



GEORGIA
City of Tbilisi

**PUBLIC EXPENDITURE AND FINANCIAL
ACCOUNTABILITY (PEFA) PERFORMANCE
ASSESSMENT REPORT**

Based on PEFA 2016 Methodology

October 2018



City of Tbilisi - 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

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1 US\$ = GEL 2.4010

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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 Accounts |
| 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 |
| MOE | Municipal Owned Enterprise |
| MOF | Ministry of Finance |
| MPD | Municipality Priorities Document |
| 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 |
| 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 City of Tbilisi against the PEFA indicators. This PEFA provides an update of progress in PFM in the municipality since the last PEFA in 2014 and establishes a new PEFA baseline using the 2016 PEFA methodology.

2. The assessment covered 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 May 17 to 26, 2018. Follow up was conducted 28 May to 1 June, and 18 June 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 City of Tbilisi are strong and improved as the PFM Reform Action Plan has been implemented. The aggregate expenditure side of the budget performs largely according to plan. There is an impressive array of information regarding the finances of the municipality. As a result, the budget documents include most of the basic, and much of the supplementary information, required to support a transparent budget process. Information on performance plans and achievements in service delivery outputs and outcomes across the sectors under the municipality is very good. However, a strategic selection process is lacking in managing the public investment program although monitoring and reporting of implementation is sound. Good progress has been made towards a comprehensive medium-term expenditure framework based on a program budgeting for results approach. There is an effective budget calendar although the issuance of ceilings could be made timelier. The legislature has sufficient time to carry out its scrutiny function.

4. The Georgian Treasury consolidates central and local government cash balances in the Treasury Single Account on a daily basis. A cash flow forecast is prepared annually for the year to come and is updated quarterly on the basis of actual inflows and outflows often due to relatively frequent supplementary budgets. Budgetary units are able to plan and commit expenditure for one year in advance on the basis of quarterly ceilings, in accordance with the budgeted appropriations and commitment releases.

5. The payroll and personnel systems are strong. Procurement databases include data on what has been procured, value of procurement, and who has been awarded contracts. However, the appeals process is not wholly independent as 3 members of the appeals board are from State Procurement Agency whose chair is at the same time chair of the dispute review board, with a prevailing vote. Internal controls on non-salary expenditure have strong segregation of duties, effective commitment controls and compliance with payment rules and procedures. The internal audit function is operating well under the guidance of the Ministry of Finance's Central Harmonization Unit. Internal audit activities are focused on evaluations of the adequacy and effectiveness of internal controls, and they focus on high risk areas. This is supported by the activity of the Sakrebulo Audit Commission which carries out control inspection on spending units. Accounts reconciliation and financial data integrity are areas of strengths. The situation with respect to the annual financial annual reports is mixed. The financial reports for the municipality budgetary units are prepared annually and are comparable with the approved budget, but they are not consolidated for the whole of the operations of the municipality. Moreover, the financial statements are not submitted for external audit. The municipality follows the national accounting standards which are still evolving. External audit is an area of significant strength in

terms of standards, but the frequency of audit means that there is often a significant time gap between audits. Legislative scrutiny does not meet PEFA standards as it is not carried out by the Sakrebulo but is delegated to the State Parliament and none of the audits of Tbilisi was addressed.

6. An overriding feature of PFM in Georgia, both at the Central and Subnational levels of government, 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. 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 has resulted in PFM's positive effectiveness and efficiency.

Aggregate Fiscal Discipline

7. Aggregate fiscal discipline is achieved through control over spending during budget execution, as well as realistic revenue forecasts. Strong revenue administration ensures that revenues are efficiently collected. The planned budget on an aggregate basis is not circumvented by the use of virement and although there are frequent supplementary budgets the resultant increase in expenditure has been less than 3% of the original budget. Treasury operations and cash management enable expenditures to be managed within the available resources. Control of contractual commitments is effective which has limited expenditure arrears. The strong external audit function can enhance fiscal discipline, but it is limited in coverage. The activities of the Sakrebulo's Audit Commission counterbalance the infrequent audit reports and the absence of their external scrutiny.

