2.8%	5.0%
CPI annual growth (%)	3.1%	4.0%	2.1%	6.0%
Public Debt (% of GDP)	35.4%	41.3%	44.4%	44.3%
Foreign trade turnover (Annual Percent Change)	-25.9%	-28.9%	-26.9%	-25.3%
Current account balance (%)	-10.7%	-12.1%	-12.8%	-8.7%
General Government External Debt (% of GDP)	26.6%	32.4%	35.1%	35.0%
Total reserves (months of import value)	3.2	3.5	3.9	3.8

Source: Ministry of Finance

2.1.2 Subnational Government Economic Situation

34. Martvili is a small town in Samegrelo-Zemo Svaneti region of Western Georgia and has a population of 4,425 according to the 2014 Census (0.16% of total population). Its main economic activity is agriculture with tourism centered on the Martvili Canyon and historical monastery. The region that Martvili is located in has the following characteristics compared to Georgia.

¹⁰ for 2015-2017 data: <https://mof.ge/images/File/newbdd/2019-BD-Tables-sen-01-4-new-BDD.pdf>

TABLE 2.1.2 SAMEGRELO-ZEMO SVANETI REGIONAL DATA

	Georgia	Samegrelo and Zemo Svaneti Region
2016 GDP (GEL million)	34,030	2,400
2016 GDP (US\$ million)	14,380	1,015
Region as % of total GDP		7%
2016 Population (000)	3,729	328
GDP Per Capita (GEL)	9,126	7,317
GDP per Capita (US\$)	3,860	3,100
2017 Unemployment (%)	13.9%	8.6%
2016 Average Monthly Salary (GEL)	940	663
Foreign Direct Investment (US\$ million)	1,895	51
Region as % of total FDI		3%

Source : Geostat¹¹

2.2 Fiscal and Budgetary Trends

35. Table 2.2.1 shows the relative size of the Municipality of Martvili reflecting that it is a small rural community. Nevertheless, in two of the three years it showed a healthy overall fiscal balance. The municipality has a loan from the Municipal Development Fund. Grants from central government are crucial to the ability of the municipality to finance its expenditures which are split into recurrent and capital, 65% and 35%, respectively.

TABLE 2.2.1: AGGREGATE FISCAL DATA MARTVILI MUNICIPALITY

	GEL 000			As % of GDP		
	2015	2016	2017	2015	2016	2017
Recurrent Revenue						
Own Revenue	696	1,563	1,848	0.0022%	0.0046%	0.0049%
Grants	6,206	6,553	5,298	0.0195%	0.0193%	0.0139%
Total	6,902	8,117	7,146	0.0217%	0.0239%	0.0188%
Recurrent Expenditure						
Recurrent Non-interest	4,758	5,478	5,466	0.0150%	0.0161%	0.0144%
Interest	0	67	95	0.0000%	0.0002%	0.0002%
Primary Balance	2,143	2,638	1,680	0.0067%	0.0078%	0.0044%
Current Balance	2,143	2,572	1,585	0.0067%	0.0076%	0.0042%
Capital Grants	3,831	3,251	2,879	0.0121%	0.0096%	0.0076%
Capital Expenditure						
Grants	628	504	123	0.0020%	0.0015%	0.0003%
Increase in Non-financial assets	4,973	4,973	4,379	0.0157%	0.0146%	0.0115%
Overall Balance	372	344	-38	0.0012%	0.0010%	-0.0001%

Source: Martvili Finance Department

¹¹ http://www.geostat.ge/index.php?action=page&p_id=1181&lang=eng

36. Table 2.2.2 shows the distribution of actual expenditure by function in the municipality. Spending on economic activity is the biggest at over a third while housing and utility services, and recreation, culture and religion are the next significant recipients of spending except for general public services which consumes more than 20% of total expenditure annually over the 2015-2017 period. With the transfer of public order and safety from municipalities to central government in 2015, public order and safety along with defense services are not provided by the municipality.

TABLE 2.2.2. MARTVILI MUNICIPALITY CONSOLIDATED ACTUAL BUDGET EXPENDITURES (RECURRENT, CAPITAL) ACCORDING TO FUNCTIONAL CLASSIFICATION (% OF TOTAL)

Code	Item	2015 Actual	2016 Actual	2017 Actual
701	General public service	21.4%	26.1%	22.0%
702	Defense	0.0%	0.0%	0.0%
703	Public order and safety	2.1%	0.0%	0.0%
704	Economic activity	33.8%	33.4%	37.6%
705	Environmental protection	3.5%	4.3%	6.8%
706	Housing and utility services	15.6%	12.1%	7.1%
707	Healthcare	3.2%	3.7%	4.4%
708	Recreation, culture and religion	10.4%	10.3%	10.0%
709	Education	5.8%	6.7%	8.6%
710	Social protection	4.2%	3.3%	3.5%
	Total	100.0%	100.0%	100.0%

Source: Martvili Finance Department

37. Table 2.2.3 shows that the functional classification is reflected in the economic classification. Social security, subsidies and capital (including capital grants) are the biggest consumer of expenditure. Labor remuneration has, however, more than doubled since 2015.

TABLE 2.2.3 MARTVILI MUNICIPALITY ECONOMIC CLASSIFICATIONS OF CONSOLIDATED ACTUAL BUDGET EXPENDITURES (% OF TOTAL)

	2015	2016	2017
Expenditures	100%	100%	100%
Wages and salaries	5.0%	13.0%	11.8%
Goods and services	13.5%	17.4%	17.0%
Interest	0.0%	0.3%	0.2%
Subsidies	18.8%	12.4%	14.4%
Transfers (Grants)	2.8%	0.1%	0.1%
Transfers (Social Security)	21.3%	24.5%	22.6%
Capital expenditures (including capital grants)	38.7%	32.3%	33.9%

Source: Martvili Finance Department

2.3 Legal and Regulatory Arrangements

38. The legal and regulatory arrangements are common to both central government and municipalities. The legal basis for Georgia's public finance management is determined by the Constitution of Georgia, including the principles of fiscal governance and fiscal rules, basic principles for preparing, reporting and controlling the

draft budget and responsible persons. The Basic Principles of Fiscal Governance and Fiscal Rules are approved through the Organic Law on Economic Freedom of Georgia. Since 2009 the basic law of the budget system is the Budgetary Code of Georgia, which has unified various existing legislative acts and has identified the budget process for all levels of government in a single system with unified processes and principles (Law on Georgia's Budget System). The Code has established general norms of the budget system as well as specific regulations for the public budget, republican budgets of autonomous republics and budgets of Municipalities. Issues regarding the management of public debt, issuance of state guarantees, and transfer of debt are regulated by the Constitution of Georgia and the Law on Public Debt (1998). The Tax Code of Georgia and Law of Georgia on Revenue Service as well as various related laws regulate taxation. The Georgian law on State Internal Financial Control (Law of Georgia #5447 dated December 9, 2011) covers Internal Audit. The State Audit Office is independent as stipulated under Article 97 (2) of the Constitution of Georgia and has operational, financial, functional and organisational independence in accordance with Article 3 of the Law of Georgia on State Audit Office.

2.3.1 Legal and Regulatory Arrangments for Decentralisation

39. The legal basis for decentralization is encompassed in the framework for governance as specified above. 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.

40. The law on self-government (enacted in June 2014) provides simple and straightforward 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 coordinative role.

41. The system of intergovernmental finances went through the major changes as a result of reforms in 2007. The system that existed before 2007 had deconcentrated 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).

42. Table 2.3.1 presents an overview of the subnational governance structure. There is a central government and 2 autonomous republics and 67 municipalities (including cities). 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.

TABLE 2.3.1. OVERVIEW OF SUBNATIONAL GOVERNANCE STRUCTURE

Level	Corporate body	Own political leadership	Approves own budget	Number of jurisdictions	Average population	% of Public Expenditure	% of Public Revenue	% Funded by Transfers
Central	Yes	Yes	Yes	1	3.713 million		95%	0
State	Yes	Yes	Yes	2	0.24 million to 0.33 million			
Local 1	Yes	Yes	Yes	67	Ranges from 4,000 to 1.1 million		5%	40% to 82% range
Local 2	NA	NA	NA	0	NA	NA	NA	NA

2.3.2 Legal and Regulatory Arrangements PFM

43. The legal basis for decentralization of PFM is encompassed in the framework for governance as specified above. There is a chart of accounts that is common to all municipalities, irrespective of size, and central government and a common IT system and Treasury Single Account with sub accounts for all spending units (including each municipality). The Budget Code applies to both central government and municipalities with sections relating specifically to municipalities.

2.4 Institutional Arrangements for PFM

44. Table 2.4.1 presents the structure of the Martvili municipality in terms of spending units. There are overall 17 budgetary units that deliver services of which 9 include the executive and services departments as well as the Sakrebulo. There are 8 Legal Entities of Public Law (LELP), which provide education and cultural services such as kindergartens and museums. These are budgetary units as their expenditure is part of the budget as presented in Table 2.4.2.

TABLE 2.4.1. STRUCTURE OF MARTVILI MUNICIPALITY - NUMBER OF ENTITIES

	<i>Public Sector (Year: 2017)</i>				
	Government Sub-sector		Social Security Funds	Public Corporation	
	Budgetary Units	Extra-budgetary Units		Sub-sector	
			Non-Financial Public Corporations	Financial Public Corporations	
Martvili-Budgetary Units	17	0	0	0	0
Spending units	9				
N(N)LEs	8				

Source: Martvili Finance Department

TABLE 2.4.2 STRUCTURE OF MARTVILI PUBLIC SECTOR - ACTUAL EXPENDITURE (GEL 000)

	<i>Public Sector (Year: 2016)</i>			
	Budgetary Unit	Extra Budgetary Units	Social Security Funds	Total Aggregated
Revenue (including grants)	10,197			10,197
Transfers to (-) and from (+) other units of general gov't	8,349			8,349
Expenditure	10,063			10,063
Liabilities	-69			-69
Financial Assets	347			347
Non-financial Assets	4,097			4,097

Source: Martvili Finance Department

45. Parties involved in Georgia's budget process are in line with internationally accepted practice. The Government of Georgia, the Ministry of Finance of Georgia, the legislative body and the State Audit Office share their functions at different stages of the budget process. The Ministry of Finance and the Government of Georgia have been implementing public finance management reforms for more than 10 years, which envisages strengthening of the capability of all these institutions and they will continue to work in this direction.

46. Parties involved in the municipality budget process are:

- **Ministry of Finance of Georgia.** The departments that are relevant to municipality PFM are:
 - **Division of Macroeconomic Analysis and Fiscal Policy Planning:** - Macroeconomic forecasts and measurements of economic development of the country.
 - **Budget Department:** - Determination of the transfers from the central government to municipalities and Basic Direction Document.
 - **Central Harmonization Unit:** - Internal Audit.
 - **Treasury and Finance Analytical Department:** - Operation of the Single Treasury Account and Financial Management System.
- **State Procurement Agency.** All public procurement is administered by the State Procurement Agency.

- **Parliament of Georgia and the Finance and Budget Committee.** At the Plenary Sitting of the Parliament on the discussion of Draft Budget Law, the Parliament of Georgia conducts hearing of the reports of the State Audit Office and the Finance and Budget Committee of the Parliament of Georgia. This includes audit reports on municipalities.
- **State Audit Office.** The State Audit Office carries out audits of municipality finance, develops proposals and recommendations on measures to be taken, including measures for elimination and prevention of violations - deficiencies, as well as about the improvement of relevant administrative - legal acts.
- **Georgia Revenue Services.** All taxes, including municipal property tax, are administered by Georgia Revenue Services.
- **Sakrebulo.** The Assembly is the elected governing body of the municipality. It discusses and adopts the municipality budget, makes amendments and additions to it, during the year and approves the report on the control of budget implementation within the rules and deadlines provided for in the law of Georgia.
- **The Budget and Finance Commission.** The Sakrebulo, for the term of its authority, establishes from its own members a budget and finance commission¹² to control the financial activities of the municipality executive bodies. The commission reviews the budget proposals relating to revenues and expenditures and the budget execution reports on the activities implemented on a quarterly basis as well as the final annual budget execution report.
- **The Mayor** is an elected official who is the chief executive of the municipality. The Mayor is responsible for budgeting and strategic planning functions across the whole municipality. The plans of the mayor are scrutinized by the Sakrebulo and implemented by the different departments of the municipality.

2.5 Other Important Features of PFM and its Operating Environment

47. 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. External control is exercised by the State Audit Office which reports to Parliament. All of these have been in place for some time but are continuously improved by ongoing PFM reforms. The Budget Code provides for public hearings on the budget. The audit reports relating to municipalities are not scrutinized at the municipality Sakrebulo.

48. Municipalities receive grants – equalization, capital and special grants - from higher levels of Government (The State and the Autonomous Republics). These are an important source of revenue for municipalities but the information on the grants is late in the budget preparation calendar. The grants are delivered according to an agreed schedule.

¹² Not all municipalities use the term Budget and Finance for the Commission that is responsible for expenditure activities. In some it is Budget and Economy in others an Audit Commission as in the case of Tbilisi.

3. Assessment of PFM Performance

Subnational PEFA Indicator HLG-1: Transfers from a Higher Level of Government

49. This indicator assesses the extent to which transfers to the subnational government from a higher-level government are consistent with original approved high-level budgets, and are provided within acceptable time frames. Coverage is Budgetary Subnational Government. The assessment is based on the transfers for the fiscal years 2015, 2016 and 2017.

Indicator/Dimension	Minimum Requirements (Scoring Method M1)	
	2018 Score	Brief Justification for Score
HLG-1: Transfers from a higher level of government	D+	
HLG-1.1. Outturn of transfers from higher-level government	A	In 2015 the deviation of actual grants from the original budgeted grants was 183%, in 2016 it was 169% and in 2017 it was 162%.
HLG-1.2. Earmarked grants outturn	D	Difference between the original budget estimate and actual earmarked grants was greater than 10 percent in two of the last three years.
HLG-1.3. Timeliness of transfers from higher-level government	A	Actual transfers have been distributed evenly across the year in each of the last three years.

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

- **Equalization transfer** 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 Georgia¹³. 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: $T=E-R$.

¹³Decree N904 of the Minister of Finance of Georgia of December 30, 2009 on Approval of the Equalization transfer Calculation Instruction.

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

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** 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 aforementioned events.
- **Capital Transfer** 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 decree¹⁴
 - 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** will be transferred from one budget to another budget for the financial security of delegated authority.

HLG-1.1. Outturn of Transfers from Higher-Level Government

51. Total transfers from Central Government to the Municipality are presented in table HGL-1.

¹⁴ 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

TABLE HGL-1.1: TOTAL BUDGET AND ACTUAL GRANTS (GEL 000)

Grants	2015	2016	2017
Budgeted Grants	5,485.5	5,227.5	5,051.7
Actual Grants	10,036.5	8,859.9	8,176.8
% Deviation	183%	169%	162%

Source: Martvili Municipality Finance Department

52. In 2015 the deviation of actual grants from the original budgeted grants was 183%, in 2016 it was 169%, and in 2017 it was 162%. In two out of the three years it was more than 160% of the original budget. Score A.

HLG-1.2. Earmarked Grants Outturn

53. The 2017 Central Government Validation PEFA indicates that 91% of grants to municipalities are rule-based. Included in these rule-based grants are capital grants under Government Decree # 23 issued on February 7, 2013, however, for the purpose of this indicator, they are classified as earmarked as they related to specific projects. The majority of grants to the municipality are equalization grants and all grants by type are presented in the annex 4 table 11.

54. The rate of deviation in grants by type of grants was 90.9% in 2015, 82.0% in 2016, and 76.4% in 2017 as information on some of the special and capital grants are provided after budget drafting and thus are not included in the budget. The difference between the original budget estimate and actual earmarked grants was greater than 10 percent in two of the last three years. Score D.

HLG-1.3. Timeliness of Transfers from Higher-Level Government

55. There is an agreed schedule for the disbursement of equalization grants and targeted grants. In all years, disbursements of these grants have been made in accordance with the schedule as shown in the Annex 4 table 11. Score A.

PILLAR ONE: Budget Reliability

PI-1. Aggregate Expenditure Outturn

56. This indicator assesses the credibility of the budget by calculating the extent to which actual aggregate expenditure deviates from the original budget for the last three years of available data. Coverage is Budgetary Subnational Government. The assessment is based on the budget and actual expenditure for the fiscal years 2015, 2016 and 2017.

Indicator/Dimension	2018 Score	Brief Justification for Score
PI-1 Aggregate expenditure outturn	D	
1.1 Aggregate expenditure outturn	D	In all of the 3 years the deviation was greater than 50%.

57. Actual and originally budgeted expenditure data is summarized in Table 1.1 as follows:

TABLE 1.1: TOTAL BUDGET AND ACTUAL EXPENDITURE (GEL 000)

	2015	2016	2017
Approved Budget	794,661.7	745,066.1	691,606.1
Actual Expenditure	849,146.5	725,501.6	692,627.1
% Deviation	106.9%	97.4%	100.1%

Source: Martvili Municipality Finance Department

58. The table show that deviations between the actual expenditure (current and capital) and the budget were as follows: in 2015 – 171%, in 2016 – 171%, and in 2017 – 150%. Score D.

PI-2. Expenditure Composition Outturn

59. This indicator measures the extent to which reallocations between budget heads during execution have contributed to variance in expenditure composition. The assessment is based on the municipality budget and actual expenditure for the fiscal years 2015, 2016 and 2017. Coverage is Budgetary Government.

Indicator/Dimension	Minimum Requirements (Scoring Method M1)	
	2018 Score	Brief Justification for Score
PI-2 Expenditure composition outturn	D+	
2.1 Expenditure composition outturn by function	D	In all of the 3 years the deviation was greater than 50%.
2.2 Expenditure composition outturn by economic type	D	In all of the 3 years the deviation was greater than 50%.
2.3 Expenditure from contingency reserves	A	Actual expenditure charged to the contingency fund vote 0% in all three years and was less than 0.1% in the budget.

2.1 Expenditure Composition Outturn by Function

60. Actual and budgeted expenditures by function are presented in annex 4 tables 2, 3 and 4. The deviation in expenditure structure according to the functional classification is 70.2% in 2015, 71.1% in 2016, and 51.4% in 2017. Score D.

2.2 Expenditure Composition Outturn by Economic Type

61. Actual and budgeted expenditure by economic classification are presented in annex 4 tables 5, 6 and 7. The rate of deviation in expenditure structure by economic classification is 82% in 2015, 76% in 2016, and 53% in 2017. The main reason for such a high deviation is the capital accounts where information on capital grants is not known prior to budget drafting and as a result capital expenditure is not fully included in the budget. Score D.

2.3 Expenditure from Contingency Reserves

62. Under the Martvili municipal Budget, the reserve fund is considered within the total public expenditures. According to the Article 67 of the Budget Code of Georgia, volume of municipal reserve funds shall not exceed 2% of the total amount of budget allocations envisaged by the annual budget. The reserve fund allocated was less than 1% in the budget and zero as actual expenditure. Score A.

PI-3. Revenue Outturn

63. This indicator measures the change in revenue between the original approved budget and end-of-year outturn. The assessment is based on the budget and actual revenue from fiscal years 2015, 2016 and 2017. Coverage is Budgetary Subnational Government.

Indicator/Dimension	Minimum Requirements (Scoring Method M2)	
	2018 Score	Brief Justification for Score
PI-3 Revenue outturn	D	
3.1 Aggregate revenue outturn	D	Aggregate deviation was above 117% in all of the three years.
3.2 Revenue composition outturn	D	Variance in revenue collection was greater than 15 per cent in two of the three years. In 2015 24.8%, 28.9% in 2016, and 44.2% in 2017.

3.1 Aggregate Revenue Outturn

64. Actual and budgeted revenue by broad type are presented in the annex.

TABLE 3.1 ACTUAL REVENUE AS % OF FORECAST REVENUE

Year	Actual as % of Forecast Revenue
2015	134.0%
2016	122.3%
2017	117.4%

Source: Martvili Municipality Finance Department

65. As the deviation between actual revenues collected was greater than 117% of budgeted revenue in all of the three years this dimension is scored D.

3.2 Revenue Composition Outturn

66. The deviation rate in revenue structure in 2015 was 24.8%, 28.9% in 2016, and in 2017 it increased to 44.2%.

67. In 2016 a sharing arrangement of centrally collected income tax was introduced which gave the municipality a more predictable revenue source in addition to property tax. The deviation is generated from all sources, primarily from capital grants but also from hard to forecast non-tax revenue items (such as sales of goods and property, dividends and fines) which are important sources of revenues for municipalities.

68. As the deviation was greater than 15% two of the three years this dimension scores D.

TABLE 3.2 DEVIATION IN PERFORMANCE STRUCTURE

Year	Deviation Percentage
2015	24.8%
2016	28.9%
2017	44.2%

Source: Martvili Municipality Finance Department

PILLAR TWO: Transparency of Public Finances

PI-4. Budget Classification

69. This indicator assesses the extent to which the budget and account classification is consistent with international standards. Time period is at time of assessment. The coverage is Budgetary Subnational Government.

Indicator/Dimension	2018 Score	Brief Justification for Score
PI-4 Budget classification	A	Budget formulation, execution, and reporting are based on every level of economic and functional classification (10 functions) using GFS/COFOG standards. Program classification is derived from the administrative classification in Georgia.

70. The budget classification is defined in the Budget Code of Georgia¹⁵. It is defined in more detail by the order of the Minister of Finance.¹⁶ It includes:

- an economic and a functional classification that are used at all levels of the budget system for public accounting. These comply with the Government Finance Statistics Manual 2001 (GFSM 2001)¹⁷ and Classification of the Functions of Government (COFOG). These standards are used for the state budget since 2008, and for local government (tiers 1 and 2) from 2009. Economic and functional classifications include revenues, expenditures, operations with non-financial assets and non-financial assets, operations with financial assets and liabilities. The economic classification is coded in line with GFS through a 5-digit sequence that identifies the expense (or revenue) at a finer level of detailed than the one recommended by GFS.
- an administrative classification that is linked to the program classification and is coded with a 5-digit segment. It provides the detail of expenses (or revenues) at the level required by GFS¹⁸. For both Central Government and Local Government in Georgia, the administrative detail is captured at the cost-center level (i.e. the third GFS level and below).

71. According to the 2001 Government Financial Statistics Manual, the budget classification must include the economic classification of operations related to revenues, expenditures, non-financial assets, financial assets and liabilities.

72. While program classification is not a GFS requirement (nor a COFOG one), Georgia has developed a comprehensive program budgeting system and classification at the program (4-digit) and subprogram (6-digit) level. This is used to determine spending priorities in the annual budget. This classification substitutes the GFS

¹⁵ Budget Code of Georgia, Article 8.

¹⁶ Order N672 of the Minister of Finance of Georgia, August 25, 2010.

¹⁷ As per the request of the Ministry of Finance, the International Monetary Fund is in charge of providing technical support in the move toward the new standard of budget classification, the 2014 GFSM.

¹⁸ GFS includes three levels (Ministry, Directorate and below).

organizational classification and provides, at least, the same level of detail as the GFS second and third levels. The program classification captures the information at every cost-center level (which is more detailed than the GFS requirement).

73. Each cost-center (sub-program or sub-sub-program implementer) is identified as such in the expenditure IT system (*e-treasury and e-budget*) so that the related expenses can be tracked and monitored.

74. The functional classification is COFOG-compliant with the 10 following functions: General public services, Defense, Public order and safety, Economic affairs, Environmental Protection, Housing and Community amenities, Health, Recreation, culture and religion, Education, and Social protection. Defense spending only occurs at central government level.

75. The scoring of the indicator is A.

PI-5. Budget Documentation

76. 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. Time period is the last budget submitted to the legislature (Budget 2017) and the coverage is Budgetary Subnational Government.

Indicator/Dimension	2018 Score	Brief Justification for Score
PI-5: Budget documentation	B	Budget documentation fulfils five out of the 10 applicable elements, including the four basic elements and one additional element.

5.1. Budget Documentation

77. Based on the table below the budget documentation meets 5 out of 10 relevant criteria.

No.	Criteria	Achievement (yes / no)	Relevant Justification / Comment
Basic Elements			
1	Forecast of the fiscal deficit or surplus or accrual operating result.	Yes	Budget (Article 10) includes information on fiscal deficit.
2	Previous year’s budget outturn, presented in the same format as the budget proposal. In this element, ‘same format as the budget proposal’ means that figures should be presented and comparable at the same aggregate level or the same	Yes	Martvili budget presents, in chapters I and III, tables for which each budget line has a column with the data for the previous fiscal year, in addition to a column for the current fiscal year and a column for the budgeted year. ¹⁹

¹⁹ <https://matsne.gov.ge/ka/document/view/3950427;>

No.	Criteria	Achievement (yes / no)	Relevant Justification / Comment
	level of relevant detail as in the budget proposal.		
3	Current fiscal year's budget presented in the same format as the budget proposal. This can be either the revised budget or the estimated outturn.	Yes	Martvili budget presents, in chapters I and III, tables for which each budget line has a column with the data for the current fiscal year, in addition to a column for the last fiscal year and a column for the budgeted year. ²⁰
4	Aggregated budget data for both revenue and expenditure according to the main heads of the classifications used, including data for the current and previous year with a detailed breakdown of revenue and expenditure estimates.	Yes	Information about revenues and expenditures is presented in Chapter I according to all main articles of budget classification for all three years (past, current and planned). Aggregate revenue and expenditure indicators are presented according to the main categories of budget classification. ²¹
Additional Elements			
5	Deficit financing, describing its anticipated composition.	Yes	Sources of deficit financing are presented in Articles 1 and 2 of the budget proposal. ²²
6	Macroeconomic assumptions, including at least estimates of GDP growth, inflation, interest rates, and the exchange rate.	NA	This information is provided in the Central Government budget documentation and contains three tables of macroeconomic forecast (one for each scenario- basic, optimistic, and pessimistic). Macroeconomic indicators are presented from 2014 to 2021. The macroeconomic indicators are GDP, GDP growth, inflation, interest rates, exchange rates, etc. ²³
7	Debt stock, including details at least for the beginning of the current fiscal year presented in accordance with GFS or other comparable standard.	No	Martvili budget does not provide information about debt stock.
8	Financial assets, including details at least for the beginning of the current fiscal year presented in accordance with GFS or other comparable standard.	No	The 2018 budget proposal (Articles 1, 2 and 11) included information regarding the changes of financial assets for the current and past years as well as the one to be planned. There is no information presented regarding the volume of financial assets for the beginning or end of fiscal year. Information on volume of financial assets for the beginning and end of fiscal year is presented in budget execution reports ²⁴ .

²⁰ <https://matsne.gov.ge/ka/document/view/3950427>

²¹ <https://matsne.gov.ge/ka/document/view/3950427>

²² <https://matsne.gov.ge/ka/document/view/3950427>

²³ <http://mof.ge/images/File/biujetis-kanoni2017/damtkicebuli/SFR-2016-Total-bind.pdf>; http://mof.ge/images/File/biujetis-kanoni2017/damtkicebuli/2017-BD-Tables-sen-16_1-BDD.pdf; http://mof.ge/images/File/biujetis-kanoni2017/damtkicebuli/2017-BD-Tables-sen-16_3-BDD.pdf; http://mof.ge/images/File/biujetis-kanoni2017/damtkicebuli/2017-BD-Tables-sen-16_2%20BDD.pdf.

²⁴ <https://matsne.gov.ge/ka/document/view/3950427>

N	Criteria	Achievement (yes / no)	Relevant Justification / Comment
Additional Elements (continued)			
9	Summary information of fiscal risks, including contingent liabilities such as guarantees, and contingent obligations embedded in structure financing instruments such as public-private partnership (PPP) contracts, and so on.	No	There is no fiscal risk report prepared.
10	Explanation of budget implications of new policy initiatives and major new public investments, with estimates of the budgetary impact of all major revenue policy changes and/or major changes to expenditure programs.	No	There are four priorities specified in the budget but at an aggregate level for each without details.
11	Documentation on the medium-term fiscal forecasts. In this element, the content of the documentation on the medium-term forecast should include as a minimum, medium-term projections of expenditure, revenue, and fiscal balance.	No	The budget documentation does not provide a forward view of expenditure and revenue.
12	Quantification of tax expenditures.	NA	Tax expenditures are in the Central Government's area of competence.

78. Based on the analysis and supporting evidence, the score for this indicator is B as only 5 of the 10 elements are provided, including the four basic elements. Score B.

PI-6. Subnational Government Operations Outside Financial Reports

79. This indicator measures the extent to which government revenue and expenditure are reported outside the subnational government financial reports. The assessment of this indicator is based on the information and reports available for fiscal year 2017. The coverage is Subnational Government. The Georgian legislation and the basic principles of the budget system do not provide for non-budgetary / extra budgetary entities outside the budget structure.

Indicator/Dimension	Minimum Requirements (Scoring Method M2)	
	2018 Score	Brief Justification for Score
PI-6 Subnational government operations outside financial reports	A	
6.1 Expenditure outside financial reports	A	All expenditures are included in financial reports.
6.2 Revenue outside financial reports	A	All revenues are included in financial reports.
6.3 Financial reports of extra-budgetary units	NA	There are no extra-budgetary units.

6.1 Expenditure Outside Financial Reports

80. In accordance with the principle of comprehensiveness of the budget system of Georgia, all revenues, expenditures and balance change in the budget are fully reflected in the central government and municipality budgets. This includes all public bodies as legislation does not allow the existence of non-budgetary funds. The legislation enables the legal entities of public law and non-entrepreneurial (non-commercial) legal entities to receive certain funds for the services provided by them into their own accounts (in the Treasury system). Accounts of Non-entrepreneurial (Non-commercial) Legal Entity (N(N)LE) are included in the Treasury Account System. Information about their cash resources is submitted to the Municipal Assembly together with the budget execution report. Score A.

6.2 Revenue Outside Financial Reports

81. There are no revenues outside of the financial reports in line with the relevant legislation. Score A.

6.3 Financial Reports of Extra-Budgetary Units

82. There are no extrabudgetary entities. Information on the execution of budgets of non-profit (non-commercial) legal entities is reflected in annual budget statements. Score NA.

PI-7. Transfers to Subnational Governments

83. 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. In a subnational PEFA assessment, this indicator is applicable if there are such transfers from a municipality that is being assessed to a lower level of government. In the case of the municipality of Martvili this does not apply.

Indicator/Dimension	Minimum Requirements (Scoring Method M2 AV)	
	2018 Score	Brief Justification for Score
PI-7 Transfers to subnational governments	NA	
7.1 Systems for allocating transfers	NA	
7.2 Timeliness of information on transfers	NA	

PI-8. Performance Information for Service Delivery

84. This indicator examines the service delivery performance information in the executive's budget proposal or its supporting documentation in year-end reports. It determines whether performance audits or evaluations are carried out. It also assesses the extent to which information on resources received by service delivery units is collected and recorded. The time period covered: dimension 8.1: performance indicators and planned outputs and outcomes for the next fiscal year; dimension 8.2: outputs and outcomes of the last completed fiscal year; dimensions 8.3 and 8.4 the last three completed fiscal years. The coverage is Subnational Government Services managed and financed by other tiers of government. It should be included if the subnational Government significantly finances such services through reimbursements or earmarked grants or uses other tiers of government as implementing agents.

Indicator/Dimension	Minimum Requirements (Scoring Method M2 AV)	
	2018 Score	Brief Justification for Score
PI-8: Performance Information for Service Delivery	D+	
8.1 Performance plans for service delivery	D	There are no detailed performance plans relating to service delivery.
8.2. Performance achieved by service delivery	D	There is no reporting on performance achieved.
8.3. Resources received by service delivery units	A	Information on the resources received by the service providers at spending units is available at least annually.
8.4. Performance evaluation for service delivery	D	The Internal Audit Department carries out inspections related to controls on spending in relation to their operations. It does not focus on systems.

85. For Central government operations program-based budgeting was introduced in 2010. Program budgeting has been introduced for sub-nationals in 2013 and since then its quality has been gradually improving. The state budget (national) and local budgets are prepared in the program budget format.

8.1 Performance Plans for Service Delivery

86. The budget documentation (Municipality Priorities Document) outlines in a brief statement the priorities for the municipality based on a SWOT analysis for education (kindergartens/schools), culture youth and sports, health and social care and infrastructure (new and rehabilitation). There is no detail on planned outputs or performance. Score D.

8.2 Performance Achieved for Service Delivery

87. There is no reporting on performance. Score D.

8.3 Resources Received by the Service Delivery Units

88. In accordance with the Budget Code of Georgia, the budget shall be consolidated with all revenues and expenditures generated or operated by all budgetary units under the Treasury Single Account (TSA) managed by the State Treasury. Revenues, expenditures and balance changes (including the own revenues allowed by the legislation) of all budgetary units, including those that supply services, are fully recorded through the TSA since 2015. All revenues are first accounted for in the TSA subaccount and if they are transferred to a deposit account they can only be spent if they are transferred back and are thus recorded as expenditure.

89. For Martvili municipality spending can be tracked by individual kindergartens, and other N(N)LEs such as museums. The annual budget execution report includes such expenditures. Score A.

8.4 Performance Evaluation for Service Delivery

90. Martvili’s Internal Audit Department carries out inspections related to controls on spending in relation to their operations. It does not focus on systems. Service delivery units such as kindergartens have been included in the audit over the past three years. Score D.

PI-9. Public Access to Fiscal Information

91. The indicator evaluates comprehensiveness of fiscal information available to the public. This information is important for the public. At the same time, transparency of fiscal information implies its easy access, without restrictions (e.g., registration and fee). The time period is last completed fiscal year and the coverage is Budgetary Subnational Government.

Indicator/Dimension	2018 Score	Brief Justification for Score
PI-9 Public access to fiscal information	B	The Municipality provides access to 6 elements, including 4 out of the 5 applicable basic elements of listed information.

92. The following elements are made publicly available:

- (i) **Annual Executive Budget Proposal Documentation**²⁵ - The executive budget proposal, together with the supporting documentation and within the timeframe established by the law is available on the website of the Martvili Sakrebulo within one week after submission of the proposal by the Mayor.
- (ii) **Enacted Budget**²⁶ - The annual budget approved by the Sakrebulo available to the public from the date of its approval on the website of the Municipality. The passing of the budget by the Sakrebulo is publicized as is its availability on the website.
- (iii) **In-Year Budget Execution Reports.** Quarterly reports (3, 6 and 9 months) are submitted to the Sakrebulo together with the supporting documentation and materials within one month from the completion of the quarter and are available to the general public upon request.
- (iv) **Annual Budget Execution Report** - The Martvili annual budget report is presented to the Sakrebulo within two months after the end of the year and is available to the general public upon request. In addition, the State annual budget execution report covers the execution of grants to subnational governments. It is available to the public on the website of the Ministry of Finance immediately after its submission to the legislative body. The presentation of budget execution report to the Sakrebulo is publicized as is its availability on the website.
- (v) **Audited Annual Financial Report** – The Municipality submits financial statements to the Municipality Management by end April of the following year. These are not, as yet, fully in line with the International Public Sector Accounting Standards (IPSAS). The State Audit Office is not obliged to audit these annually by law but does periodically based on its work plan. The last audit of Martvili's Financial Statements covered the years 2016 was published on the SAO website²⁷. This was in February 2018 so falls outside of the 12 months' time period.

93. Additional Elements:

- (vi) **Pre-Budget Statement**²⁸ - The preparation of the annual executive budget proposal starts with the preparation of the country's Basic Data and Directions (BDD) Document from March 1 of each year. The country's BDD Document is a major plan for development of the country, reflecting information on medium-term macroeconomic and fiscal forecasts (4 years ahead, current and previous years), as well as information on programs with the main priorities and directions of development, and ceilings of budget allocations for spending institutions. It covers the Subnational, Autonomous Republics and Local Authorities of Georgia. The document is updated annually. The Government approves the country's BDD Initial Document up to July 10 of each year and publishes it immediately after (more than 5 months before the start of the fiscal year.) Despite this, the BDD is primarily a central budget document. Though it includes the Municipal Priorities Documents these are attached later, after all local budgets and relevant MPDs have passed the relevant Sakrebulo. So theoretically, the BDD draft (when issued by July 10) does not include local budget figures. At the same time MPD is not ready/published before 4 months of the budget year start.
- (vii) **Other External Audit Reports-** The State Audit Office produced an audit report on compliance covering the years 2014 and 2015²⁹. This was available in June 2016.

²⁵<http://www.martvili-sakrebulo.ge>

²⁶http://www.martvili.ge/index.php?css=blue.css&id=39&slave=0&lang=geo#read_position

²⁷<https://sao.ge/files/auditi/auditis-angarishebi/2017/martvilis-municipaliteti.pdf>

²⁸<http://mof.ge/5075>;

²⁹https://sao.ge/files/auditi/auditis-angarishebi/2016/adg-martvilis-angarishi-33_36.pdf

(viii) There is no Summary (often referred to as a “citizens’ budget”) of the Budget proposal or enacted budget for the municipality.

(ix) Macroeconomic forecasts³⁰- Information on medium-term macroeconomic forecasts for the Republic of Georgia is part of the annual BDD Document that is updated regularly until its final endorsement and is made immediately available on the website of the Ministry of Finance (July of each year).

94. The rating of this indicator is B as 4 out of the 5 applicable basic and 2 additional elements are available to the public. Score B.

³⁰ <http://mof.ge/5075>

PILLAR THREE: Management of Assets and Liabilities

PI-10. Fiscal Risk Reporting

95. This indicator measures the extent to which fiscal risks to subnational government are reported. Fiscal risks can arise from adverse macro-economic situations, financial positions of subnational governments (SNG), public corporations, and contingent liabilities from subnational 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. The assessment is based on the information available for the most recent fiscal year 2017. Coverage for dimension 10.1 is Subnational Government-Controlled Public Corporations. For dimension 10.2 it is subnational government entities that have direct fiscal relations with the Subnational Government. For Martvili municipality there are none. For Dimension 10.3 it is the Central Government that carries out such overall risk assessment rather than the municipalities. However, the municipality does have a fiscal risk under hospital admittance and this is assessed.

Indicator/Dimension	Minimum Requirements (Scoring Method M2 AV)	
	2018 Score	Brief Justification for Score
PI-10 Fiscal risk reporting	NA	
10.1 Monitoring of public corporations	NA	There are no public corporations under the municipality.
10.2 Monitoring of subnational governments	NA	
10.3 Contingent liabilities and other fiscal risks	NA	

10.1 Monitoring of Public Corporations

96. There are no public corporations under the ownership of Martvili municipality. Score NA.

10.2 Monitoring of Subnational Governments

97. Not Applicable to the Municipality. Score NA.

10.3 Contingent Liabilities and Other Fiscal Risks

98. There are no contingent liabilities applicable to the municipality. All other fiscal risks in this dimension are the relevant to the Central Government and are addressed in the document on "Macroeconomic Risk Analysis of the Fiscal Sector" which is attached to the draft law of the State Budget of Georgia. These do not apply to Martvili. Score NA.

PI-11. Public Investment Management

98. 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 assessment is based on the fiscal year 2017 and covers Subnational Government.

Indicator/Dimension	Minimum Requirements (Scoring Method M2 AV)	
	2018 Score	Brief Justification for Score
PI-11 Public investment management	C	
11.1 Economic analysis of investment proposals	D	Economic analyses have not been conducted to assess investment projects.
11.2 Investment project selection	C	Prior to their inclusion in the budget, the major investment projects are prioritized but not on the basis of standard criteria.
11.3 Investment project costing	C	For multi-year projects the total cost is known but only the cost in the budget year is included in the annual budget documentation. If a project has been completed within the budget year, the subsequent operating cost are also included in the budget as part of the spending unit's costs but not broken down by individual project.
11.4 Investment project monitoring	B	The monitoring of cost and physical progress of investment projects are outsourced and adequately monitored by the implementing unit. Information on implementation of projects is prepared quarterly and annually and reported to the Sakrebulo.

99. An investment projects management guide was developed in 2016 and was approved by the Decree No.191 of April 22, 2016 of the Government of Georgia for the purpose of establishment of mechanisms for developing and implementing Single Cycle Management of capital / investment projects. Detailed methodology for Investment Projects Management (Decree No.165 of July 22, 2016 of the Minister of Finance of Georgia) was approved on the basis of this guide. This indicator assesses the degree to which these decrees have been applied inter alia. Some 34 per cent of Martvili's total expenditure is on the capital account and this is funded mainly through capital transfers from Central Government, recurrent surpluses and some borrowing (Tables 2.2 and 2.4). All capital projects are treated the same by the municipality and are not divided into major or minor categories.

11.1 Economic Analysis of Investment Proposals

100. Economic analysis is not carried out for investment projects that the municipality implements. Investment is based on proposals generated by discussion between the population in village and rural locations and the municipality executive led by the Mayor. Investments are generally small in nature and tend to be

focused on improvement in the roads and building infrastructure, and parking in tourist attractions rather than major capital projects. Score D.

11.2 Investment Project Selection

101. There is an investment department that analyses the investment ideas that have been generated from the dialogue between the municipality and population in the different locations. The first priority is centered on completing on-going projects previously started. The method of selection of new projects includes a notion of sharing of investment resources between the communities so that no one community area receives more than others over time. The scope of this prioritization is based on the likely impact of a particular project on the immediate population. There are no standard written criteria guiding selection. Score C.

11.3 Investment Project Costing

102. For multi-year projects the total cost is known but only the cost in the budget year is included in the annual budget documentation. If a project has been completed within the budget year, the subsequent operating cost are also included in the budget as part of the spending unit's costs but not broken down by individual project. The investment documents (which are background documents to the budget) do, however, include running costs as well as the capital costs of a given project. Score C.

11.4 Investment Project Monitoring

103. For projects above GEL 50,000 monitoring of project implementation including both physical such as volumes of inputs like concrete and cost is outsourced to appropriate consultancy/companies that produce a monthly report.³¹ Supervisory and inspection field visits are carried out a Special Project Task Force team who also monitors contracts below GEL 50,000. There are standard procedures for monitoring. Physical progress is monitored against an implementation schedule and if progress is less than 30% of what was planned a warning letter is issued to the contractor. Costs are monitored against budget in order to flag up cost overruns so that any issues are known and can be addressed in a timely manner. There is a template for payment related to verified inputs against the contractual unit costs. Standard procedures for monitoring for project implementation are in place.

104. The annual report, produced by the Investment Department, goes to the Mayor who then submits it to the Sakrebulo who reviews it and calls staff to attend the meetings. This report is published on the municipality website.³² The budget execution report includes information on investment and is also published. Score B.

PI-12. Public Asset Management

105. This indicator assesses the management and monitoring of government assets and transparency of asset disposal. The assessment is based on the fiscal year 2016. Coverage for dimension 12.2 is Budgetary

³¹ Part of a 4 year consolidated tender for the regions based on a fixed price.

³² http://www.martvili.ge/index.php?css=blue.css&id=40&slave=0&lang=geo#read_position.

Subnational Government and dimension 12.3: Subnational Government for financial assets and Subnational Government for nonfinancial assets.

Indicator/Dimension	Minimum Requirements (Scoring Method M2 AV)	
	2018	Brief Justification for Score
PI-12 Public asset management	B	
12.1 Financial asset monitoring	B	The municipality maintains a record of its holdings in all categories of financial assets, which are recognized at their acquisition cost and in rare cases at fair (market) value. Information on the performance of the major categories of financial assets is published annually.
12.2 Non-financial asset monitoring	D	The municipality maintains a register of its holdings of fixed assets and collects partial information on their usage and age.
12.3 Transparency of asset disposal	A	Procedures and rules for the transfer or disposal of financial and nonfinancial assets are established. The Municipality Property Agency provides detailed information on every transaction. Detailed report each disposed asset is available to the public.

12.1 Financial Asset Monitoring

106. Issues related to financial assets are regulated by the Budget Code of Georgia.³³ Financial Data on loans according to the Government Finance Statistics Manual 2001 (GFSM 2001) is given in the annual financial statements.

107. Annual financial statements prepared by the municipality include information on financial assets. These are submitted to the Municipality management by the end of April following the end of the fiscal year. Major categories of financial assets are recorded in annual budget execution reports. Financial assets are mainly cash in their TSA account and cash equivalent (short term deposits in banks). These reports are available to the public but not as yet on the municipality website. Score B.

12.2 Non-Financial Asset Monitoring

108. Non-financial assets are recorded in different registers without value. Land and property owned by the municipality currently occupied and used are documented in the national on-line register. For moveable property such as desks, computers and vehicles there is a register though it is considered not to be as reliable as it should be, and the municipality has formed an Inventory Commission to update the record of moveable property.

³³ Martvili municipality does not have any loans or shares in companies.

109. For determination of the value of non-financial assets the cost of acquisition is mainly used, in some cases - for example, the real (market) value is used e.g. for realization purposes, which does not provide comprehensive and accurate information on values. Financial data on non-financial assets (initial cost, accrued depreciation, residual value, etc.) at the municipality level is presented in annual financial statements in accordance with the Government Finance Statistics Manual 2001 (GFSM 2001). The table below shows the classification of non-financial assets and their management according to the GFSM 2001 methodology.

TABLE 12.2 MANAGEMENT OF NON-FINANCIAL ASSETS

Categories of Non-Financial Assets	Subcategories of Non-Financial Assets	Where is the Information Stored?	Note
Basic assets	Buildings and Facilities	In financial statements of municipality	The website reestri.gov.ge a record of buildings. Information in financial statements may be assessed at a booked value, which does not correspond to its real (market) value.
Values	Precious stones and metals	In financial statements of municipality	As a rule, it does not include cultural heritage assets (works of art, monuments, etc.) which do not have the values specified in the respective registers.
	Art specimens		
	Other values		
Non-produced assets	Land	In financial statements of municipality	www.reestri.gov.ge provides information on land ownership.
Movable assets	Vehicles	List of vehicles by age	Municipality and N(N)Les.
	Furniture Computers etc.	Ledger	Each spending unit.

110. Information about assets is presented in different ledgers and registers and their age can be deduced from when they were entered on the ledgers and registers. Public register of non-produced assets does not contain information about values. The same applies for vehicles. Records on asset values are based at cost and do not reflect real (market) value. Records are not published. As the existing register is not fully reliable the score is D.

12.3 Transparency of Asset Disposal

111. The mayor is responsible for deciding on asset disposal. The Sakrebulo validates the list of items to be disposed of and the announcement of tenders. Asset disposal is under the responsibility of the Municipality Property Agency. The Agency prepares an annual action plan and budget and reports annually on its achievements against the plan in its budget execution report. These plans and reports are part of the budget preparation and execution documentation that is presented to the Sakrebulo in terms of what it expects to realize in terms of revenues from disposal. In addition, the Agency produces ad hoc reports to the Administration and the Sakrebulo.

112. The Law on State Property provides comprehensive rules and procedures for the disposal of assets and this is available on the website³⁴. The agency sells the largest part of municipality property in the form of electronic auctions according to procedures as defined by the law. A National Bureau advises on the price to be sought. Publicity is ensured through the website promoting electronic auctions. Information about significant facilities subject to privatization is publicly available through media outlets as well. Report on asset for disposal includes detailed description, photographic images, size (area), usage terms, initial price, auction date, payment and other details. Report on auction proceedings is public and can be accessed via a website³⁵. Score A.

PI-13. Debt Management

113. This indicator assesses the management of domestic and foreign debt and guarantees. It seeks to identify whether satisfactory management practices, records and controls are in place to ensure efficient and effective arrangements. The assessment is evaluated, for dimension 13.1 at time of assessment. For dimension 13.2, it is based on the last completed fiscal year, 2016 and for dimension 13.3, at time of assessment, with reference to the last three completed fiscal years. Coverage is Subnational Government.

Indicator/Dimension	Minimum Requirements (Scoring Method M2)	
	2018 Score	Brief Justification for Score
PI-13 Debt management	C+	
13.1 Recording and reporting of debt and guarantees	C	Records on debt are complete and accurate. Reconciliation is done annually.
13.2 Approval of debt and guarantees	A	Primary legislation grants authorization to borrow, issue new debt, and issue loan guarantees on behalf of the subnational 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	D	The municipality does not have a debt strategy and lenders make the assessment.

13.1 Recording and Reporting of Debt and Guarantees

114. At the time of the assessment the municipality had two loans from Central Government controlled LEPL “Municipal Development Fund”. Loan agreements are registered. The schedule of payments is recorded in a simple database recorded on MS Excel. A report on payments of interest and principal is produced as part of

³⁴ <https://matsne.gov.ge/ka/document/view/112588>

³⁵ <https://www.eauction.ge>

the quarterly reporting requirements. Payments are done monthly and semi-annually. Reconciliation is done annually. Score C.

13.2 Approval of Debt and Guarantees

115. Issues regarding the management of public debt, issuance of state guarantees, and transfer of debt are regulated by the Constitution of Georgia, the Law on Public Debt (1998), the Law on International Treaties of Georgia (1997), the Budget Code of Georgia, Law on Georgia's Budget System, Organic Law of Georgia on National Bank of Georgia, Law of Georgia “on Restructuring Tax Liabilities and State Loans (2004) and the Economic Freedom Act.

116. Under the Law of Georgia on Public Debt, the Ministry of Finance of Georgia (through the Minister), with the consent of the Government of Georgia (through Parliament)³⁶ and through consultations with the National Bank of Georgia (NBG), has the single and exclusive right and responsibility to manage and conclude agreements on the debt in national and other convertible currency, as well as to issue state guarantees for credits to the financial institutions of Georgia and other countries in national and other convertible currencies, which are allocated to Georgian economic agents regardless of ownership and economic activity (Article 2.2). The Ministry of Finance of Georgia carries out external debt services, makes decisions about attracting foreign loans, negotiates with foreign creditors, signs the relevant documents on loan, and records the uses of the borrowed funds (Article 2.3). In addition, the Ministry of Finance of Georgia ensures the management of domestic debt through organizing its coverage and recording, determining and paying interest rates, as well as through conducting other operations (Article 13).

117. Additional regulations of subnational debts, issuance of municipal guarantees are stipulated by the Local Self-governance Code (2014). Municipalities may take loans only with in-advance consent of Central Government. Borrowings must be approved by Sakrebulo (Article 68). Loans could be taken only to finance investment (capital) projects. Municipality loan stock cannot exceed 10% of last three years average annual revenue. If this limit is going to be exceeded, municipality need Central Government’s approval and additional borrowing may be done only from Central Government agencies. Law prohibits municipalities to mortgage municipal property. Central Government’s advance approval is needed to issue municipal guarantee (Article 100). Score A.

13.3 Debt Management Strategy

118. The assessment of the Municipality’s capacity to undertake and service debt is carried out by the lending agencies. However, Martvili Municipality does not have its own debt management strategy. Score D.

³⁶ Except for Eurobonds

PILLAR FOUR: Policy Based Fiscal Strategy and Budgeting

PI-14. Macroeconomic and Fiscal Forecasting

119. 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. The time period is the last three completed fiscal years. The coverage for dimension 14.1: Whole Economy and for Dimensions 14.2 and 14.3: Central Government.

120. Given the nature of this indicator it is not considered to be applicable to the subnational context in terms of PEFA as these forecasts are carried out by the Ministry of Finance and contained in the Basic Direction Document which are applied to the Central and Local Government budgets³⁷.

Indicator/Dimension	Minimum Requirements (Scoring Method M2 AV)	
	2018 Score	Brief Justification for Score
PI-14 Macroeconomic and fiscal forecasting	NA	
14.1: Macroeconomic forecasts	NA	
14.2 Fiscal forecasts	NA	
14.3 Macrofiscal sensitivity analysis	NA	

PI-15. Fiscal Strategy

121. 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. The time period for dimension 15.1 is the last three completed fiscal years and for dimensions 15.2 and 15.3: the last completed fiscal year. Coverage is Subnational Government.

³⁷ In the most recent CG PEFA PI-14 scored A.

Indicator/Dimension	Minimum Requirements (Scoring Method M2 AV)	
	2018 Score	Brief Justification for Score
PI-15: Fiscal Strategy	D+	
15.1 Fiscal Impact of policy proposals	D	While all expenditures and revenues that result from are changes in policy and programs are quantified for the budget year as part of the budget preparation process, they are not necessarily specified individually.
15.2 Fiscal strategy adoption	C	The municipality has adopted, submitted to the Sakrebulo, and published a current fiscal strategy for the budget year.
15.3 Reporting on fiscal outcomes	C	The municipality prepared reports that include information on progress against its fiscal strategy.

15.1 Fiscal Impact of Policy Proposals

122. All expenditures that result from changes in policy and programs are quantified for the budget year as part of the budget preparation process. Investment policy fiscal impact is reflected in budget. Capital spending by project is included but the total resultant recurrent is included for the program as a whole and not specified by individual project (as outlined in 11.3). There is little or no recurrent only policy initiatives; in the past there were increase in recurrent costs such as social subsidies for vulnerable people. Such cases are extraordinarily exceptional and have been in place in the past but not at present. Given the structure of the municipality's revenue, the ability to change policy is limited. Any changes in fees and charges (which are less than 5% of total revenue) resulting in changes in revenue are included in the budget and supporting documents. This is only done for the budget year.

123. While the treatment of the fiscal impact of policy changes is included in the budget documentation, there is no summary table highlighting each of them individually. Score D.

15.2 Fiscal Strategy Adoption

124. Under the Budget Code, municipalities cannot borrow to finance a current budget deficit and can only meet a projected deficit from existing savings. This can be equated to a municipality fiscal rule. The budget preparation process provides for detailed information on revenues and expenditure and the resulting fiscal balance. This information is included in the budget and supporting budget priority document that is submitted to the Sakrebulo. However, this is only done for the budget year. The implied fiscal strategy is embodied in the budget that is proposed and adopted in the municipality but only covers the budget year. Score C.

15.3 Reporting on Fiscal Outcomes

125. The monthly, quarterly and annual budget reports include details of the fiscal balance which is the only fiscal “policy”. There are no explicit qualitative objectives save for meeting the rule of not borrowing to fund a current deficit. No explanation of the reasons for deviations (greater/less than planned surplus) are produced. Score C.

PI-16. Medium-term Perspective in Expenditure Budgeting

126. 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. Assessment is based on, for dimensions 16.1, 16.2 and 16.3, last budget submitted to the legislature, 2017. For dimension 16.4, last budget submitted to the legislature 2017, and the current budget 2018. The coverage is Budgetary Subnational Government.

Indicator/Dimension	Minimum Requirements (Scoring Method M2 AV)	
	2018 Score	Brief Justification for Score
PI-16 Medium-term perspective in expenditure budgeting	D	
16.1 Medium-term expenditure estimates	D	The annual budget presents estimates of expenditure only for the budget year by administrative, economic, and program (or functional) classification.
16.2 Medium-term expenditure ceilings	D	There is no medium-term perspective.
16.3 Alignment of strategic plans and medium-term budgets	D	There are no stated strategy plans that inform the priorities of the spending units and the allocation of resources to implement them.
16.4 Consistency of budgets with previous year’s estimates	D	There is no medium-term perspective.

16.1 Medium-Term Expenditure Estimates

127. The Municipality’s Priorities Document, as part of the 2018 budget documentation, provides estimates for the budget year on economic, administrative bodies and their related program breakdown. Score D.

Medium-Term Expenditure Ceilings

128. The formulation of the municipality budget takes several stages. Spending units initially prepare and submit budget proposals without ceilings and these proposals are reviewed by the Mayor and discussed with

the spending units. Once the municipality receives information on grants from the Central Government, the Mayor revisits the proposals and finalizes the allocation. This is only for the budget year. Score D.

16.3 Alignment of Strategic Plans and Medium-Term Budgets

129. The Budget Code establishes the basic framework of public finances around programs over the medium term. The process and procedures relate to a number of individual elements, such as: budget strategic compilation, budget preparation and approval, and management of resources. One of the key factors for successful implementation of any policy is the correct calculation of expenditures and their reflection in the budget. Under the legislation³⁸ the policy planning documents include the relevant financial calculations; different strategic and action plans that are accompanied by appropriate cost estimates. Within the framework developed under the Public Finance Management Reform, the relationship between the policy documents and the annual budget has been developed and has significantly improved with the introduction and experience of implementing of program-based (result-oriented) budgeting. The revised methodology of the program budget also envisages preparation of detailed medium-term (4-year) action plans by the municipality spending units accompanied by appropriate cost estimates and corresponds to the annual budget law and the municipality's priority document. All of the above mentioned ensures a close relation between the policy documents, strategic plans and budgets.

130. As a small rural municipality Martvili has yet to implement this integrated policy planning approach. In the budget document, it sets out briefly its priorities relating to its key strategic areas: education; health and social care; culture youth and sports and infrastructure. Score D.

16.4 Consistency of Budgets with Previous Year's Estimates

131. The spending units do examine why nonperformance may have occurred as part of the budget formulation process in preparing the budget. Score D.

PI-17. Budget Preparation Process

132. The indicator evaluates the effectiveness of stakeholder engagement in the budget preparation process, including the consistency and timeliness of involvement of persons conducting the process. The time period for dimensions 17.1 and 17.2 is last budget submitted to the legislature and for 17.3 the last three completed fiscal years. Coverage is Budgetary Subnational Government.

³⁸ On the Approval of "Strategic Documents of Public Administration" - "Guide to Public Administration Reform of Georgia 2020" and "Policy Planning System Reform Strategy 2015-2017". Decree of the Government of Georgia (Decree N427 of August 19, 2015; Decree N385 of July 8, 2011 of the Ministry of Finance of Georgia on drawing up the program based budget).

Indicator/Dimension	Minimum Requirements (Scoring Method M2 AV)	
	2018 Score	Brief Justification for Score
PI-17: Budget Preparation Process	D+	
17.1 Budget calendar	C	The budget calendar is clear and adhered to. It allows budgetary units only 2 weeks from receipt of the budget circular to meaningfully complete their detailed estimates on time.
17.2 Guidance on budget preparation	D	The budget circular is simple and covers total expenditure for the fiscal year. The spending units' ceilings are not reflected in a circular.
17.3 Budget submission to the legislature	C	The municipality executive submitted the annual budget proposal six weeks before the end of the year in each of the last three fiscal years.

17.1. Budget Calendar

133. The Budget Calendar for local authorities is clearly defined by the Budget Code of Georgia (part IV, Articles 65 to 80). The Budget Calendar, which follows the conditions set out in the Budget Code and indicates relevant dates for the municipality. In Martvili the budget calendar is as follows

1. Before March 1 Municipality Decree sets out the activities to prepare the draft budget.
2. By August 10 there is a budget circular based on a template which includes information on staffing levels. There are no ceilings.
3. By September 10 spending departments submit proposals and these are analyzed by the Finance Department. These are discussed by the mayor, finance department and the spending unit.
4. October 5 municipality receives information on its grants and tax revenue from the Ministry of Finance.
5. October 10 based on revenue and spending requests, ceilings are discussed with spending departments by the mayor and finance department. Ceilings are not issued in a formal budget circular.
6. By November 15 municipality finance department prepares draft budget.
7. November 15 Budget submitted to Sakrebulo.

134. The budget calendar is clear and adhered to. However, the process is based on proposals that are not aligned with ceilings and when the overall financial envelop is known the budget is finalized by a discussion between the mayor, finance department and spending unit. Based on the analysis and supporting evidence, the score for this dimension is C.

17.2. Guidance on Budget Preparation

135. There is a simple budget preparation process. Based on revenue forecasts submitted by the Ministry of Finance, the initial budget proposal is reviewed for a second time by the finance department and the mayor and finalized after discussion with the spending unit. Budget ceilings are not formally issued to each spending unit who then prepare their budget accordingly. Score D.

136. The municipality intends issuing ceilings in advance for the 2019 budget preparation process.

17.3. Budget Submission to the Legislature

137. Article 77.7 of the Budget Code stipulates that the Municipality must submit the draft budget to the Sakrebulo by the 15th November. The last three draft budgets have been submitted by the due date.

TABLE 17.3 DATE OF SUBMISSION OF BUDGET TO THE LEGISLATURE

Year	Date of Submission
2016	November 13, 2015
2017	November 15, 2016
2018	November 15, 2017

Source: Martvili Municipality Finance Department

138. The score for this dimension is C as the submission is 6 weeks before the start of the fiscal year. Score C.

PI-18. Legislative Scrutiny of Budgets

139. 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. Time period: Last completed fiscal year (2016) for 18.1, 18.2 and 18.4. For 18.3 last three completed fiscal years (2014, 2015 and 2016) Coverage: Budgetary Subnational Government.

Indicator/Dimension	Minimum Requirements (Scoring Method M1 WL)	
	2018 Score	Brief Justification for Score
PI-18: Legislative scrutiny of budgets	B+	
18.1 Scope of budget scrutiny	B	The Sakrebulo reviews expenditure and revenue as well the implicit fiscal policy and overall statement of priorities.
18.2 Legislatives procedures for budget scrutiny	A	The Sakrebulo's procedures are approved by the legislature in advance of budget hearings and are adhered to. The procedures include internal organizational arrangements, such as specialized review committees, technical support, and negotiation procedures. They also include arrangements for public consultation.
18.3 Timing of budget approval	A	During the last three fiscal years the Sakrebulo approved the annual budget law before the start of the fiscal year.
18.4 Rules for budget adjustments by the executive	A	Clear rules exist for in-year budget adjustments by the executive. The rules set strict limits on the extent and nature of amendment and are adhered to.

18.1. Scope of Budget Scrutiny

140. The focus of the Martvili Sakrebulo is on what is presented in the budget document which covers expenditure and revenue for the budget year and the resulting fiscal balance. This includes the overall priority statement included in the budget. Score B.

18.2. Legislative Procedures for Budget Scrutiny

141. The legislative procedures for budget scrutiny are established under Article 78 of the Budget Code. The Sakrebulo's procedures and timetable are approved by the legislature in advance of budget hearings and are adhered to. The procedures include internal organizational arrangements, such as specialized review committees, technical support, and negotiation procedures. They also include arrangements for public consultation.

142. The draft budget is reviewed by both the Legal Commission and the Finance and Budget Commission which both have 12 members. These meetings are open to the public. These commissions prepare a report which is discussed in a plenary session of the Sakrebulo. If there are suggestions for revisions, these are transmitted to the mayor and a final budget is approved following agreement with the mayor. Based on the analysis and supporting evidence, the score for this dimension is A.

18.3. Timing of Budget Approval

143. During the last three fiscal years the legislative body approved the annual budget law before the start of the fiscal year.

TABLE 18.3 DATE OF APPROVAL OF BUDGET BY THE LEGISLATURE

Year	Date of Approval
2016	December 25, 2015
2017	December 23, 2016
2018	December 22, 2017

Source: Martvili Municipality Finance Department

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

18.4. Rules for Budget Adjustments by the Executive

145. There are clearly defined rules for making amendments to the Budget by the Executive Government during the year. Rules for making amendments to the budget throughout the year, including the nature and scope of the distribution are determined by the Budget Code (Article 69). Reallocation of funds between programs and subprograms within a particular Priority (function) not exceeding 5% of the annual budget allocation of the Priority may be carried out by the Finance Department without requiring approval of the Sakrebulo. All other amendments require Sakrebulo approval. This rule was complied with.

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

PILLAR FIVE: Predictability and Control in Budget Execution

PI-19. Revenue Administration

147. This indicator relates to the entities that administer Subnational Government revenues, which may include tax administration, customs administration, social security contribution administration, as well as agencies administering revenues from other significant sources such as natural resources extraction. It may also include public enterprises that operate as regulators and holding companies for government interests, in which case the assessment will require information to be collected from entities outside the government sector. The indicator assesses the procedures used to collect and monitor Subnational Government revenues.

148. The supplementary guidance for subnational PEFA assessments indicates that indicator 19 is applicable when:

- the subnational governments raise revenues according to their own administrative arrangements; and
- the subnational revenues are collected on behalf of the subnational government by a higher level revenue authority if the subnational government has full control of the revenues and of how the overall revenue management is carried out.

and is not applicable when:

- the subnational government raises revenue through only user fees and charges that are related to a specific service provided by the subnational government (without exceeding the costs of this service);
- the central (or other higher-level) government collects revenues through its revenue authority and has sharing arrangements with the subnational revenue authority.

149. Georgia Revenue Services collects and administers revenues in Georgia. There is a sharing arrangement with the Central and Tiers 1 and 2 governments as specified in Shares in Revenue of Central, Tier 1 and Tier 2 municipalities law.

150. Martvili municipality does collect some revenues from property income and sales of goods and services which amounted to 8% of its revenues. PI-12.3 assesses the probity of sales of goods which accounts for a significant part of own non-tax revenue.

Indicator/Dimension	Minimum Requirements (Scoring Method M2 AV)	
	2018 Score	Brief Justification for Score
PI-19 Revenue administration	NA	
19.1 Rights and obligations for revenue measures	NA	
19.2 Revenue risk management	NA	
19.3 Revenue audit and investigation	NA	
19.4 Revenue arrears monitoring	NA	

PI-20. Accounting for Revenue

151. This indicator assesses the procedures for recording and reporting revenue collections, consolidating revenues collected, and reconciling the tax revenue accounts. It covers both tax revenues and non-tax revenues collected by the Subnational Government. The assessment period is at time of the assessment. As was the case for PI-19 the dimensions 20.2 and 20.3 are not assessed at the subnational level as revenue administration is conducted by the Georgia Revenue Services. Dimension 20.1 however is relevant at the municipality level and assessment period is at time of the assessment.

Indicator/Dimension	Minimum Requirements (Scoring Method M1 WL)	
	2018 Score	Brief Justification for Score
PI-20 Accounting for revenue	A	
20.1 Information on revenue collections	A	The Municipality obtains revenue data at least monthly from the data on revenues administered by Georgia Revenue Services and paid into the Treasury Single Account. This information is broken down by revenue type and is consolidated into a report.
20.2 Transfer of revenue collections	NA	All revenues are transferred directly to the Treasury Single Account on the daily basis.
20.3 Revenue accounts reconciliation	NA	Entities collecting most municipal revenue undertake complete reconciliation of assessments, collections, arrears and transfers to Treasury Single Account on a daily basis.

20.1 Information on Revenue Collections

152. All revenues are transferred to the Treasury Single Account which is managed and operated by the State Treasury. Treasury Codes define the type of revenues transferred to the Treasury Single Account, which is registered in the treasury service information system and specified in sub-account revenues that are attributed to the Municipality. A monthly revenue performance report is produced for management. Each quarter the monthly collection by revenue type is aggregated for the quarter and is compared to the plan for that quarter. Score A.

20.2 Transfer of Revenue Collections

153. All revenues are transferred directly to the Treasury Single Account from the Georgia Revenue Services on a daily basis. Those that are due to the municipality are reflected in the Municipal accounts. However, the indicator is assessing the operations of the Georgia Revenue Services. Score NA.

20.3 Revenue Accounts Reconciliation

154. Revenue Services administers most of municipal revenues, collects revenues, manages arrears and reconciles data with State Treasury Service on the daily basis. Each transaction data is automatically checked with personal files in Revenue Services database. If the payer has paid but has not declared the purpose, then the amount is kept in the general account until declaration is uploaded. If payer has declared but Treasury data shows no payment on behalf of the taxpayer, then the amount is recorded in arrears at the RS personal files. RS may use administrative measures (force full payment, property and accounts arrest etc.) to ensure arrear clearance within time period defined by Legislation. However, the indicator is assessing the operations of the Georgia Revenue Services. Score NA.

PI-21. Predictability of In-Year Resource Allocation

155. This indicator assesses the extent to which the Subnational Finance Unit is able to forecast cash commitments and requirements and to provide reliable information on the availability of funds to budgetary units for service delivery. Time period: at time of assessment for PI-21.1 and for PI-21.2 to 4 the last completed fiscal year. Coverage is Budgetary Subnational Government.

Indicator/Dimension	Minimum Requirements (Scoring Method M2 AV)	
	2018 Score	Brief Justification for Score
PI-21: Predictability of in-year resource allocation	B+	
21.1 Consolidation of cash balances	A	The consolidated information about all bank and cash balances is available at the municipality subaccount at the State Treasury Service at the end of the day.
21.2 Cash forecasting and monitoring	B	A cash flow forecast is prepared annually for the fiscal year, broken down by quarter and updated quarterly on the basis of actual cash and outflows.
21.3 Information on commitment ceilings	A	Budgetary units are able to plan and commit expenditure for twelve months in advance in accordance with the budgeted appropriations and commitment releases.
21.4 Significance of in-year budget adjustments	C	Adjustments to budget allocations were made 7 times in 2017 and amounted to 62% of the original budget. These were done in a transparent and predictable way.

21.1. Consolidation of Cash Balances

156. According to the Budget Code, all revenues of the budget are immediately transferred to the Treasury Single Account (TSA). This includes revenues collected on behalf of the Municipality. The Georgian Treasury, on the basis of its cash inflows and outflows forecasts, deposits a part of its cash in commercial banks through

daily auctions. This deposit amounts, on average, to GEL 500 million. The consolidation of cash balances in TSA and commercial banks is made on a daily basis and published on the Treasury website (www.treasury.gov.ge).

157. All municipality budgetary units transfer their revenue into the TSA except for the own revenues e.g. kindergarten and other LELPs, which are deposited in commercial banks. On average, Martvili current account deposits in commercial banks constitute less than 5% of total deposit volume. As of June 7, 2018 Martvili, current account deposits in commercial banks were GEL 20,000 and all deposits totaled up to the GEL 1.0 million. They are not consolidated with the rest of the cash balances on a daily basis. The municipality is, however, in a position to identify all available cash held as a basis for informing the release of funds.

158. Consequently, all (95%) of bank and cash balances are consolidated on a daily basis. -Based on the analysis and supporting evidence, the score for this dimension is A.

159. In order to mobilize additional revenues, the introduction of cash flow management mechanisms is planned within the framework of cash flow management reform. The State Treasury will transfer free cash flows in various banking instruments on financial markets. The draft of the relevant provision has been elaborated and the technical platform for conducting the deposit auctions is prepared. After the entry into force of the regulation, the active transactions will start on the financial market. The employees of the State Treasury have been trained on investments and risk management issues.

21.2. Cash Forecasting and Monitoring

160. A cash flow forecast is prepared by the municipality Finance Department within two weeks after the budget is passed. This is based on historical data and forecasts of revenues and expenditures with information coming from the budgetary units about their expected payments.

161. A cash flow forecast is prepared annually for the year to come and broken-down on a quarterly basis. It is updated on the basis of changes in future expenditures that are based on revenue inflows from grants (actual quarterly releases greater than forecast)³⁹. These changes are implemented through supplementary appropriations. Based on the analysis and supporting evidence, the score for this dimension is B.

21.3. Information on Commitment Ceilings

162. After the annual budget is approved by the Sakrebulo its allocations are included in the Public Financial Management Information system for each budgetary unit and allocated to each quarter of the fiscal year. Commitment ceilings become automatically accessible to the budgetary units which have full authority to commit expenditure within the limits of the quarterly budget allocations.

163. The under consumption of commitment in a quarter is automatically carried over to the following quarter and the information is provided in the information system. As there has not been any cash flow problem, there has not been any reduction of the commitment ceilings.

³⁹ Annex 4 table 11

164. In 2017, budgetary units were 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. Based on the analysis and supporting evidence, the score for this dimension is A.

21.4. Significance of In-Year Budget Adjustments

165. In-year budget adjustments must comply with article 80 of the Budget Code which requires that reallocation from a budget unit to another budget unit is to be made through amendments to the annual budget. The 2017 budget was amended seven times by the Martvili Sakrebulo. The percentage increase in expenditure resulting from the supplementary votes was 62 percent. Much of this was as a result of capital grants not being known prior to the budget being passed and then being realized periodically during budget execution.

**TABLE 21.4 SUPPLEMENTARY BUDGETS
(GEL million)**

	Original Budget	Amended Budget	Difference	
Expenditure	6.7	10.9	4.2	62%

Source: Martvili Municipality Finance Department

166. These adjustments were compliant with the rules set in the budget code, which require approval by the Sakrebulo. It was discussed with the municipality administration before the proposed amended budget was tabled. The commitment ceilings of budgetary units were modified accordingly in the information system after the amended budget passed Sakrebulo.

167. The number of changes (7) and percent increase (62%) are high in 2017 even if the adjustments to the budget were done in a transparent and predictable way. Based on the analysis and supporting evidence, the score for this dimension is C.

PI-22. Expenditure Arrears

168. 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. For 22.1 the time period: is the last three completed fiscal year (2015, 2016 and 2017) and for 22.2 at the time of assessment. The Coverage is Budgetary Subnational Government.

Indicator/Dimension	Minimum Requirements (Scoring Method M1 WL)	
	2018 Score	Brief Justification for Score
PI-22: Expenditure arrears	A	
22.1 Stock of expenditure arrears	A	The municipality reported that it did not have any expenditure arrears.

Indicator/Dimension	Minimum Requirements (Scoring Method M1 WL)	
	2018 Score	Brief Justification for Score
22.2 Expenditure arrears monitoring	NA	The financial statements produced by the Municipality Finance Department provide information on the stock and composition of expenditure arrears. The Financial Information System is capable of monitoring whether arrears have been generated and a report can be produced if required.

22.1. Stock of Expenditure Arrears

169. Arrears are defined as registered liabilities for which the goods or services are provided during the year, but the relevant documents have not been received at the end of the fiscal year. Consequently, the payment cannot be processed during the year and is reported in the following year.

170. Arrears are regulated by the Budget Code of Georgia and Martvili annual budget which require their coverage by the subprogram 01 04 (funds for repayment of debt accumulated in previous years and execution of court decisions). They are reported in the annual financial statements. There are no arrears recorded for the municipality. Score A.

22.2. Expenditure Arrears Monitoring

171. The financial statements produced by the Municipality Finance Department provide information on the stock and composition of expenditure arrears. The Financial Information System is capable of monitoring whether arrears have been generated and a report can be produced if required. Score NA.

PI-23. Payroll Controls

172. This indicator is concerned with the payroll for municipality employees 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. Time period: 23.1, 23.2 and 23.3 at time of assessment; 23.4 last three completed fiscal year (2015, 2016 and 2017). Coverage is Subnational Government.

Indicator/Dimension	Minimum Requirements (Scoring Method M1 (WL))	
	2018 Score	Brief Justification for Score
PI-23: Payroll controls	B+	
23.1 Integration of payroll and personnel records	A	The municipality maintains the 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. There is a validation mechanism built into the payroll module that automatically blocks salary payments of any person that is not reflected in the personnel database of the E-Treasury system.

Indicator/Dimension	Minimum Requirements (Scoring Method M1 (WL))	
	2018 Score	Brief Justification for Score
23.2 Management of payroll changes	A	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. In addition, retroactive changes to the existing data in the system are not allowed.
23.3 Internal control of payroll	A	Changes to the payroll records, are restricted to only authorized persons in the municipality. The changes are certified by an authorized person and approved by the supervisors. There is an audit trail of payroll changes as supporting documentation are kept, and there are access controls for authorized persons to get into the E-Treasury system that require password and identification. External auditors assess payroll risk as low hence integrity of payroll data is high.
23.4 Payroll audit	B	There is a system of annual payroll audits conducted by the State Audit Office that exposes any control weaknesses and accountability issues. This is not carried out on an annual basis at the municipality level and one was completed in 2016.

23.1. Integration of Payroll and Personnel Records

173. The annual budget provides information on the number of employees and the budget for salaries approved by the Sakrebulo. There are currently 118 staff employed out of a complement of 130. The municipality (central service departments under the mayor, and municipal N(N)LEs) maintains and recruits staff within the parameters defined by annual budget and national procedures under the Civil Service Bureau. Staff cannot be hired outside of the approved list. Once a hiring has been approved, a file is opened for that person. Payroll records are maintained by their human resource personnel using the E-Treasury system that has a payroll module. The payroll module has a human resource management system that captures an employee's start date, position, identification number, department name, bank account, salary amount, tax and insurance payments, promotions and salary changes. Payroll records can be accessed and reviewed by the Finance Department and Internal Audit but on read-only access. This restricts alternations to the records. Personnel and payroll records are reconciled at least monthly, before salaries are paid to staff bank accounts. There is also a validation mechanism built into the payroll module that automatically blocks salary payments of any person that is not reflected in the personnel database of the E-Treasury system. Score A.

23.2. Management of Payroll Changes

174. The human resource unit in conjunction with municipality departments update the records of employees prior to the monthly payroll payments to check staff payroll against work days to take into consideration if an employee has been on leave, has been off ill, resigned or been terminated. These updates are reflected in real-

time mode in the E-Treasury (payroll module) and taken into consideration in the month's payroll payments. Retroactive changes to the existing payroll records are not allowed in the E-Treasury system. Score A.

23.3. Internal Control of Payroll

175. There is a strong system in place that monitors payroll changes at the municipality and it has an audit trail. The Mayor (Directors in case of municipal N(N)LEs) is the only person who can sign for changes related to the payroll although this can be delegated to the Heads of Departments. Access is at two levels: viewing the system without ability to change (read only mode) and ability to change. Only human resource management has the authority to change and access is restricted to different levels of authority and the Finance Department is responsible for checking and monitoring. This approval process leaves an audit trail as each approver accesses the E-Treasury system using a unique password and identification number. Score A.

23.4. Payroll Audit

176. Financial audit of payroll was carried out in 2016 as part of financial audit of Martvili municipality in accordance with International Standards for Supreme Audit Institutions (ISSAI). This audit identifies payroll control weaknesses and accountability issues. Score B.

PI-24. Procurement

177. 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. Time period: Last fiscal year. Coverage is Subnational Government.

178. Supplementary guidance for subnational PEFA assessments indicates that indicator 24 is applicable only for procurement managed by the subnational government and 24.1 is not applicable when records are maintained by a higher-level of government with no control from the subnational government.

Indicator/Dimension	Minimum Requirements (Scoring Method M2 AV)	
	2018 Score	Brief Justification for Score
PI-24. Procurement	B	
24.1 Procurement monitoring	NA	Databases or records are maintained for all contracts including data on what has been procured, value of procurement, and who has been awarded contracts. All government contracts are procured through Georgian E-Government Procurement System (Ge-GP).
24.2 Procurement methods	A	As per public procurement legislation open competition above 5,000 is a default method. 88% of contracts by value procured in 2017 were conducted through competitive selection.
24.3 Public access to procurement information	A	All the key procurement information is made available to the public. These include but are not limited to:

Indicator/Dimension	Minimum Requirements (Scoring Method M2 AV)	
	2018 Score	Brief Justification for Score
		(1) legal and regulatory framework for procurement (2) government procurement plans (3) bidding opportunities (4) contract awards (purpose, contractor and value) (5) data on resolution of procurement complaints (6) annual procurement statistics
24.4 Procurement complaints management	D	<p>Procurement system meets all criteria except N1. According to Article 3, Subparagraph 1 and 2 of the Rule for Operations of the Procurement related Dispute Review approved by the Decree №1 of February 27, 2015 of the Chairman of the State Procurement Agency, dispute review board consists of 6 persons on a parity principle. 3 members are from CSOs/NGOs and 3 are from State Procurement Agency. Chairman of State Procurement Agency is at the same time Chairman of the dispute review board, with prevailing vote. State Procurement Agency is also a clearing/reviewing body for Simplified Procurement (aka Direct Contracting requests from implementing agencies).</p> <p>The involvement of the state procurement agency in specific procurement procedure for simplified procurement procedures (direct contracting) makes it part of the procurement transactions and procurement decision-making process leading to contract award, which creates conflicts with its oversight function and its role in the review of procurement complaints.</p>

24.1. Procurement Monitoring

179. Information on the complete cycle of procurement is kept in the database of the Ge-GP system administered by the Georgia Procurement Agency (GPA). This information is transparent and fully accessible for all. The following information is maintained on the system: type of procurement, number of the application, status of procurement, procuring organization, date of procurement announcement, date and time of start of the bidding, date and time of the end of the bidding, estimated cost of procurement, classifier code and the specific object of procurement, quantity or volume of procurement, date of supply, warranty amount, bidder and their proposals, amount and time of first offer, amount and time of last offer, winner, commission protocols, term of validity of the contract, number and amount, and amendments to the contract.

180. As this system is not unique to the municipality it is Not Applicable in terms of scoring. Score NA.

24.2 Procurement Methods

181. Martvili has a Procurement Commission that is made up of 8 members including the Mayor and the heads of spending units with the head of the procurement division as secretary.

182. The main determinant of compliance for this dimension is to assess the actual use of competitive methods in the procurement process. Under public procurement legislation, open competition above GEL 5,000 is the default method. However, the rules allow for procurement to be carried out without such open completion. These are: (i) when the procurement is limited in time to be completed; (ii) when it is urgent as in the case of an emergency; (iii) there is just one local supplier⁴⁰; and (iv) in exceptional cases such as where an adjustment has to be made to an existing tender and the amount is above the threshold. In such instances, the procuring entity has to apply to the SPA for a no objection. The SPA places the request on the procurement portal which allows potential suppliers the opportunity to comment. The SPA, if satisfied that the request is legitimate, issues a no objection and the procurement can then take place outside the normal competitive tendering process.

TABLE 24.2 MARTVILI MUNICIPALITY PUBLIC PROCUREMENT STATISTICS, 2017 YEAR

Title	All contracts	Contracts procured through use of competitive methods		Contracts procured through use of non-competitive methods	
		Absolute terms	%	Absolute terms	%
Number of contracts	579	91	16%	488	84%
Value of contracts (GEL 000)	5,006	4,386	88%	619	12%

Source State Procurement Agency

183. In 2017, 88% of all contracts procured through the GPA system by the Martvili municipality procuring bodies. Score A.

24.3. Public Access to Procurement Information

184. All information related to procurement is public and available online (e.g. tender announcements, tender documents, all decisions of the tender commission, etc.). The tender proposal price submitted, and the contracts signed between parties are published through Ge-GP system. Procuring organizations are required to publish an annual plan of procurement through the electronic system at the beginning of fiscal year. Any information related to the municipality's procurement is available on the website of the SPA - <http://procurement.gov.ge/> even for non-registered users. Thus, the procurement monitoring process may be carried out by any interested person. Different analytical tools have been developed. The website www.stats.spa.ge includes key information on public procurement, including quarterly updates on published tenders, value of tenders, average number of bidders, number of registered users etc.⁴¹ This SPA's portal allows and facilitates access and subsequent use of data by different types of users. This allows streamlined and more reliable third-party audits and citizen engagement. Entities such as Supreme Audit Institutions, CSOs, private sector, line ministries, donors and many

⁴⁰ Or a preferred supplier in cases such as defence procurement.

⁴¹ As part of the World Bank administered Technical Assistance project "Improving Efficiency and Transparency in Public Procurement" a dedicated website was developed which structures public procurement data following the scheme proposed by the Open Contracting Data Standard and launched dedicated portal (<http://opendata.spa.ge/>) which generates tender information for all public procurement contracts in machine readable format.

others will have ability to run evidence based analysis to contribute to improved procurement, governance and overall public finance management.

185. With respect to the PEFA scoring requirements, the status of following elements is:

TABLE 24.3 INFORMATION ON PROCUREMENT

Publicly Available	Yes / No	Location
Law on Procurement and relevant regulatory acts	Yes	http://www.procurement.gov.ge/ELibrary/LegalActs.aspx https://matsne.gov.ge
Government procurement plan	Yes	https://tenders.procurement.gov.ge-plan module
Bidding opportunities	Yes	https://tenders.procurement.gov.ge
Winner of the tender (goal, contractor and amount)	Yes	https://tenders.procurement.gov.ge
Information on the results of review of complaints	Yes	https://tenders.procurement.gov.ge/dispute
Annual Procurement Statistics	Yes	http://procurement.gov.ge/ELibrary/AnalyticalStudiesReports.aspx

186. Accordingly, the assessment of this indicator is A.

24.4. Procurement Complaints Management

187. Over time, amendments have been made to the Rules of Activity of the Procurement Related Disputes Resolution Board. These amendments have changed the terms of the appeal process. A new form of the application has been introduced and the process of suspension of procurement procedures has been automated. The Rules of Activity of the Procurement Related Disputes Resolution Board, approved by the Order №1 of February 27, 2015 of the Chairman of the State Procurement Agency, has been amended three times in 2016.⁴² According to the amendment, the terms of appealing to the Board have been newly established and the basis for the inadmissibility of appeal has been determined. This includes the provision that the procurement procedures are suspended for the procuring entity, as well as for the bidder(s) once an appeal is admitted into the procurement process.

⁴² Decree №1 of January 11, 2016 of the Chairman of State Procurement Agency; Decree №12 of October 26, 2016 of the Chairman of State Procurement Agency; Decree №17 of December 30, 2016 of the Chairman of State Procurement Agency.

188. Under the amendments in Decree №17 of December 30, 2016⁴³ when a complaint is accepted, the appropriate procurement procedures are automatically suspended. The Parties (complainant, applicant) and applicable interested persons are notified and invited to the Board Meeting in accordance with the Paragraph 5 of Article 1 of the Rule approved by the Decree №1.⁴⁴ An electronic complaint form is available along with the instruction for its completion and filing.

189. Data on complaints with respect to Martvili procurement are:

TABLE 24.4.1 PROCUREMENT COMPLAINTS

	Total amount of received complaints	Of which fully satisfied by Dispute Resolution Board	Partially satisfied by Dispute Resolution Board	Negative Decisions of Dispute Resolution Board
Procuring organizations of Martvili Municipality	4	0	1	3

Source: State Procurement Agency

190. With respect to the PEFA scoring requirements, the status of following elements is:

TABLE 24.4.2 PROCUREMENT RELATED COMPLAINT CRITERIA

Procurement Related Complaint Criteria	Yes / No	Proof / Comment
(1) Is not involved in procurement transactions or decision-making processes.	No	According to Article 3, Subparagraph 1 and 2 of the Rule for Operations of the Procurement Related Dispute Review approved by the Decree №1 of February 27, 2015 of the Chairman of the State Procurement Agency, dispute review board consists of 6 persons on a parity principle. 3 members are from CSOs/NGOs and 3 are from State Procurement Agency. Chairman of State Procurement Agency is at the same time Chairman of the dispute review board, with prevailing vote. State Procurement Agency is also a clearing/reviewing body for Simplified Procurement (aka Direct Contracting requests from implementing agencies).
(2) Does not impose fees for disputing parties.	Yes	Submission of complaints is free of charge. Article 2, paragraph 1 of the Rule for Operations of the Procurement Related Dispute Review approved by the Decree №1 of

⁴³ Chairman of the State Procurement Agency (effective since January 16, 2017).

⁴⁴ Within the framework of the Rule, any information can be obtained / sent through automatic means of management, website <https://tenders.procurement.gov.ge/dispute> and /or through other modern means of communication (e-mail, phone, short text message).

TABLE 24.4.2 PROCUREMENT RELATED COMPLAINT CRITERIA

Procurement Related Complaint Criteria	Yes / No	Proof / Comment
		February 27, 2015 of the Chairman of the State Procurement Agency.
(3) Processes after submitting and solving complaints are clearly defined and publicly available.	Yes	Article 6, paragraph 2 and Article 9, paragraph 8 of the Rule for Operations of the Procurement Related Dispute Review approved by the Decree №1 of February 27, 2015 of the Chairman of the State Procurement Agency.
4) Uses the power to suspend the procurement process.	Yes	Article 7, subparagraph “d2” of paragraph 2 and Article 23, paragraphs 22 and 11 of the Law of Georgia on State Procurement. Article 6, subparagraph “c” of paragraph 2 and paragraph 6 of the same Article of the Rule for Operations of the Procurement Related Dispute Review approved by the Decree №1 of February 27, 2015 of the Chairman of the State Procurement Agency.
(5) Issues rules / regulations in the specified timeframes.	Yes	Article 7, paragraph 4 of the Rule for Operations of the Procurement Related Dispute Review approved by the Decree №1 of February 27, 2015 of the Chairman of the State Procurement Agency.
(6) Issues decisions which are mandatory for all parties (without access of external upper body).	Yes	Article 10 of the Rule for Operations of the Procurement Related Dispute Review approved by the Decree №1 of February 27, 2015 of the Chairman of the State Procurement Agency. Article 23, paragraph 14 of the Law of Georgia on State Procurement.

191. Score D as criteria 1 was not met.

192. Recently (outside of the PEFA timeframe) there has been a considerable improvement in the complaints procedures particularly with respect to the composition of the Complaints Review Council and the automatic installation of the SPA chair as its chair. For contracts with estimated contract price equal to, or more than GEL 15.8 million⁴⁵, outlined in Order No. 1 of the Chairman of the SPA on the Rules of Activity of the State Procurement Related Dispute Resolution Board is applicable⁴⁶. Under the new order, the Chairman of SPA is no longer the head of the board with the prevailing vote. The complaints handled through the new Dispute Resolution Board, even though new, are under a Board which still includes 3 members from State Procurement Agency but as part of an expanded membership. The Board, as per new order, is composed on 10 members made up of 3 members from SPA (including SPA chairman), 3 members from NGO, 1 member from– the

⁴⁵ the thresholds defined by the EU procurement directives.

⁴⁶ dated Feb 8th, 2018

Competition Agency, 1 member from Georgian Chamber of Commerce and Industry and 1 member from the Business Ombudsman of Georgia, as well as the one representative of the relevant profile from the academic community. Each Board member including the 3 SPA members has voting authority on decision making according to Article 24 of the Order. This creates a conflict of interest given that SPA provides no objections on source direct contracts, which determines the procurement method leading to contract award.

193. However, considering the EU thresholds (i.e. 5,548,000 EUR for civil works contract, (equivalent to GEL 15.8 million) it is expected that substantial numbers of complaints would still be handled through previous order of the Chairman on Dispute Review Board as it still applies to disputes relating to lesser amounts than the EU thresholds.

PI-25. Internal Controls on Non-Salary Expenditure

194. 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. Time period: At time of assessment and Coverage: Subnational Government.

Indicator/Dimension	Minimum Requirements (Scoring Method M2 AV)	
	2018 Score	Brief Justification for Score
PI-25: Internal controls on non-salary expenditure	A	
25.1 Segregation of duties	A	Segregation of duties is prescribed throughout the expenditure process with responsibilities clearly laid out at different levels in the PFMIS, in accordance with Order of the Minister of Finance of July 6, 2012 on the approval instructions for the State Treasury Electronic Service System.
25.2 Effectiveness of expenditure commitment controls	A	Commitment control applies to all payments made from the Treasury Single Account. Actual expenditures incurred are in line with approved budget allocations and does not exceed committed amounts and projected available cash resources.
25.3 Compliance with payment rules and procedures	A	Compliance with payment rules and procedures is very high.

195. Effectiveness of internal controls for non-salary expenditures is ensured by the established Integrated Financial Management Information System. The system covers the whole process of non-salary expenditures and sets the levels of assumption in the system according to the functions of different employees. Payment procedures for non-salary expenditures are determined by the Order №424 of December 31, 2014 of the Minister of Finance of Georgia on the approval of instruction about the rule of payments by organizations of State Treasury Service, which is executed by all spending units at the Central and Municipality Governments.

25.1. Segregation of Duties

196. Functions are clearly segregated by the provisions of the Municipality, internal regulations, job descriptions and other internal documents. Levels of admission of the relevant person at all stages of payment in the PFMIS are determined by the Order #225 of the Minister of Finance of July 6, 2012 on the approval of instruction for the State Treasury Electronic Service System. For the purpose of obtaining the right to access the system, the municipality requests the State Treasury Service for access to the system (or cancellation) and submits an annex filled in accordance with the relevant rights. Levels of admission to authorization on accounting and payment documents differ by the functions of employees, in terms of authorizing, recording / editing, examining, etc. Once an individual has been approved training on the system is provided.

197. Access to the Treasury Electronic System is of three types:

- Entering data / preparing document in electronic form;
- Confirmation after the electronic document has been filled out;
- Submission of the electronic document to the State Treasury Service.

198. The management of admissions of authorized persons at all stages of the payments process is carried out through the electronic passport for the respective module. The module includes the personal number, name and surname, place of work, position, and contact information of an authorized person. The municipality has designated duties by spending sections (social and related activities and all others grouped together) with administration by each of the two responsible persons within the Finance Department with the head of the Finance Department responsible for monitoring and final submission. Responsibility for procurement is separated between the municipality and the Procurement Agency which ensures segregation of procurement duties and oversight by the Procurement Agency. Score A.

25.2. Effectiveness of Expenditure Commitment Controls

199. Payments of the Municipality are processed through the E-Treasury System, within the quarterly allocation (PI-21.3) under the approved budget and are paid from the Treasury Single Account. Payment procedures in the E-Treasury System are determined by the Order №424 of December 31, 2014 of the Minister of Finance of Georgia on the approval of instruction about the rule of payments by organizations of the State Treasury Service, which is executed by all spending units (central and municipality)⁴⁷. The commitment control applies to all payments made from the Treasury Single Account. The annual spending plan broken down by quarter is reflected in the Treasury system from the Budget Planning and Assignments Management Module. Actual expenditures incurred must be in line with the approved budget allocations and cannot exceed the committed amounts and projected available cash resources. Score A.

25.3. Compliance with Payment Rules and Procedures

200. In order for the Municipality to make payments through the Treasury Electronic System, first of all, the contract is registered, and then the obligation is recorded, and then the payment is made. There is a three-level mechanism of authorization in the system, which consists of the following stages:

⁴⁷<https://matsne.gov.ge/ka/document/view/2665096>

- i) Creation of the document;
- ii) Document verification / validation; and
- iii) Submission of the document to the Treasury.

201. The system also provides a safe mechanism for authentication and signature confirmation, which prevents unauthorized access to the database.

202. Low risk payments that meet certain parameters are also automatically processed through a “Green Corridor”. These include utility bills and travel expenditures. Score A.

PI-26. Internal Audit

203. This indicator assesses the standards and procedures applied in internal audit. The time period for dimensions 26.1 and 26.2 is at time of assessment; for 26.3 the last completed fiscal year and for 26.4 audit reports used for the assessment should have been issued in last 3 fiscal years. Coverage is Subnational Government.

Indicator/Dimension	Minimum Requirements (Scoring Method M1 WL)	
	2018 Score	Brief Justification for Score
PI-26: Internal Audit	B+	
26.1 Coverage of internal audit	A	There is an Internal Audit Unit that covers the whole of the activities of Martvili Municipality.
26.2 Nature of audits and standards applied	B	Internal audit activities are focused on evaluations of the adequacy and effectiveness of internal controls, and they focus on high risk areas. Internal audit activities are guided by the Internal Audit Methodology and System Audit Manual/Instruction that complies with the International Professional Practices Framework issued by the Institute of Internal Auditors.
26.3 Implementation of internal audits and reporting	A	Annual audit programs exist, and they are monitored by the Center for Harmonization Unit at the Ministry of Finance. All of the programmed audits in 2017 were completed and their reports distributed to appropriate parties.
26.4 Response to internal audits	A	Data supplied by Management show that all of internal audit recommendations are implemented in a timely manner.

26.1. Coverage of Internal Audit

204. Under Article 4 of the Georgian law on State Internal Financial Control (Law of Georgia #5447 dated December 9, 2011), internal auditing for central government was established. In March 2012 the law on Internal

Financial Control was extended to Local Government and the General Inspection Units were converted to Internal Audit Units.

205. The Martvili Municipality Internal Audit Unit has 3 staff. It undertakes compliance and inspection audits focusing on controls on expenses. Internal audit covers the whole of the municipality's operation. Score A.

26.2. Nature of Audits and Standards Applied

206. Article 22 of the Georgian law on State Internal Financial Control, defines 5 types of internal audit engagements that includes: financial audit, compliance audit, system audit, performance audit and information technology audit. The law clearly defines the process of internal audit report preparation and its issuance to relevant parties. The main findings and recommendations are discussed with the auditee, whose view is expressed in the final internal audit report.

207. Georgia has a Center for Harmonization Unit (CHU) that became functional in 2010. The center is a department of the State Internal Control of the Ministry of Finance. Under Article 2 of the Georgian law on State Internal Financial Control, the center ensures the assessment, coordination and harmonization of internal audit, financial management and control systems amongst budgetary units. The Martvili Internal Audit Unit works closely with the CHU.

208. Internal audit is guided by the Internal Audit Methodology and System Audit Manual/Instruction in accordance with Article 19 of the Georgian law on State Internal Financial Control. The manual broadly covers system, compliance and financial audits. The manual for IT audit is planned to be developed by the end of FY 2018. Internal audit methodology complies with the International Professional Practices Framework (IPPF) issued by the Institute of Internal Auditors that ensures compliance with international standards for internal auditing, although amendments introduced for IPPF 2017 are not reflected. There is also a code of ethics adopted in accordance with Decree of Government of Georgia #1836 dated September 18, 2011 that all internal auditors should comply with. A draft performance audit manual has been prepared to be used by internal auditors. These manuals ensure that internal audit activities are focused on evaluations of the adequacy and effectiveness of internal controls and they focus on high risk areas.

209. The core principles and specific procedures for quality assurance are defined in the manual for the Internal Auditors, issued by CHU. The Municipality Internal Audit Unit has developed its own guidebook for its operations based on risk assessment and risk management. The Unit is supported with technical assistance from GIZ particularly on training on application of international standards. One of the major challenges is the high turnover of staff. Score B.

26.3. Implementation of Internal Audits and Reporting

210. In accordance with the requirements of international standards, all internal auditors in budgetary units, based on risk assessment and with consideration of the goals and mission of the institution, prepare strategic and annual plans and submit them to the Head of the Institution for approval. These annual audit plans are also

sent to the CHU at the Ministry of Finance and monitored. If a budgetary unit does not execute the annual audit plan, an explanation has to be provided to the institution's management and CHU.

211. The municipality Internal Audit Unit has an annual plan. In 2017 the annual plan, broken down by month, provided for 11 audits based on risk assessment and all were completed.

212. The PEFA Assessment team examined the 2017 Annual Report, a Report on the Public Health Center (which included payroll) and a Report on Urban Development and Architectural Department. This examination shows that the audit reports are well structured and cover all the relevant areas such as cause of audit, who involved, audit procedures, risk assessment, interviews, conclusions with recommendations and key findings.

213. Reports are provided to the mayor and to each inspected unit. Score A.

26.4. Response to Internal Audits

214. Article 24 of the Georgian law on State Internal Financial Control requires that an internal audit annual report that includes audit recommendations is presented to the head of the institution (auditee) by the end of January of the following year. This report is also sent to the CHU at the Ministry of Finance. The auditee thereafter provides the head of the institution with a report on the status of the execution of recommendations issued by internal audit.

215. The Internal Audit Department employs the follow process:

- After an investigation a draft of the report is provided with recommendations to the inspected unit with a time line for implementation. The inspected unit can respond in terms of agreement/disagreement.
- A Final report is then issued with recommendations taking into account response of the inspected unit.
- The report is reviewed by the mayor.
- A follow up check is carried out to assess implementation of recommendations each month and if there is no progress a report is sent to the mayor after three months.
- If a subsequent audit is conducted in the future, a report on implementation of previous recommendations is included.

216. Data supplied by the Internal Audit Unit on implementation of recommendations are as follows:

TABLE 26.4 MARTVILI INTERNAL AUDIT INFORMATION

	2015	2016	2017
Number of Audits Carried out	9	10	11
Number of Recommendations	32	37	26
Number implemented completely	30	34	23
Number implemented but ongoing	2	3	3
Number ignored	0	0	0

Source: Martvili Internal Audit Unit

217. Score A.

PILLAR SIX: Accounting and Reporting

PI-27. Financial Data Integrity

218. 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 four dimensions and uses the M2 (AV) method for aggregating dimension scores. The time period for dimensions 27.1, 27.2 and 27.3 is at time of assessment covering the preceding fiscal year and for 27.4 at time of assessment. Coverage for 27.1 is Subnational Government and Budgetary Subnational Government for 27.2, 27.3 and 27.4.

Indicator/Dimension	Minimum Requirements (Scoring Method M2 AV)	
	2018 Score	Brief Justification for Score
PI-27: Financial data integrity	A	
27.1 Bank account reconciliation	A	The Finance Department of the Municipality is able to access on a daily basis all its balances with the TSA sub-accounts and other bank accounts in the National Bank of Georgia.
27.2 Suspense accounts	NA	There are no expenditure suspense accounts operated by the Municipality.
27.3 Advance accounts	A	Reconciliation of advance accounts takes place monthly (within 20 days after the end of each month). All advance accounts are cleared in a timely manner.
27.4 Financial data integrity processes	A	Access and changes to records is restricted and recorded, and results in an audit trail. Financial data integrity is done by Treasury, which reviews financial information from budgetary units and its IT department monitors unauthorized systems access. Internal auditors and the State Audit Office also conduct audits to verify financial data integrity.

27.1. Bank Account Reconciliation

219. The Municipality Finance Department is able to access on a daily basis all its balances with the TSA sub-accounts and other bank accounts in the National Bank of Georgia. TSA is maintained in Lari, the national currency of Georgia. Account turnovers and daily account balances are monitored through the Real-Time Gross

Settlement System (RTGS). The RTGS is fully automated. It works in online regime and data transfers are instant. Score A.

27.2 Suspense Accounts

220. The municipality has no suspense accounts. All expenditures are allocated to an appropriate code in the PFMIS. Score NA.

27.3. Advance Accounts

221. Advance payments to vendors under public procurement contracts are allowed in accordance with terms and conditions agreed in each contract. Article 3 of the Payment Instructions issued under Order №424 of December 31, 2014 of the Minister of Finance of Georgia to all budgetary units, states that advance payments should be made against contracts registered and commitments created in the Treasury system via bank transfers (implying that no cash payments are allowed). These advances are made against bank guarantee and clearing timelines are in accordance with contractual arrangements. Bank guarantee date is entered into the Treasury system and monitored. In situations where the expiry date of the bank guarantee matures and agreed services and goods are not delivered, or expiry date is not extended accordingly, no further payments are allowed under the registered contract and advances are recovered where necessary, against the bank guarantees.

222. Travel payments are covered under a pay and claim scheme rather than per diems or advances.

223. A report on all advance payments is automatically generated by the Finance Department. The report is detailed and includes information on organization's name, employee's name advance request numbers, advance amount, due date and date when it was actually cleared. Score A.

27.4. Financial Data Integrity Processes

224. 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 TSA provide information on who accessed the data, who initiated the transaction, who approved 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.

225. The head of financial services in the municipality has overall responsibility for the process of ensuring financial integrity. Checks are conducted regularly. In addition, financial data integrity is carried out by the State Treasury and it reviews the financial data from budgetary organizations, including all municipalities. The Treasury's Service Department reviews financial data integrity on a daily basis related to budgetary units, including municipalities. The IT department monitors unauthorized accounting system access. Internal auditors and State Audit Office (SAO) conduct audits to verify accuracy and completeness of financial data. Score A.

PI-28. In-Year Budget Reports

226. This indicator assesses the comprehensiveness, accuracy and timeliness of information on budget execution. The time period is last completed fiscal year. Coverage is Budgetary Subnational Government.

Indicator/Dimension	Minimum Requirements (Scoring Method M1 WL)	
	2018 Score	Brief justification for score
PI-28: In-year budget reports	B+	
28.1 Coverage and comparability of reports	A	Coverage and classification of data allows direct comparison to the original budget. Information includes all municipality expenditure and revenues.
28.2 Timing of in-year budget reports	A	Consolidated budget execution reports are prepared monthly. Quarterly reports are issued to the Sakrebulo and are published.
28.3 Accuracy of in-year budget reports	B	There are no material concerns regarding data accuracy. Information on expenditure is covered at the payment stage in the e-Treasury system.

28.1. Coverage and Comparability of Reports

227. The classification in the e-Budget system is based on GFSM 2001. The e-Budget system has since January 1, 2015, been integrated to e-Treasury system where budgeted expenditure is captured and accounted for. These integrated systems enable the consolidation and preparation of in-year monthly, quarterly and annual reports.

228. The coverage and classification of the data in the monthly reports are on the same basis of the budget and covers all municipality revenue and expenditure including N(N)LEs expenditure made through the TSA. Score A.

28.2. Timing of In-Year Budget Reports

229. Budget execution reports are prepared monthly within 14 days after the end of the month. Quarterly reports are prepared within one month after the end of the quarter and are issued to the Sakrebulo in accordance with Budget Code (Articles 84 and 85). Score A.

28.3. Accuracy of In-Year Budget Reports

230. Monthly and quarterly budget execution reports are based on TSA reports. Quarterly reports provide an analysis of budget execution against budget. There are no material concerns regarding data accuracy of the monthly and quarterly budget execution reports. In addition, the information in the quarterly budget execution reports form the basis of the annual execution report of the Municipality which is reviewed and approved by the Sakrebulo. Information on expenditure in the budget execution reports is covered just at payment stages in the e-Treasury system, although the system has the capacity to include commitments⁴⁸. Score B.

⁴⁸ Up to 2016 commitments were included in the monthly reports but were discontinued at the request of the Sakrebulo to simplify the reports

PI-29. Annual Financial Reports

231. This indicator assesses the extent to which annual financial statements are complete, timely and consistent with generally accepted accounting principles and standards. The time period is last completed fiscal year. Coverage is Budgetary Subnational Government.

Indicator/Dimension	Minimum Requirements (Scoring Method M1 WL)	
	2018 Score	Brief Justification for Score
PI-29: Annual financial reports	D+	
29.1 Completeness of annual financial reports	C	The financial reports for the Municipality are prepared annually and are comparable with the approved budget. They contain full information on revenue, expenditure, financial and tangible assets, liabilities, guarantees and long-term obligations. However, these reports are not consolidated for the whole of the municipality's operations.
29.2 Submission of reports for external audit	D	Auditing by the State Audit Office is not mandatory on an annual basis. Audit of reports is carried out on a periodic basis by the SAO based on its annual work program determined by risk assessment criteria and coverage. The score is in line with the PEFA guidance even though the legal timeframe for their completion is met.
29.3 Accounting standards	C	Municipalities are required to prepare financial statements that comply with the national standards established by the Ministry of Finance.

29.1. Completeness of Annual Financial Reports

232. For the Municipality, the preparation and submission of financial statements are regulated by instructions on the Accounting of Budgetary Organizations approved by the Order №1321 of the Minister of Finance of Georgia on December 24, 2007 and by the Order #364 of the Minister of Finance of Georgia issued on April 16, 2008 approving Financial Reporting Templates for Budgetary Organizations and by Articles 86 and 87 of the Budget Code of Georgia.

233. There are two annual reports. A Budget Execution Report has to be prepared by two months after the end of the fiscal year. The Budget Execution Report is submitted to the Sakrebulo for review and approval. The report contains the following information in accordance with Article 87:

- a) Balance Sheet of the Budget by budget classifiers;
- b) Comparison of actual budget revenues and expenditures by budget classifiers with projections of the respective period;
- c) Opening and closing balances kept at the budget accounts;
- d) Clarifications on the inconsistencies between the adjusted budget allocations and actual spending by programs, if such inconsistencies exceed 30%;

- e) Information on the budget allocations from the Reserve Funds for Stock of Arrears Arising in Previous Years and Funds for Execution of Court Rulings (if applicable);
- f) Description and results attained by Budgetary Organizations through programs/sub-programs carried out within the priorities set within their Annual Budgets; and
- g) Annual indicators of budget execution of LEPLs or N(N)LEs.

234. Financial statements of the municipality are prepared annually by the Finance Department, within four months of the end of the fiscal year. The financial statements are compared with the approved budget. They contain full information on revenue, expenditure, financial and tangible assets, liabilities, guarantees and long-term obligations of Martvili Municipality Hall only. Information is not consolidated for the municipality.

235. Both the Financial Statement and the Annual Execution Report have been prepared within the legal timeframe in each of the previous fiscal years. Score C.

29.2 Submission of Reports for External Audit

236. Auditing by the State Audit Office is not mandatory on an annual basis. There is no requirement for the municipality's annual reports (both financial statements and execution reports) to be submitted for audit by law. The Budget Code states that "Audit Opinion on the budget of the Local self-government body and Annual Report on Budget Execution are categorized as public documents and made available to general public under the rules defined in the legislation of Georgia"⁴⁹. Audit of reports is carried out on a periodic basis by the SAO based on its annual work program determined by risk assessment criteria and coverage. If the municipality is selected for audit the SAO will request the financial statements and plan field visits for the inspection and audit. In line with the PEFA guidance in scoring, this dimension is scored as a D due to the lack of regular SAO auditing, even though the legal timeframe for their completion and submission to the relevant body in the municipality was met in each of the last 3 years.⁵⁰ Score D.

29.3. Accounting Standards

237. Municipalities are required to prepare financial statements that comply with the national standards established by the Ministry of Finance rather than current international standards. Currently the national standards are based on IPSAS (accrual basis) in accordance with the instructions on the Accounting of Budgetary Organizations approved by the Order №1321 of the Minister of Finance of Georgia on December 24, 2007 and by the Order #364 of the Minister of Finance of Georgia issued on April 16, 2008 approving Financial Reporting Templates for Budgetary Organizations as amended with improvements in coverage of IPSAS standards at that time. The standards are not disclosed in specific financial statements but these standards (Orders of the Minister of Finance #1321 and #364) are publicly available and are considered to be disclosed. Score C.

⁴⁹ Article 88.2

⁵⁰ To Mayor (Financial Statements by 30 April) and to Sakrebulo (Budget Execution Report by 28 February)

PILLAR SEVEN: External Scrutiny and Audit

PI-30. External Audit

238. This indicator examines the characteristics of external audit. The time period is last three completed fiscal year for dimensions 1, 2 and 3. Dimension 4 is at the time of the assessment. Coverage is Subnational Government. Dimension 1 is centered on the operations of the Supreme Audit Organization: the coverage of the audits and how the SAO conducts its operations and dimension 4 assesses its independence. Dimension 2 examines the process and procedures once the SAO completes its audits. Dimension 3 assesses how organizations respond to recommendations made in the audit reports.

Indicator/Dimension	Minimum Requirements (Scoring Method M1 WL)	
	2018 Score	Brief Justification for Score
PI-30: External audit	D+	
30.1 Audit coverage and standards	D	The financial statements of the Municipality include revenue, expenditure, assets and liabilities. They are audited using International Standards of Supreme Audit Institutions (ISSAI) in accordance with Article 26 of the Law of Georgia on State Audit Office. Audit coverage in financial year of 2016 was the full audit of the municipality hall. The audits highlighted relevant material issues and systemic and control risks. Only 35.7% of the three years expenditure was audited.
30.2 Submission of audit reports to the legislature	D	There is no mandatory requirement by law for the financial statements or the budget execution report of a municipality to be audited on an annual basis. Audits are carried out by the SAO based on its work program as determined by risk assessment but also to ensure that municipalities are audited as frequently as feasible. They are submitted to the Parliament rather than the Sakrebulo.
30.3 External audit follow-up	C	In line with the Article 24 of the Law of Georgia on the State Audit Office, audit recommendations for budgetary units are followed up, monitored once every six months and annually reported on by the State Audit Office. The implementation rate for Martvili was 20% for the past three years.
30.4 Supreme Audit Institution independence	A	The State Audit Office is independent from the executive with respect to procedures for appointment and removal of the Auditor General, the planning of audit engagements, arrangements for publicizing reports, and the approval and execution of the SAO's budget. The SAO has unrestricted and timely access to records, documentation and information from auditees (budgetary units). The independence of the SAO is assured by the Constitution of Georgia and the Law of Georgia on State Audit Office.

30.1. Audit Coverage and Standards

239. Audits carried out by the SAO follow International Standards of Supreme Audit Institutions (ISSAI) in accordance with Article 26 of the Law of Georgia on State Audit Office. Financial and compliance audits are conducted in accordance with Financial Audit Guidelines (ISSAI 1000-2999) and Compliance Audit Guidelines (ISSAI 4000-4200) that use a risk based approach. The State Audit Office also has a Quality Assurance department that has been functional since 2011. The department ensures compliance with the ISSAI under ISSAI 40 on Quality Control for Supreme Audit Institutions, ISSAI 1220 on Quality Control for an Audit of Financial Statements, and International Standards of Quality Control (ISQC 1). The State Audit Office has a Strategic Plan for 2018-2022 that drive its reform agenda as well as its audit plans. The strategy includes an assessment of compliance with ISSAI. There is also an annual audit plan based on the strategic plan. The SAO has also an on-going staff development program through its own Academy which certified all auditors who are then qualified to conduct audits on organizations in the public sector.

240. Audits are carried out by the SAO based on its work program as determined by its risk assessment but also to ensure that municipalities are audited as frequently as feasible. A target is that each municipality should be audited once every three years, but depending on risk factors this may be more frequent. An ad hoc audit outside of the risk assessment could be carried out as a result of an external request such as from a municipality mayor or even a member of the public. A financial audit for Martvili's Municipality Hall was carried out in 2016 and a compliance audit in covering two fiscal years together (2014 and 2015).

241. The number of audits on Martvili municipality conducted over fiscal years 2015-2017 is shown in the table below.

TABLE 30.1 MARTVILI MUNICIPALITY EXTERNAL AUDITS

Audit Type	2015	2016	2017
Financial Audit	-	1	-
Compliance Audit	1	-	-
Total	1	1	0

Source: State Audit Office

242. Over the 2015 to 2017 period some 35.7% of Martvili Municipality finance was subjected to external audit of its financial statement. Score D.

30.2. Submission of Audit Reports to the Legislature

243. There is no mandatory requirement by law for the financial statements or the budget execution report of a municipality to be audited on an annual basis. When an audit has been completed, a draft is submitted to the mand the Sakrebulo (copied to the regional Governor for information) with a request for dissemination. One week is allowed for comments from the municipality which is then followed by discussions between the stakeholders in the municipality and the SAO. The Sakrebulo Budget and Finance Commission only addresses recommendations that relate to the Sakrebulo's operations as a spending unit not as review body. Once the

report is agreed with the Mayor, the municipality has 30 days to deliver an action plan detailing who is responsible for its implementation and a timetable.

244. Once a audit report has been completed in this way it is eventually submitted to the Georgian State Parliament by Statute but not the municipality Sakrebulo. Evidence from the SAO shows that recent compliance audits did go to the Martvili municipality (Mayor’s Office) but the financial audit did not.

245. There are 25 auditors⁵¹ located in Kutaisi that cover all the 62 municipalities in Georgia excluding Adjara which has an SAO office in Batumi that covers the 5 municipalities in Adjara. Audits typically take some 3 months to complete with a further month for follow up and agreeing the report and its recommendations. The Kutaisi office carries out some 30 audits annually. Given the staffing and number of audits required to carry out, it would not be feasible to audit all municipalities annually.

246. Given this situation this dimension is scored D as the PEFA scoring of the dimension does not consider submission of audit reports on subnational governments to the central government’s legislature as the relevant assessment consideration, even if the audit is performed by the national SAO. If the audit reports are only submitted to the central government’s legislature, the dimension has to be scored D.

30.3. External Audit Follow-Up

247. External follow up in accordance with Article 24 of the Law of Georgia on the State Audit Office. The SAO monitors the implementation of the recommendations in the agreed action plan once every six months and continues over a three year period. It thereafter classifies the recommendations as unfulfilled. According to the SAO's practice to audit 2 or more fiscal years in one audit, findings and recommendations connect to all audited years.

TABLE 30.3 MARTVILI IMPLEMENTED EXTERNAL AUDIT RECOMMENDATION

Number of Findings	Number of Recommendations	Implemented Recommendations	Recommendations implemented %
64	13	7	54%
Of which on Financial Statement Audit	5	1	20%

Source: State Audit Office

248. Over the past three years the implementation rates of recommendation relating to financial statements for Martvili is 20% but the timeframe for responses to be completed is not yet beyond the three year period for implementing recommendations. Score C.

⁵¹ With support staff in the main SAO office in Martvili.

30.4. Supreme Audit Institution Independence

249. The SAO is independent as stipulated under Article 97 (2) of the Constitution of Georgia. The SAO has operational, financial, functional and organizational independence in accordance with Article 3 of the Law of Georgia on State Audit Office. The Auditor General is appointed⁵² for a term of 5 years by Parliament after being nominated by the Chairperson of the Parliament and winning a majority vote by Members of Parliament from a list of nominated candidates. The Auditor General may be removed through impeachment by the Parliament of Georgia, in accordance with Article 64 of the Constitution of Georgia. The Auditor General can appoint or dismiss employees of the SAO⁵³.

250. The Law of Georgia on the SAO ensures that it operates independently from the executive with respect to the planning of audit engagements⁵⁴; arrangements for publicizing reports⁵⁵; and the approval and execution of the SAO’s budget⁵⁶. The SAO also has unrestricted and timely access to records, documentation and information⁵⁷. Score A.

PI-31. Legislative Scrutiny of Audit Reports

251. This indicator focuses on legislative scrutiny of the audited financial reports of Subnational 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. The time period is last three completed fiscal year. Coverage is Subnational Government.

252. Legislative scrutiny of municipality audit reports is carried out by the Georgian Parliament’s Finance and Budget Commission but not by the Sakrebulo or its Commissions. Recent audit reports considered by Parliament did not include any reports on Martvili municipality. In any case this indicator assesses the extent to which a subnational legislature scrutinizes external audit reports. This has to be undertaken at subnational level. If audit reports are only scrutinized by the national legislature or a higher-level of government legislature, this is not relevant. The SN PEFA Field Guide instructs ‘(i)f audit reports on government financial reports are not submitted to the legislature and the legislature has not undertaken the scrutiny of audit reports, the score is D on every dimension of this indicator’.

Indicator/Dimension	Minimum Requirements (Scoring Method M2 AV)	
	2018 Score	Brief Justification for Score
PI-31: Legislative scrutiny of audit reports	D	
31.1 Timing of audit report scrutiny	D	The Sakrebulo has not undertaken the scrutiny of audit reports.

⁵² Article 9 paragraph 1 of the Law of Georgia on State Audit Office, Auditor General.

⁵³ Article 10 paragraph d of the Law of Georgia on State Audit Office, Authority of the Auditor General.

⁵⁴ Article 17 paragraph 3 of the Law of Georgia on State Audit Office, Audit Authority of the State Audit Office.

⁵⁵ Article 25 of the Law of Georgia on State Audit Office, International Standards on Auditing.

⁵⁶ Article 34 of the Law of Georgia on State Audit Office, Funding of the State Audit Office.

⁵⁷ Article 23 paragraph 2 and 3 of the Law of Georgia on State Audit Office, Rights and responsibilities of an auditee.

Indicator/Dimension	Minimum Requirements (Scoring Method M2 AV)	
	2018 Score	Brief Justification for Score
31.2 Hearing of audit findings	D	The Sakrebulo has not undertaken the scrutiny of audit reports.
31.3 Recommendations on audit by the legislature	D	The Sakrebulo has not undertaken the scrutiny of audit reports.
31.4 Transparency of legislative scrutiny of audit reports	D	The Sakrebulo has not undertaken the scrutiny of audit reports.

31.1. Timing of Audit Report Scrutiny

253. There were no audit reports on Martvili submitted to the Sakrebulo. Score D.

31.2. Hearing on Audit Findings

254. There were no audit reports on Martvili submitted to the Sakrebulo. Score D.

31.3. Recommendations on Audit by the Legislature

255. There were no audit reports on Martvili submitted to the Sakrebulo. Score D.

31.4. Transparency of Legislative Scrutiny of Audit Reports

256. This dimension assesses the extent to which a subnational legislature scrutinizes external audit reports. Even though hearings are conducted at the Parliament in public⁵⁸, except for national security or similar sensitive discussions the hearings for municipalities are not conducted at the Sakrebulo for Martvili audit reports. While the Finance and Budget committee provides its reports to the full chamber of Parliament and its reports are published on Parliament's official website, <https://info.parliament.ge/#law-drafting>, this is not applicable to the municipality. Scrutiny has to be undertaken at subnational level. If audit reports are only scrutinized by the national legislature or a higher-level of government legislature, the score is D.

⁵⁸ The hearings are broadcasted live on Parliament's website and television. Audio recordings of the sessions are uploaded on the website and some on YouTube.

4. Conclusions of the Analysis of PFM Systems

4.1 Integrated Assessment Across the Performance Indicators

Budget Reliability

257. Budget reliability in the municipality context depends for the most part on the reliability of grants received from the national government. This indicator scored A in terms of total grants and A on timely distribution but with further weakness on targeted grants (Score D) a small element of the grants total. The challenges in producing accurate total revenue projections have not been met in recent years; revenue actuals (Score D) but with composition scoring D. As a result, the aggregate expenditure side of the budget has scored D+, with the expenditure composition both by administrative type and by economic type also both scoring D. This overall result has been achieved in the context of strengths in virement (Score A) but supplementary budgets are frequent and significant (Score D). Nevertheless, 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) taking into account quarterly adjustments. There are no arrears (Score A) which reflects the strong commitment control.

Transparency of Public Finances

258. Georgia has an impressive array of information regarding the finances of the budgetary central government and this is replicated in the municipality. 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. The budget documents include all the basic, but only one of the supplementary information, required to support a transparent budget process (Score B). This could be improved further by including information on financial assets and financial implications of new policy initiatives as well as debt.

259. 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 sectors is not present.

260. Public access to fiscal information is strong (Score B) with most of required elements made available, but a citizens' (summary) budget is lacking.

Management of Assets and Liabilities

261. A comprehensive and inclusive process is lacking in managing the public investment program. Economic analysis is not conducted for the municipality's own financed projects (Score D) and project and costing just meet the basic requirements (Score C). However, these have to be considered in terms of the size of the municipality's investment portfolio and may well be appropriate. Monitoring of investment

implementation is rated higher at Score B. Debt management is commensurate with need (Score A), but a debt management strategy (Score D) is delegated to the lender.

Policy-Based Fiscal Strategy and Budgeting

262. The main area of weakness is to be found with respect to progress towards a comprehensive medium-term expenditure framework based on a program budgeting for results approach. There is a detailed budget calendar (Score C) but its effectiveness is hindered by the timing of information on grants and the absence of internal municipality forecasts. These aspects ensure that budgetary units do not prepare their budgets with consideration of ceilings. A medium-term approach is not taken to expenditure budgeting. Indeed, the budget is presented for the up-coming year only with no focus on determining medium term expenditures aligned to even the basic of strategic plans and medium-term budgets. Improvements can be achieved by rolling over expenditures into the medium term to focus on ongoing policy. However, this is difficult given the uncertainty of revenue planning which needs to be resolved first. The legislature has adequate time to carry out its scrutiny function. Fiscal strategy needs improvement (Score D+) with respect to fiscal impact of policy proposals (Score D), adoption of fiscal strategy (Score C) and reporting on fiscal outcomes (Score C).

Predictability and Control in Budget Execution

263. Revenue administration is carried out by the Georgia Revenue Services. A revenue report is prepared monthly for the Municipality management (Score A) and transfers and reconciliations are carried out daily (Score A).

264. The Municipality works in conjunction with the Georgian Treasury, which based on its cash inflows and outflows forecasts, deposits 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). The municipality prepares 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).

265. Payroll controls are sound (Score B+). 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).

266. All government contracts are procured through 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. Eighty-eight per cent of 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. The Chairman of State Procurement Agency is at the same time Chairman of the dispute review board, with prevailing vote (Score D).

267. 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 (Score B+). 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. 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. Management implemented all internal audit recommendations made over fiscal years 2014-2016 (Score A).

Accounting and Reporting

268. Accounts reconciliation and financial data integrity are areas of strengths. 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 (Score NA). Advances are reconciled in a timely manner (Score A). Data integrity is strong (Score A) as access and changes to records is restricted and recorded, and this results in a sufficient audit trail.

269. 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 as 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).

270. The situation with respect to the annual financial reports is mixed (overall Score D+). The consolidated budget execution reports for budgetary units is prepared annually and are comparable with the approved budgets. 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 Municipality 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). The municipality applies the current national accounting standards for its financial statements (Score C).

External Scrutiny and Audit

271. While external audit standards are an area of significant strength, annual audit coverage is not mandatory. The timing of audits takes place at least once every three years and is dependent on risk analysis and the State Audit Office's work program given its resources (Score D). The audits highlighted relevant

material issues and systemic and control risks. Audit recommendations for the municipality are followed up and monitored (Score C). The independence of the SAO is assured by the Constitution of Georgia and the Law of Georgia on State Audit Office (Score A).

272. 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.

4.2 Effectiveness of the Internal Control Framework

273. 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; accountability for results; compliance with applicable laws and regulations; and safeguarding of resources against loss, misuse and damage.

274. The internal control environment, as set out in Annex 2, is generally sound. The scores in related indicators and dimensions reinforce that controls associated with the day-to-day transaction of the budgetary central 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.

275. 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.

276. 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.

277. 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.

278. 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.

279. In addition to these controls on financial transactions, the budget execution reporting system provides information on performance albeit limited in the case of Martvili relating to service delivery as these are not initially specified in detail. Improvement here would enhance the overall control environment but would require setting indicators to be monitored.

4.3 Strengths and Weaknesses of PFM

280. Technology in budget preparation, budget execution (accounts, commitment control, and cash management), personnel and payroll, revenue services, and procurement. 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. This applies even to the smallest of municipalities such as Martvili. 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.

Aggregate Fiscal Discipline

281. While strong revenue administration ensures that revenues are efficiently collected, aggregate fiscal discipline is impeded by the information on grants and their transfer during the year. The planned budget is circumvented by numerous supplementary budgets. 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 but strong external audit function enhances fiscal discipline. Internal audit is regular and is effective. Sakrebulo scrutiny could provide a further effective prop to fiscal discipline, but it is lacking.

Strategic Allocation of Resources

282. The Chart of Accounts caters to a multi-dimensional analysis of expenditure. There is no medium-term perspective in expenditure budgeting and strategic plans which impede a strategic allocation of resources aligned to the municipality's priorities. Better management of investment would improve the strategic allocation of resources as it would ensure that recurrent cost implication of investment is better factored into the budget process and investments are also selected to generate the best return.

Efficient use of Resources for Service Delivery

283. 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 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, weaknesses in the production of consolidated annual financial statements limit the impact of audits which in turn limits the effectiveness of oversight. These are offset, however, by the strength of the annual budget execution reports. This is limited, however, in terms of information on the initial specification and subsequent realization of annual targets for outputs and objectives. The lack of the Sakrebulo's involvement in external audit reports misses the opportunity for the municipality to formally scrutinize them. The activities of the municipality's internal audit unit also contribute to ensuring service delivery in this regard.

5. Government PFM Reform Process

5.1 Approach to PFM Reforms

284. The history of PFM reform in Georgia is well documented in the publication Public Finance Management Reform in Georgia⁵⁹ as well as Public Finance of Georgia Management Reform Strategy 2014-2017. The former of these reports notes “that since 2007 impressive progress has been made and many innovative components have been developed at the Revenue Service; Important reforms were implemented at the Treasury Service; Treasury Single Account was extended, which now includes local governments and all public entities; Also, web-based Public Finance Management Information System (PFMIS) was launched, which is one of the achievements of the PFM reforms in the country, as it was mainly developed in-house. Over the last 10 years 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 the establishment, the Academy of the Ministry of Finance has been developed into the key provider of training related to the PFM reforms and initiatives; Reform includes new approaches in the instruments and practices of Parliamentary Scrutiny of the PFM system. Importance of independent fiscal institutions and role of the Budget Office of the parliament is also understood and remains in the agenda of the PFM reform. The achievements in Public Procurement are impressive. The reform in this sector has evolved steadily. The law on State Procurement was modified considerably and made compatible with EU legislation and international good practice.”

285. PFM reform in Georgia has delivered and continues to deliver tangible results, such as: good progress in ensuring transparency of public finance in line with international standards; fiscal discipline and fiscal rules; sound program based budgeting system for all levels of the General Government are strengthened and has deepened inter-governmental fiscal relations; well-structured and fully integrated in-house developed electronic system (ePFMS) for Budgeting, Treasury and other related areas; impressive tax policy reform and sound tools for macroeconomic and fiscal analysis.

286. In recent years, the Ministry of Finance has developed the capabilities to assess the aggregated fiscal risk enterprises and as such, it improved its financial oversight of the public sector.

287. Public Financial Management reform has been at the level of systems such as the TSA and, Consolidation of Accounts, Payroll, Internal and External Audit as well as Program Budgeting. All of these have been implemented using the internet and software such as the Public Financial Management Information System.

288. In terms of decentralization number of reforms and initiatives were implemented. Development of the system of local self- government started in 1991 and was legally formalized in 1997 by adopting the Organic Law on Local Self-Government and Government. By 2007 progress in administrative, political and fiscal decentralization was underway, and therefore the PEFA 2007 gave a score B to indicator 8 “transparency of inter-governmental fiscal relations”. However, there were still serious weaknesses, such as lack of political will to put

⁵⁹ This publication has been produced with the assistance of the European Union. Its contents are the sole responsibility of Louis Berger in association with PMCG, SAFEGE and BDO and can in no way be taken to reflect the views of the European Union. [Georgia PFM reform](#)

decentralization and local self-government into practice, as well as absence of clear fiscal regulations and procedures and capacity problems at local level.

289. The Law on the Budgets of Local Self-government Unit (2006) was replaced by the new Budget Code of 2009, unifying the budget process and procedures for all layers of government, and stating that:

- Each local self-government body has its own independent budget.
- Independence of the local self-government bodies in budgetary matters is safeguarded by: (i) own revenues and (ii) earmarked transfers from the Central Government for implementation of authorities delegated to the SNG and special transfers, which are mostly targeted towards investments in infrastructure.
- Central and Autonomous Republic authorities cannot interfere in the budgetary powers of the SNGs.

290. According to the Budget Code, own revenues of the budgets of SNG include local taxes and duties, equalisation transfers and other revenues as provided by the legislation of Georgia to the local self-government bodies. In other words, equalisation transfers are not earmarked and the SNG can spend the funds under their own responsibility; they are granted “with the purpose of implementation of exclusive rights” and are allocated according to a specific formula. Basic principles of formula are defined by the Budget Code. The formula for calculation of the equalisation transfers is defined in detail by the Order of the Minister of Finance #904, dated 30 December 2009. The formula calculates equalisation transfers based on the trend of the own revenues of the municipalities and projections of expenditure based on different coefficients related to the population, demography and geographical location.

291. The Budget Code of 2009 also specifies the budget calendar, system and budget process for SNG units. In fact, the calendar, system and process for SNG resemble the one for the Central Government, though the dates in the calendar differ. In particular, the two-staged budget process of Central Government is also to be applied by SNGs: the first stage is the preparation of the Municipal Priority Document (the pre-Budget statement, like also the BDD) and the second stage is the preparation of the SNG budget.

292. Programme budgeting for SNGs was formalized in the 2011 by the amendment of Budget Code and was fully implemented starting from 2013.

293. In order to improve the accuracy of local budget operations another major reform was the extension of the e-Treasury system to include all the local government and public entities budgets. As well as the budget planning on local level is done through the e-Budget. As will be dealt with also in Chapter 6.24, this was implemented for SNG budgets in 2015-2016.

294. 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.

295. All of these reforms have taken place at the municipality level as well as the central government level. However, as the evidence of this PEFA assessment has shown, not all have been fully implemented at the

municipality level nor have they been fully extended to municipalities. With respect to this first observation, Martvili has not embraced a forward perspective to its budget preparation beyond the upcoming budget year and does not establish performance indicators to measure achievements. With respect to the second observations, it is clear that best practice has not been extended to municipalities as in the case of the Budget Office of Parliament which is still responsible for scrutiny of audit reports on municipalities even though best practice indicates that this should be carried out at the individual Sakrebulo.

5.2 Recent and On-Going Reform Actions

296. The Public Sector Financial Management Reform Action Plan 2017 sets out a costed plan with targeted results covering the following areas which show the ongoing nature of the reforms and their deepening nature: Improvement of Budget Management; Taxation Policy and Custom Issues; Macroeconomic Forecasting and Analysis; Public Debt Management; Accounting and Reporting; Public internal control over financial reform; Informational Technologies and Resource Management. These reforms are applied, where relevant, to municipalities as they cover both the central government and subnational government. As shown through this report what is common to central and subnational governments in terms of systems, processes and procedures are covered in the same reform package; what may be different is the level of implementation particularly at the individual municipality which may require training (Pillars III and IV). However, in terms of budget execution – Pillars V and VI where the IT system is common to all levels of government there is little or no difference in applying the reforms.

297. The IMF FAD Fiscal Transparency Evaluation⁶⁰ has also presented an action plan agreed with Government covering the 2017 -2020 period with a focus on fiscal reports, reporting and control of tax expenditures; improvement in budget comprehensiveness; strengthening credibility of fiscal objectives; improved credibility of macroeconomic forecasts and MTBF; long term fiscal sustainability analysis; criteria for drawing on budget contingency funds; reporting on and control of contingent liabilities and reporting on sub national governments.

298. All of the above indicates the ongoing commitment to reform in terms of its continuation and deepening across the whole range of the PFM cycle building on achievements and success to date. Reform is seen as an ongoing rather than a one-off activity.

5.3 Institutional Considerations

299. The PFM reform program has been driven by successive Governments and its institutions such as the Ministry of Finance and its many implementing departments – budget, treasury, accounts, debt, and revenue - but also State Audit, the Procurement agency as well as the Parliament. The building block of electronic processes (e-government) has ensured that there are linkages between all of the different actors to provide information and control. The reform process is transparent fulfilling a desire for Georgia to be modern and viable State and its longevity has helped to reinforce its sustainability. With respect to municipalities, the drive for reform comes from the center. Individual municipalities implementation of the reforms may well differ as noted above.

⁶⁰ September 2017

Annex 1: Performance Indicator Summary

Indicator/Dimension	Score	Explanation
HLG-1: Transfers from a higher level of government	D+	
HLG-1.1. Outturn of transfers from higher-level government	A	In 2015 the deviation of actual grants from the original budgeted grants was 183%, in 2016 it was 169% and in 2017 it was 162%.
HLG-1.2. Earmarked grants outturn	D	Difference between the original budget estimate and actual earmarked grants was greater than 10 percent in two of the last three years.
HLG-1.3. Timeliness of transfers from higher-level government	A	Actual transfers have been distributed evenly across the year in each of the last three years.
PI-1 Aggregate expenditure outturn	D	
1.1 Aggregate expenditure outturn	D	In all of the 3 years the deviation was greater than 50%.
PI-2 Expenditure composition outturn	D+	
2.1 Expenditure composition outturn by function	D	In all of the 3 years the deviation greater than 50%.
2.2 Expenditure composition outturn by economic type	D	In all of the 3 years the deviation was greater than 50%.
2.3 Expenditure from contingency reserves	A	Actual expenditure charged to the contingency fund vote 0% in all three years and was less than 0.1% in the budget.
PI-3 Revenue outturn	D	
3.1 Aggregate revenue outturn	D	Aggregate deviation was above 117% in all of the three years.
3.2 Revenue composition outturn	D	Variance in revenue collection was greater than 15 per cent in two of the three years. In 2015 24.8%, 28.9% in 2016, and 44.2% in 2017.
PI-4 Budget classification	A	
4.1 Budget classification	A	Budget formulation, execution, and reporting are based on every level of economic and functional classification (10 functions) using GFS/COFOG standards. Program classification is derived from the administrative classification in Georgia.
PI-5 Budget documentation	B	
5.1 Budget documentation	B	Budget documentation fulfills five out of the 10 applicable elements, including the four basic elements and one additional element.
PI-6 Subnational government operations outside financial reports	A	
6.1 Expenditure outside financial reports	A	All expenditures are included in financial reports.

Indicator/Dimension	Score	Explanation
6.2 Revenue outside financial reports	A	All revenues are included in financial reports.
6.3 Financial reports of extra-budgetary units	NA	There are no extra-budgetary units.
PI-7 Transfers to subnational governments	NA	
7.1 Systems for allocating transfers	NA	
7.2 Timeliness of information on transfers	NA	
PI-8 Performance information for service delivery	D+	
8.1 Performance plans for service delivery	D	There are no detailed performance plans relating to service delivery.
8.2 Performance achieved for service delivery	D	There is no reporting on performance achieved.
8.3 Resources received by service delivery units	A	Information on the resources received by the service providers at spending units is available at least annually.
8.4 Performance evaluation for service delivery	D	The Internal Audit Department carries out inspections related to controls on spending in relation to their operations. It does not focus on systems.
PI-9 Public access to fiscal information	B	
9.1 Public access to fiscal information	B	The Municipality provides access to 6 elements, including 4 of the 5 applicable basic elements of listed information.
PI-10 Fiscal risk management	NA	
10.1 Monitoring of public corporations	NA	There are no public corporations under the municipality.
10.2 Monitoring of subnational government (SNG)	NA	
10.3 Contingent liabilities and other fiscal risks	NA	
PI-11 Public investment management	C	
11.1 Economic analysis of investment proposals	D	Economic analyses have not been conducted to assess investment projects.
11.2 Investment project selection	C	Prior to their inclusion in the budget, the major investment projects are prioritized but not on the basis of standard criteria.
11.3 Investment project costing	C	For multi-year projects the total cost is known but only the cost in the budget year is included in the annual budget documentation. If a project has been completed within the budget year, the subsequent operating cost are also included in the budget as part of the spending unit's costs but not broken down by individual project.

Indicator/Dimension	Score	Explanation
11.4 Investment project monitoring	B	The monitoring of cost and physical progress of investment projects are outsourced and adequately monitored by the implementing unit. Information on implementation of projects is prepared quarterly and annually and reported to the Sakrebulo.
PI-12 Public asset management	B	
12.1 Financial asset monitoring	B	The municipality maintains a record of its holdings in all categories of financial assets, which are recognized at their acquisition cost and in rare cases at fair (market) value. Information on the performance of the major categories of financial assets is published annually.
12.2 Non-financial asset monitoring	D	The municipality maintains a register of its holdings of fixed assets, but it is not comprehensive, and collects partial information on their usage and age.
12.3 Transparency of asset disposal	A	Procedures and rules for the transfer or disposal of financial and nonfinancial assets are established. The Municipality Property Agency provides detailed information on every transaction. Detailed report each disposed asset is available to the public.
PI-13 Debt management	C+	
13.1 Recording and reporting of debt and guarantees	C	Records on debt are complete and accurate. Reconciliation is done annually.
13.2 Approval of debt and guarantees	A	Primary legislation grants authorization to borrow, issue new debt, and issue loan guarantees on behalf of the subnational 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	D	The municipality does not have a debt strategy and lenders make the assessment.
PI-14 Macroeconomic and fiscal forecasting	NA	
14.1 Macroeconomic forecasts	NA	
14.2 Fiscal forecasts	NA	
14.3 Macro-fiscal sensitivity analysis	NA	
PI-15 Fiscal strategy	D+	
15.1 Fiscal impact of policy proposals	D	While all expenditures and revenues that result from are changes in policy and programs are quantified for the budget year as part of the budget preparation process, they are not necessarily specified individually.
15.2 Fiscal strategy adoption	C	The municipality has adopted, submitted to the Sakrebulo, and published a current fiscal for the budget year.

Indicator/Dimension	Score	Explanation
15.3. Reporting on fiscal outcomes	C	The municipality prepared reports include information on progress against its fiscal strategy.
PI-16 Medium term perspective in expenditure budgeting	D	
16.1 Medium-term expenditure estimates	D	The annual budget presents estimates of expenditure for the budget year by administrative, economic, and program (or functional) classification.
16.2 Medium-term expenditure ceilings	D	There is no medium-term perspective.
16.3 Alignment of strategic plans and medium-term budgets	D	There are no stated strategy plans that inform the priorities of the spending units and the allocation of resources to implement them.
16.4 Consistency of budgets with previous year estimates	D	There is no medium-term perspective.
PI-17 Budget preparation process	D+	
17.1 Budget calendar	C	The budget calendar is clear and adhered to. It allows budgetary units only 2 weeks from receipt of the budget circular to meaningfully complete their detailed estimates on time.
17.2 Guidance on budget preparation	D	The budget circular is simple and covers total expenditure for the fiscal year. The spending units' ceilings are not reflected in a circular.
17.3 Budget submission to the legislature	C	The municipality executive submitted the annual budget proposal six weeks before the end of the year in each of the last three fiscal years.
PI-18 Legislative scrutiny of budgets	B+	
18.1 Scope of budget scrutiny	B	The Sakrebulo reviews expenditure and revenue as well the implicit fiscal policy and overall statement of priorities.
18.2 Legislative procedures for budget scrutiny	A	The Sakrebulo's procedures are approved by the legislature in advance of budget hearings and are adhered to. The procedures include internal organizational arrangements, such as specialized review committees, technical support, and negotiation procedures. They also include arrangements for public consultation.
18.3 Timing of budget approval	A	During the last three fiscal years the Sakrebulo approved the annual budget law before the start of the fiscal year.
18.4 Rules for budget adjustments by the executive	A	Clear rules exist for in-year budget adjustments by the executive. The rules set strict limits on the extent and nature of amendment and are adhered to.
PI-19 Revenue administration	NA	
19.1 Rights and obligations for revenue measures	NA	
19.2 Revenue risk management	NA	

Indicator/Dimension	Score	Explanation
19.3 Revenue audit and investigation	NA	
19.4 Revenue arrears monitoring	NA	
PI-20 Accounting for revenue	A	
20.1 Information on revenue collections	A	The Municipality obtains revenue data at least monthly from the data on revenues administered by Georgia Revenue Services and paid into the Treasury Single Account. This information is broken down by revenue type and is consolidated into a report.
20.2 Transfer of revenue collections	NA	All revenues are transferred directly to the Treasury Single Account on the daily basis by GRS.
20.3 Revenue accounts reconciliation	NA	Entities collecting most municipal revenue undertake complete reconciliation of assessments, collections, arrears and transfers to Treasury Single Account on a daily basis by GRS.
PI-21 Predictability of in-year resource allocation	B+	
21.1 Consolidation of cash balances	A	The consolidated information about all bank and cash balances is available at the municipality subaccount at the State Treasury Service at the end of the day.
21.2 Cash forecasting and monitoring	B	A cash flow forecast is prepared annually for the fiscal year, broken down by quarter and updated quarterly on the basis of actual cash and outflows.
21.3 Information on commitment ceilings	A	Budgetary units are able to plan and commit expenditure for twelve months in advance in accordance with the budgeted appropriations and commitment releases.
21.4 Significance of in-year budget adjustments	C	Adjustments to budget allocations were made 7 times in 2017 and amounted to 62% of the original budget. These were done in a transparent and predictable way.
PI-22 Expenditure arrears	A	
22.1 Stock of expenditure arrears	A	The municipality reported that it did not have any expenditure arrears.
22.2 Expenditure arrears monitoring	NA	The financial statements produced by the Municipality Finance Department provide information on the stock and composition of expenditure arrears. The Financial Information System is capable of monitoring whether arrears have been generated and a report can be produced if required.
PI-23 Payroll controls	B+	
23.1 Integration of payroll and personnel records	A	The municipality maintains the 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. There is a validation mechanism built into the payroll module that automatically blocks salary payments of any person that is not reflected in the personnel database of the E-Treasury system.

Indicator/Dimension	Score	Explanation
23.2 Management of payroll changes	A	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. In addition, retroactive changes to the existing data in the system are not allowed.
23.3 Internal control of payroll	A	Changes to the payroll records, are restricted to only authorized persons in the municipality. The changes are certified by an authorized person and approved by the supervisors. There is an audit trail of payroll changes as supporting documentation are kept, and there are access controls for authorized persons to get into the E-Treasury system that require password and identification. External auditors assess payroll risk as low hence integrity of payroll data is high.
23.4 Payroll audit	B	There is a system of annual payroll audits conducted by the State Audit Office that exposes any control weaknesses and accountability issues. This is not carried out on an annual basis at the municipality level and one was completed in 2016.
PI-24 Procurement	B	
24.1 Procurement monitoring	NA	Databases or records are maintained for all contracts including data on what has been procured, value of procurement, and who has been awarded contracts. All government contracts are procured through Georgian E-Government Procurement System.
24.2 Procurement methods	A	As per public procurement legislation open competition above GEL 5,000 is a default method. 88% of contracts by value procured in 2017 were conducted through competitive selection.
24.3 Public access to procurement information	A	All the key procurement information is made available to the public. These include but are not limited to: (1) legal and regulatory framework for procurement (2) government procurement plans (3) bidding opportunities (4) contract awards (purpose, contractor and value) (5) data on resolution of procurement complaints (6) annual procurement statistics
24.4 Procurement complaints management	D	Procurement system meets all criteria except N1. According to Article 3, Subparagraph 1 and 2 of the Rule for Operations of the Procurement related Dispute Review approved by the Decree №1 of February 27, 2015 of the Chairman of the State Procurement Agency, dispute review board consists of 6 persons on a parity principle. 3 members are from CSOs/NGOs and 3 are from State Procurement Agency. Chairman of State Procurement Agency is at the same time Chairman of the dispute review board, with prevailing vote. State Procurement Agency is also a clearing/reviewing body for Simplified Procurement (aka Direct Contracting requests from implementing agencies). The involvement of the state procurement agency in specific procurement procedure for simplified procurement procedures

Indicator/Dimension	Score	Explanation
		(direct contracting) makes it part of the procurement transactions and procurement decision-making process leading to contract award, which creates conflicts with its oversight function and its role in the review of procurement complaints.
PI-25 Internal controls on non-salary expenditure	A	
25.1 Segregation of duties	A	Segregation of duties is prescribed throughout the expenditure process with responsibilities clearly laid out at different levels in the PFMIS, in accordance with Order of the Minister of Finance of July 6, 2012 on the approval instructions for the State Treasury Electronic Service System.
25.2 Effectiveness of expenditure commitment controls	A	Commitment control applies to all payments made from the Treasury Single Account. Actual expenditures incurred are in line with approved budget allocations and does not exceed committed amounts and projected available cash resources.
25.3 Compliance with payment rules and procedures	A	Compliance with payment rules and procedures is very high.
PI-26 Internal audit	B+	
26.1 Coverage of internal audit	A	There is an Internal Audit Unit that covers the whole of the activities of Martvili Municipality.
26.2 Nature of audits and standards applied	B	Internal audit activities are focused on evaluations of the adequacy and effectiveness of internal controls, and they focus on high risk areas. Internal audit activities are guided by the Internal Audit Methodology and System Audit Manual/Instruction that complies with the International Professional Practices Framework issued by the Institute of Internal Auditors.
26.3 Implementation of internal audits and reporting	A	Annual audit programs exist, and they are monitored by the Center for Harmonization Unit at the Ministry of Finance. All of the programmed audits in 2017 were completed and their reports distributed to appropriate parties.
26.4 Response to internal audits	A	Data supplied by Management show that all of internal audit recommendations are implemented in a timely manner.
PI-27 Financial data integrity	A	
27.1 Bank account reconciliation	A	The Finance Department of the Municipality is able to access on a daily basis all its balances with the TSA sub-accounts and other bank accounts in the National Bank of Georgia.
27.2 Suspense accounts	NA	There are no expenditure suspense accounts operated by the Municipality.
27.3 Advance accounts	A	Reconciliation of advance accounts takes place monthly (within 20 days after the end of each month). All advance accounts are cleared in a timely manner.
27.4 Financial data integrity processes	A	Access and changes to records is restricted and recorded, and results in an audit trail. Financial data integrity is done by Treasury, which reviews financial information from budgetary units and its

Indicator/Dimension	Score	Explanation
		IT department monitors unauthorized systems access. Internal auditors and the State Audit Office do also conduct audits to verify financial data integrity.
PI-28 In-year budget reports	B+	
28.1 Coverage and comparability of reports	A	Coverage and classification of data allows direct comparison to the original budget. Information includes all municipality expenditure and revenues.
28.2 Timing of in-year budget reports	A	Consolidated budget execution reports are prepared monthly. Quarterly reports are issued to the Sakrebulo and are published.
28.3 Accuracy of in-year budget reports	B	There are no material concerns regarding data accuracy. Information on expenditure is covered at the payment stage in the e-Treasury system.
PI-29 Annual financial reports	D+	
29.1 Completeness of annual financial reports	C	The financial reports for the Municipality are prepared annually and are comparable with the approved budget. They contain full information on revenue, expenditure, financial and tangible assets, liabilities, guarantees and long-term obligations. However, these reports are not consolidated for the whole of the municipality's operations.
29.2 Submission of reports for external audit	D	Auditing by the State Audit Office is not mandatory on an annual basis. Audit of reports is carried out on a periodic basis by the SAO based on its annual work program determined by risk assessment criteria and coverage. Scoring is in line with the PEFA guidance even though the legal timeframe for their completion is met.
29.3 Accounting standards	C	Municipalities are required to prepare financial statements that comply with the national standards established by the Ministry of Finance.
PI-30 External audit	D+	
30.1 Audit coverage and standards	D	The financial statements of the Municipality include revenue, expenditure, assets and liabilities. They are audited using International Standards of Supreme Audit Institutions (ISSAI) in accordance with Article 26 of the Law of Georgia on State Audit Office. Audit coverage in financial year of 2016 was the full audit of the Municipality Hall. The audits highlighted relevant material issues and systemic and control risks.
30.2 Submission of audit reports to the legislature	D	There is no mandatory requirement by law for the financial statements or the budget execution report of a municipality to be audited on an annual basis. Audits are carried out by the SAO based on its work program as determined by risk assessment but also to ensure that municipalities are audited as frequently as feasible. They are submitted to the Parliament rather than the Sakrebulo.
30.3 External audit follow-up	C	In line with the Article 24 of the Law of Georgia on the State Audit Office, audit recommendations for budgetary units are followed up,

Indicator/Dimension	Score	Explanation
		monitored once every six months and annually reported on by the State Audit Office. The implementation rate for Martvili is 20% over for the past three years.
30.4 Supreme Audit Institution (SAI) independence	A	The State Audit Office is independent from the executive with respect to procedures for appointment and removal of the Auditor General, the planning of audit engagements, arrangements for publicizing reports, and the approval and execution of the SAO's budget. The SAO has unrestricted and timely access to records, documentation and information from auditees (budgetary units). The independence of the SAO is assured by the Constitution of Georgia and the Law of Georgia on State Audit Office.
PI-31 Legislative scrutiny of audit reports	D	
31.1 Timing of audit report scrutiny	D	The Sakrebulo has not undertaken the scrutiny of audit reports.
31.2 Hearings on audit findings	D	The Sakrebulo has not undertaken the scrutiny of audit reports.
31.3 Recommendations on audit by the legislature	D	The Sakrebulo has not undertaken the scrutiny of audit reports.
31.4 Transparency of legislative scrutiny of audit reports	D	The Sakrebulo has not undertaken the scrutiny of audit reports.

Annex 2: Summary of Observations on the Internal Control Framework

Internal Control Components and Elements	Summary of Observations
1. Control Environment	
1.1 The personal and professional integrity and ethical values of management and staff, including a supportive attitude toward internal control constantly throughout the organization	Legal basis for internal control is established and is implemented through the Central Harmonization Unit which promotes the establishment and development of public internal financial control systems and carries out coordination and harmonization policies and procedures. This includes developing and promoting the personal and professional integrity and ethical values of management and staff, including a supportive attitude toward internal control constantly throughout the organization.
1.2 Commitment to competence	The existence of the Central Harmonization Unit in the Ministry of Finance that also covers municipalities indicates a commitment to competence in implementing internal controls and is evidence by the scores in PIs 23, 25 and 26.
1.3 The ‘tone at the top’ (i.e. management’s philosophy and operating style)	There is a positive approach to implementing internal controls as evidenced by the organisational structure which will be strengthened by ensuring that there is greater response to recommendations.
1.4 Organizational structure	<p>The roles of the various parties involved in the financial management control system are established in the Law on Public Internal Financial Control. The Ministry of Finance of Georgia is an authorized body which, through the Central Harmonization Unit promotes the establishment and development of public internal financial control systems and carries out coordination and harmonization policies and procedures.</p> <p>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 and alignment with international good practices will take time. 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.</p>
1.5. Human resource policies and practices	A cadre of professional in internal audit and financial control is in place and follows standard public sector policies and practices.

Internal Control Components and Elements	Summary of Observations
2. Risk Assessment	
2.1 Risk identification	<p>Several PIs are related to the extent to which risks are identified, notably:</p> <p>Economic Analysis of Investment Proposals is rated D in 11.1 – Economic analyses are conducted to assess some major investment projects if they are donor funded.</p> <p>Debt Management Strategy is rated ‘D’ in 13.3 – as the municipality does not have its own debt management strategy and relies on lenders to carry out such analysis.</p> <p>Macrofiscal sensitivity analysis is rated ‘A’ in 14.3 in the Central Government PEFA but this is considered Not Applicable at the municipality level – The government prepares the scenarios of fiscal forecasts on the basis of alternative macroeconomic assumptions, and these scenarios are reflected in the published budget documentation together with forecasts.</p> <p>Revenue Risk Management is rated ‘A’ in 19.2 in the Central Government PEFA but this is considered Not Applicable at the municipality level – Entities collecting most revenues use a comprehensive, structured and systematic approach for assessing and prioritizing compliance risks for all categories of revenue and, as a minimum for their large and medium revenue payers.</p> <p>Cash Flow Forecasting and Monitoring is rated ‘B’ in 21.2 - A cash flow forecast is prepared annually for the fiscal year, broken down by quarter months and updated quarterly on the basis of actual cash inflows and outflows.</p>
2.2 Risk assessment (significance and likelihood)	See risk identification (2.1 above).
2.3 Risk evaluation	Based on the information from the Internal Audit Unit the annual audit plan has been implemented. Internal auditor submits reports to the Mayor and the head of the public entity audited (Implementation of internal audits and reporting – 26.3 rated ‘A’). However, the scope of Internal Audit Activities is not yet beyond the compliance type. (Nature of internal audits and standards applied – 26.2 rated ‘B’).
2.4 Risk appetite assessment	The development and implementation of identification and assessment of risk indicates a positive risk appetite which will grow as these become more mature.
2.5 Responses to risk (transfer, tolerance, treatment, or termination)	Standard public sector HR policies are in place throughout the areas of control.
3. Control Activities	
3.1 Authorization and approval procedures	<p>Financial data integrity processes are rated ‘A’ in 27.4. Access and changes to records is restricted and recorded, and results in audit trail.</p> <p>Recording and reporting of debt and guarantees are rated ‘C’ in 13.1. Domestic and foreign debt and</p>

Internal Control Components and Elements	Summary of Observations
	<p>guaranteed debt records are complete, accurate, updated, and reconciled annually. Comprehensive management and statistical reports covering debt service, stock, and operations are produced monthly.</p> <p>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 Subnational 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.</p> <p>Effectiveness of expenditure commitment controls is rated ‘A’ in 25.2. Commitment control applies to all payments made from the Treasury Single Account. Actual expenditures incurred are in line with approved budget allocations and does not exceed committed amounts and projected available cash resources.</p> <p>Integration of payroll and personal records is rated ‘A’ in 23.1. 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 (Payroll module) and Civil Registry database records (managed by the Ministry of Justice), takes place once an employee is appointed and registered in the system. There is a validation mechanism built into the payroll module that automatically blocks salary payments of any person that is not reflected in the personnel database of the E-Treasury System.</p> <p>Management of payroll changes is rated ‘A’ in 23.2. Personal 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. In addition, retroactive changes to the existing data in the system are not allowed.</p> <p>Compliance with payroll payment rules and procedures is rated ‘A’ in 23.3. Changes to the payroll records, are restricted to only authorized persons in the budgetary units in accordance with the Labor legislation. The changes are certified by an authorized person and approved by the head of the unit. In addition, for remuneration changes, these must be approved by the State Treasury. There is an audit trail of payroll changes as supporting documentation are kept, and there are access controls for authorized persons to get into the E-Treasury system that require password and token numbers to be</p>

Internal Control Components and Elements	Summary of Observations
	used. Internal and external auditors assess payroll risk as low hence integrity of payroll data is high.
3.2 Segregation of duties (authorizing, processing, recording, reviewing)	Segregation of duties is rated ‘A’ in 25.1. Segregation of duties is prescribed throughout the expenditure process with responsibilities clearly laid out at different levels in the IFMIS, in accordance with Order of the Minister of Finance of July 6, 2012 on the approval instructions for the State Treasury Electronic Service System.
3.3 Controls over the access to resources and records	Compliance with payment rules and procedures is rated ‘A’ in 25.3. Compliance with payment rules and procedures is very high. Financial data integrity processes are rated ‘A’ 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 is rated ‘B’ in 28.3. There are no material concerns regarding data accuracy. Information on expenditure is covered at the payment stage in the e-Treasury system.
3.5 Reconciliations	Banks account reconciliations is rated ‘A’ in 27.1. Bank reconciliations for all active Subnational 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 is rated ‘NA’ in 27.2. There are no suspense accounts.
3.6 Reviews of operating performance	Revenue audit and investigations are rated ‘A’ in 19.3 in the Central Government PEFA and are considered not applicable for municipalities. Entities collecting most revenue undertake audits and fraud investigations managed and reported on according to a documented compliance improvement plan and complete all planned audits and investigations.
3.7 Reviews of operations, processes and activities	Procurement monitoring is rated ‘A’ in 24.1 in the Central Government PEFA but is considered not applicable for municipalities. 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. All government contracts are procured through Georgian E-Government Procurement System (Ge-GP).
3.8 Supervision (assigning, reviewing, and approving, guidance and training)	The audit trail in place indicates a supervisory focus. Personnel development through mentoring and training is in place.
4. Information and Communication	

Internal Control Components and Elements	Summary of Observations
5. Monitoring	
5.1 Ongoing monitoring	<p>The Assessment highlighted a number of areas related to ongoing monitoring activities:</p> <p>Resources received by service delivery units is rated ‘A’ in 8.3. The information on the resources received by the service providers is collected and recorded in case of programs implemented by municipalities. This information is prepared at least annually.</p> <p>Contingent liabilities and other fiscal risks is rated ‘B’ in 10.3 in the Central Government PEFA but is considered not applicable for municipalities. Subnational government entities quantify the significant contingent liabilities in their financial reports.</p> <p>Investment project monitoring is rated ‘B’ in 11.4. The total cost and physical progress of major investment projects is adequately monitored by the implementing municipality. Information on implementation of major investment projects is prepared annually.</p> <p>Procurement monitoring is rated ‘A’ in 24.1 in the Central Government PEFA but it is not specific to the municipality and is considered Not Applicable. 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. All government contracts are procured through Georgian E-Government Procurement System (Ge-GP).</p> <p>Implementation of internal audits and reporting is rated ‘A’ in 26.3. All of the audit plan has been implemented. Internal auditor submits their reports to the Mayor and the head of the public entity audited.</p>
5.2 Evaluations	<p>Performance evaluation for service delivery is rated D in 8.4. Investment project selection is rated ‘C’ in 11.2.</p>
5.3 Management responses	<p>Response to internal audits is rated ‘A’ in 26.4. Management provides a response to audit recommendations for all entities audited within twelve months of the report being produced.</p> <p>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. The implementation rate for Martvili was 20% for the past three years.</p>

Annex 3: Sources of Information by Indicator

ANNEX 3A: LIST OF RELATED SURVEYS AND ANALYTICAL WORK

No	Institution	Document Title	Date	
1	IMF	Georgia: Fiscal Transparency Evaluation	September 27, 2017	FTE Georgia
2	IMF	Georgia: Tax Administration Diagnostic Assessment tool (TADAT) Performance Assessment Report	July 2016	TADAT Georgia
3	IBP	Open Budget Survey 2017	January 2018	Open Budget Survey
4	EU	Public Finance Management Reform in Georgia	2017	Georgia PFM reform
5	MOF	Public Finance of Georgia Management Reform Strategy 2014-2017		
6	GRS	Revenue Services Annual Report	2017	www.rs.ge/en
7	MOF	Georgia 2018 Central Government PEFA Assessment	2018	

ANNEX 3B: LIST OF PEOPLE INTERVIEWED

People Consulted

(Name Department, Organization, Position)

June 5, 2018, Martvili

Mr. Aleksander Gabisonia, Martvili Sakrebulo Speaker

Mr. Aleksander Grigalava, Martvili Mayor

Mr. David Surmava, Martvili Vice-Mayor

Mrs. Ketevan Bachilava, Head of Finance Department

June 6, 2018, Martvili

Mrs. Ketevan Bachilava, Head of Finance Department

Mrs. Tamar Tsivtsivadze, Head of HR

Mr. Paata Gogia, Internal Audit unit specialist

Mr. Levan Kukhalishvili, Treasury service specialist

June 7, 2018, Martvili

Mr. Tsothe Kakulia, Property Management

Mr. Guram Tsotsoria, Martvili Sakrebulo head of staff

Mrs. Ketevan Bachilava, Head of Finance Department

Mr. Zurab Pirtskhalava, Head of Procurement

Mr. Giga Jijelava, Accounting unit

Mrs. Nino Kobakhidze, Head of Infrastructure Department

June 8, 2018, Martvili

Mr. Aleksander Grigalava, Martvili Mayor

Mr. David Surmava, Martvili Vice-Mayor

Mrs. Ketevan Bachilava, Head of Finance Department

June 8, 2018, Kutaisi

Mrs. Marika Natsvlishvili, SAO, Head of Central Budget and Strategic Analysis Department

Mr. George Mamrikashvili, SAO, Head of Municipal Budgets Audit Department

May 25, 2018

Kakha Demetrashvili, Deputy Head of State Procurement Agency

Dimitri Gulisashvili, Head of Department, State Procurement Agency

July 17, 2018

Mr. Robert Kotia, Head of Administration of Martvili Municipality

Mr. Bondo Topuria, Head of Unit of the Finance Department, Martvili Municipality

ANNEX 3C: SOURCES OF INFORMATION BY INDICATOR

List of Documents/Reports Consulted	
Indicator	Evidence
HLG-1: Transfers from a higher level of government	<ul style="list-style-type: none"> Data from Martvili Department of Finance
1. Aggregate expenditure outturn	<ul style="list-style-type: none"> Data from Martvili Department of Finance
2. Expenditure composition outturn	<ul style="list-style-type: none"> Data from Martvili Department of Finance
3. Revenue outturn	<ul style="list-style-type: none"> Data from Martvili Department of Finance
4. Budget classification	<ul style="list-style-type: none"> Data from Ministry of Finance
5. Budget documentation	<ul style="list-style-type: none"> https://matsne.gov.ge/ka/document/view/3950427 http://mof.ge/images/File/biujetis-kanoni2017/damtkebuli/SFR-2016-Total-bind.pdf http://mof.ge/images/File/biujetis-kanoni2017/damtkebuli/2017-BD-Tables-sen-16_1-BDD.pdf http://mof.ge/images/File/biujetis-kanoni2017/damtkebuli/2017-BD-Tables-sen-16_3-BDD.pdf http://mof.ge/images/File/biujetis-kanoni2017/damtkebuli/2017-BD-Tables-sen-16_2%20BDD.pdf https://matsne.gov.ge/ka/document/view/3950427
6. Subnational government operations outside financial reports	<ul style="list-style-type: none"> Information from Martvili Department of Finance
7. Transfers to subnational governments	<ul style="list-style-type: none"> NA
8. Performance information for service delivery	<ul style="list-style-type: none"> Martvili Priorities Document
9. Public access to fiscal information	<ul style="list-style-type: none"> http://www.martvili-sakrebulo.ge http://www.martvili.ge/index.php?css=blue.css&id=39&slave=0&lang=geo#read_position https://sao.ge/files/auditi/auditis-angarishebi/2017/martvilis-municipaliteti.pdf http://mof.ge/5075 https://sao.ge/files/auditi/auditis-angarishebi/2016/adg-martvilis-angarishi-33_36.pdf http://sao.ge/audit/audit-reports
10. Fiscal risk reporting	<ul style="list-style-type: none"> Discussion with and information from Municipality Property Management Agency
11. Public investment management	<ul style="list-style-type: none"> Discussion with and information from Municipality Infrastructure Department
12. Public asset management	<ul style="list-style-type: none"> Discussion with and information from Municipality Property Management Agency

List of Documents/Reports Consulted	
Indicator	Evidence
13. Debt management	<ul style="list-style-type: none"> • Discussion with Martvili Department of Finance • Budget Code of Georgia
14. Macroeconomic and fiscal forecasting	<ul style="list-style-type: none"> • NA
15. Fiscal strategy	<ul style="list-style-type: none"> • Data from Martvili Department of Finance • Annual Budget Document
16. Medium term perspective in expenditure budgeting	<ul style="list-style-type: none"> • Martvili Priorities Document • Public Finance of Georgia Management Reform Strategy 2014-2017 • Rules and methodology of program budgeting • Medium Term Action Plan 2017-2020 Ministry of Finance
17. Budget preparation process	<ul style="list-style-type: none"> • Discussions with Martvili Department of Finance • Budget Code • Martvili Priorities Document
18. Legislative scrutiny of budgets	<ul style="list-style-type: none"> • Discussions with Martvili Sakrebulo Finance and Budget Commission
19. Revenue administration	<ul style="list-style-type: none"> • NA
20. Accounting for revenue	<ul style="list-style-type: none"> • Discussion and Data from Martvili Department of Finance
21. Predictability of in-year resource allocation	<ul style="list-style-type: none"> • Data from Martvili Department of Finance
22. Expenditure arrears	<ul style="list-style-type: none"> • Data from Martvili Department of Finance. Annual financial statements
23. Payroll controls	<ul style="list-style-type: none"> • Discussion with Martvili Human Resources Department
24. Procurement management	<ul style="list-style-type: none"> • Discussion and data from the State Procurement Agency
25. Internal controls on non-salary expenditure	<ul style="list-style-type: none"> • Discussion and Data from Martvili Department of Finance
26. Internal audit	<ul style="list-style-type: none"> • Discussion and information from Internal Audit Department
27. Financial data integrity	<ul style="list-style-type: none"> • Discussion and information from Martvili Department of Finance
28. In-year budget reports	<ul style="list-style-type: none"> • Monthly and quarterly budget reports Discussion and information from Martvili Department of Finance
29. Annual financial reports	<ul style="list-style-type: none"> • Budget execution reports and annual financial statement. Discussion and information from Martvili Department of Finance
30. External audit	<ul style="list-style-type: none"> • Discussion and data from State Audit Office of Georgia
31. Legislative scrutiny of audit reports	<ul style="list-style-type: none"> • Information from Parliament of Georgia (Budget and Finance Committee) • Discussion and data from State Audit Office of Georgia • Discussion with Martvili Budget and Finance Commission

Annex 4: Calculation Sheets for PI-1, PI-2 and PI-3

TABLE 1.: RESULTS MATRIX

Years	for PI-1	for PI-2.1	for PI-2.3
	total exp. Deviation	composition variance	contingency share
2015	29.0%	70.2%	
2016	28.8%	71.1%	0.0%
2017	50.0%	51.4%	

Figures in Tables in GEL 000

TABLE 2.: 2015 YEAR

Functional Classification Codes	Budget	Actual	Adjusted Budget	Deviation	Absolute Deviation	Percent
701	2,179.4	2,215.1	3,763.1	-1,548.0	1,548.0	41.1%
702	0.0	0.0	0.0	0.0	0.0	
703	221.8	221.1	383.0	-161.9	161.9	42.3%
704	240.0	3,497.8	414.4	3,083.4	3,083.4	744.1%
705	370.0	366.1	638.9	-272.8	272.8	42.7%
706	614.3	1,612.0	1,060.7	551.3	551.3	52.0%
707	220.0	335.6	379.9	-44.3	44.3	11.7%
708	1,105.0	1,078.1	1,908.0	-829.8	829.8	43.5%
709	645.0	599.9	1,113.7	-513.8	513.8	46.1%
710	404.5	434.3	698.4	-264.1	264.1	37.8%
Grand Total	6,000.1	10,360.1	10,360.1	0.0	7,269.6	
Interest	0.0	0.0				
Reserve Funds	60.0	0.0				
Total Expenditures	6,060.1	10,360.1				

PI-1 indicator variation 29.0%
PI-1 indicator structure 70.2%
Reserve fund share in total expenditure 0.0%

TABLE 3.: 2016 YEAR

Functional Classification Codes	Budget	Actual	Adjusted Budget	Deviation	Absolute Deviation	Percent
701	2,614.7	2,938.1	4,490.4	-1,552.3	1,552.3	34.6%
702	0.0	0.0	0.0	0.0	0.0	
703	0.0	0.0	0.0	0.0	0.0	
704	282.0	3,764.3	484.3	3,280.0	3,280.0	677.3%
705	470.0	488.8	807.2	-318.3	318.3	39.4%
706	374.0	1,366.2	642.3	723.9	723.9	112.7%
707	361.1	414.6	620.1	-205.5	205.5	33.1%
708	1,236.0	1,156.9	2,122.7	-965.7	965.7	45.5%
709	853.0	754.7	1,464.9	-710.2	710.2	48.5%
710	363.0	371.4	623.4	-252.0	252.0	40.4%
Grand Total	6,553.8	11,255.3	11,255.3	0.0	8,008.0	
Interest	0.0	66.7				
Reserve Funds	60.0	0.0				
Total Expenditures	6,613.8	11,321.9				

PI-1 indicator variation 28.8%
PI-1 indicator structure 71.1%
Reserve fund share in total expenditure 0.0%

TABLE 4.: 2017 YEAR

Functional Classification Codes	Budget	Actual	Adjusted Budget	Deviation	Absolute Deviation	Percent
701	2,275.8	2,211.1	3,450.8	-1,239.7	1,239.7	35.9%
702	0.0	0.0	0.0	0.0	0.0	
703	0.0	0.0	0.0	0.0	0.0	
704	813.4	3,788.6	1,233.4	2,555.2	2,555.2	207.2%
705	509.6	680.9	772.7	-91.9	91.9	11.9%
706	452.6	719.4	686.3	33.1	33.1	4.8%
707	325.0	442.5	492.8	-50.3	50.3	10.2%
708	1,030.0	1,001.8	1,561.8	-559.9	559.9	35.9%
709	880.0	866.7	1,334.3	-467.7	467.7	35.0%
710	350.0	351.8	530.7	-178.9	178.9	33.7%
Grand Total	6,636.4	10,062.8	10,062.8	0.0	5,176.7	
Interest	94.8	94.8				
Reserve Funds	40.0	0.0				
Total Expenditures	6,771.2	10,157.5				

PI-1 indicator variation 50.0%
PI-1 indicator structure 51.4%
Reserve fund share in total expenditure 0.0%

TABLE 5.: 2015

Title	Budget	Actual	Adjusted Budget	Deviation	Absolute Deviation	Percent
salaries	1,372.4	1,625.8	2,369.8	-744.0	744.0	31.4%
goods and services	630.9	669.6	1,089.4	-419.8	419.8	38.5%
interest	0.0	0.0	0.0	0.0	0.0	
subsidies	2,450.0	2,032.2	4,230.4	-2,198.2	2,198.2	52.0%
grants	221.8	217.5	383.0	-165.5	165.5	43.2%
social support	544.5	213.2	940.2	-727.0	727.0	77.3%
other expenses	71.0	628.4	122.6	505.8	505.8	412.6%
increase of non-financial assets	709.3	4,973.4	1,224.7	3,748.6	3,748.6	306.1%
Total expenditures	6,000.0	10,360.1	10,360.1	0.0	8,508.8	

Reserve funds	60.0
Total Variation	57.9%
Structural Variation	82.1%

TABLE 6.: 2016

Title	Budget	Actual	Adjusted Budget	Deviation	Absolute Deviation	Percent
Salaries	1,815.1	1,833.7	3,116.1	-1,282.5	1,282.5	41.2%
Goods and services	899.4	834.6	1,544.1	-709.5	709.5	45.9%
Interest	0.0	66.7	0.0	66.7	66.7	
Subsidies	2,393.1	2,173.9	4,108.4	-1,934.6	1,934.6	47.1%
Grants	0.0	5.0	0.0	5.0	5.0	
Social Support	579.2	631.3	994.4	-363.0	363.0	36.5%
Other Expenses	209.0	504.3	358.8	145.5	145.5	40.6%
Increase of Non-Financial Assets	660.2	5,205.8	1,133.4	4,072.4	4,072.4	359.3%
Total expenditures	6,556.0	11,255.3	11,255.3	0.0	8,579.1	

Reserve Funds	60.0
Total Variation	58.2%
Structural Variation	76.2%

TABLE 7.: 2017

Title	Budget	Actual	Adjusted Budget	Deviation	Absolute Deviation	Percent
Salaries	1,666.8	1,558.3	2,527.4	-969.1	969.1	38.3%
Goods and services	757.8	858.6	1,149.0	-290.4	290.4	25.3%
Interest	94.8	94.8	143.7	-49.0	49.0	34.1%
Subsidies	2,308.0	2,402.0	3,499.6	-1,097.6	1,097.6	31.4%
Grants	0.0	0.0	0.0	0.0	0.0	
Social Support	595.0	647.1	902.2	-255.0	255.0	28.3%
Other Expanses	98.0	123.2	148.6	-25.4	25.4	17.1%
Increase of Non-Financial Assets	1,116.0	4,378.7	1,692.2	2,686.6	2,686.6	158.8%
Total Expenditures	6,636.4	10,062.7	10,062.7	0.0	5,373.1	

Reserve Funds	40.0
Total Variation	66.0%
Structural Variation	53.4%

TABLE 8.: 2015

Economic Head	Budget	Actual	Adjusted Budget	Deviation	Absolute Deviation	Percent
Tax Revenues	202.5	221.0	361.9	(140.9)		
Taxes on Income, Profit and Capital Gains			0.0	0.0	0.0	
Taxes on Property	202.5	221.0	361.9	-140.9	140.9	38.9%
Other Taxes			0.0	0.0	0.0	
Other Revenues	317.0	475.0	566.6	(91.5)		
Property Income	243.0	289.5	434.3	-144.8	144.8	33.3%
Sales of Goods and Services	19.0	35.0	34.0	1.0	1.0	3.1%
Fines, Penalties and Forfeits	55.0	143.2	98.3	44.9	44.9	45.7%
Sum of Rest		7.3	0.0	7.3	7.3	
Total Revenue	519.5	696.0	696.0	(0.0)	172.7	
Overall Variance						134.0%
Composition Variance						24.8%

TABLE 9.: 2016

Economic Head	Budget	Actual	Adjusted Budget	Deviation	Absolute Deviation	Percent
Tax Revenues	950.5	1,091.7	1,698.8	(607.1)		0.0%
Taxes on Income, Profit and Capital Gains	750.0	696.9	1,340.4	-643.6	643.6	48.0%
Taxes on Property	200.5	394.9	358.3	36.5	36.5	10.2%
Other Taxes			0.0	0.0	0.0	
Other Revenues	328.0	471.4	586.2	(114.8)		0.0%
Property Income	253.0	368.1	452.2	-84.1	84.1	18.6%
Sales of Goods and Services	25.0	24.1	44.7	-20.6	20.6	46.0%
Fines, Penalties and Forfeits	50.0	61.6	89.4	-27.8	27.8	31.1%
Sum of Rest	-	17.6	0.0	17.6	17.6	
Total Revenue	1,278.5	1,563.2	1,712.9	(149.7)	495.7	
Overall Variance						122.3%
Composition Variance						28.9%

TABLE 10.: 2017

Economic Head	Budget	Actual	Adjusted Budget	Deviation	Absolute Deviation	Percent
Tax Revenues	1,180.0	984.6	2,109.0	(1,124.4)		
Taxes on Income, Profit and Capital Gains	800.0	598.0	1,429.8	-831.8	831.8	58.2%
Taxes on Property	380.0	386.6	679.2	-292.6	292.6	43.1%
Other Taxes			0.0	0.0	0.0	
Other Revenues	394.0	863.8	704.2	159.6		
Property Income	325.0	666.9	580.9	86.1	86.1	14.8%
Sales of Goods and Services	19.0	91.3	34.0	57.4	57.4	168.9%
Fines, Penalties and Forfeits	50.0	92.2	89.4	2.8	2.8	3.2%
Sum of Rest		13.3	0.0	13.3	13.3	
Total Revenue	1,574.0	1,848.4	2,108.8	(260.4)	932.2	
Overall Variance						117.4%
Composition Variance						44.2%

TABLE 11.: GRANTS BY QUARTER

Title	2015 Budget	2015 Actual	I Quarter Budget	I Quarter Actual	II Quarter Budget	II Quarter Actual	III Quarter Budget	III Quarter Actual	IV Quarter Budget	IV Quarter Actual
Grants	5,485.5	10,036.5	1,371.3	1,371.3	1,371.3	2,539.2	1,371.3	3,112.2	1,362.8	3,013.8
Equalisation Grant	5,322.5	5,322.5	1,330.5	1,330.5	1,330.5	1,330.5	1,330.5	1,330.5	1,331.0	1,331.0
Targeted Grant	163.0	154.2	40.8	40.8	40.8	40.8	40.8	40.8	31.8	31.8
Special Grant		729.1		0.0		0.0		105.4		623.7
Capital Grant		3,830.8		0.0		1,167.9		1,635.6		1,027.2
Grants %		55%		100%		54%		44%		45%

Grants

Equalisation Grant		100%		100%		100%		100%		100%
Targeted Grant		106%		100%		100%		100%		100%

Title	2015 Budget	2015 Actual	I Quarter Budget	I Quarter Actual	II Quarter Budget	II Quarter Actual	III Quarter Budget	III Quarter Actual	IV Quarter Budget	IV Quarter Actual
Grants	5,227.5	8,859.9	1,306.8	1,420.8	1,306.8	1,765.2	1,306.8	2,935.7	1,307.1	2,738.1
Equalisation Grant	5,064.5	5,064.5	1,266.0	1,266.0	1,266.0	1,266.0	1,266.0	1,266.0	1,266.5	1,266.5
Targeted Grant	163.0	163.0	40.8	40.8	40.8	40.8	40.8	40.8	40.6	40.6
Special Grant		381.8		0.0				68.9		313.0
Capital Grant		3,250.6		114.0		458.4		1,560.1		1,118.0
Grants %		59%		92%		74%		45%		48%

Grants

Equalisation Grant		100%		100%		100%		100%		100%
Targeted Grant		100%		100%		100%		100%		100%

TABLE 11.: GRANTS BY QUARTER (CONTINUED)

Title	2015 Budget	2015 Actual	I Quarter Budget	I Quarter Actual	II Quarter Budget	II Quarter Actual	III Quarter Budget	III Quarter Actual	IV Quarter Budget	IV Quarter Actual
Grants	5,051.7	8,176.8	1,263.0	1,263.0	1,263.0	1,968.7	1,263.0	2,462.2	1,262.7	2,482.9
Equalisation Grant	4,896.7	4,896.7	1,224.3	1,224.3	1,224.3	1,224.3	1,224.3	1,224.3	1,223.8	1,223.8
Targeted Grant	155.0	155.0	38.7	38.7	38.7	38.7	38.7	38.7	38.9	38.9
Special Grant		245.9				0.0		0.0		245.9
Capital Grant		2,879.1				705.7		1,199.2		974.2
Grants %		62%		100%		64%		51%		51%
Equalisation Grant		100%		100%		100%		100%		100%
Targeted Grant		100%		100%		100%		100%		100%

TABLE 12.: MARTVILI MUNICIPALITY COVERAGE OF EXTERNAL AUDIT 2015 TO 2017

Audits	2015	2016	2017	Total
Compliance Audit of Martvili Municipality	10,360.1			10,360.1
Financial Audit of Martvili Municipality		11,321.9		11,321.9
Total *	10,360.1	11,321.9	-	21,682.0
Total Expenditure	10,360.1	11,321.9	10,062.7	31,744.7

** Total includes financial audits and compliance audits.*