Strategic Allocation of Resources

8. The Chart of Accounts caters for a multi-dimensional analysis of expenditure. There is a strong link between the medium-term perspective in expenditure budgeting and strategic plans in the program budget approach to achieving results that are consistent with a strategic allocation of resources. The management of investment can also be improved which would make better the strategic allocation of resources.

Efficient Use of Resources for Service Delivery

9. 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 from the Sakrebulo's Audit Commission and external audits (when conducted) are effective as counter checks on inefficient use of resources. However, weaknesses in the production of consolidated annual financial statements limit the impact of audits. These are offset, however, by the strength of the annual budget execution reports which inform on the realization of annual targets for outputs and objectives. Publishing of performance targets and outcomes also assists the efficient use of resources at service delivery units.

Performance Changes Since Previous Assessment

10. While the PEFA has been carried out using the 2016 methodology, it has also been possible to score against the 2011 PEFA methodology, which was used in the previous PEFA assessment of Tbilisi in 2014 (presented in Annex 4). The comparison of the 28 indicators shows that there has been an improvement in 11 indicators, deterioration in 2, no change (same scores) in 12 and not applicable in 3 indicators. The indicator on transfers from a higher level of government declined from A to D+, mainly because of a decline in the dimension on earmarked grants outturn.

11. The comparison of the assessments indicates that between the two PEFA's the following indicators (dimensions) have improved in fiscal and budgetary outcomes.

Fiscal Discipline

- Aggregate actual expenditure compared to budget
- Composition of expenditure outturns compared to original approved budget (variance in composition).
- Aggregate actual revenue compared to budget Strategic Allocation of Resources
- Comprehensiveness of information included in budget documentation
- Public access to key fiscal information
- Multi-year perspective in fiscal planning, expenditure policy and budgeting (costed sector strategies and investment linked to strategies) mainly due to implementing program based budgeting.

Efficient Use of Resources for Service Delivery

- Predictability in the availability of funds for commitment of expenditures (cash flow forecasting and monitoring)
- Effectiveness of payroll controls (integration of personnel and payroll databases and payroll audits)
- Effectiveness of internal audit (frequency of reports)
- Timeliness of and regularity of accounts reconciliation (commitment controls)
- Scope, nature and follow-up of external audit (scope/nature/standards).

12. The main area of backsliding relates to earmarked grants and submission of financial accounts for audit, but these may have been scored too high in 2014 so there could have been no change in reality.

13. These improvements can be attributed to strong management of the PFM reform program at both the central and municipality government levels (summarized in section 5). Since 2007 impressive progress has been made at the Revenue Service; important reforms were implemented at the Treasury Service; and the Treasury Single Account was extended to include local governments and all public entities. Also, the web-based Public Finance Management Information System (PFMIS) was launched. The State Audit Office has transformed from the traditional control-inspection function to the new function of modern financial and compliance audit in line with international best practice. The legal and methodological basis for internal audit and control has been established and is being rolled out throughout the Government. Since its establishment, the Academy of the Ministry of Finance has been developed into the key provider of training related to the PFM reforms and initiatives. Ongoing reforms include new approaches in the instruments and practices of Parliamentary Scrutiny of the PFM system. The importance of independent fiscal institutions and the role of the Budget Office of the Parliament are

also understood and remain 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 cited in Annex 3A

TABLE 1: OVERVIEW OF THE SCORES OF THE PEFA INDICATORS

| Summary Assessment 2018 ratings for the City of Tbilisi | | | | | | | |
|---|---|----------------|-------------------|----|----|----|---------------|
| PFM Performance Indicator | | Scoring Method | Dimension Ratings | | | | Overall Score |
| | | | 1 | 2 | 3 | 4 | |
| HLG | Transfers from higher-level government | M1 | A | D | A | | D+ |
| Pillar I: Budget reliability | | | | | | | |
| PI-1 | Aggregate expenditure outturn | | A | | | | A |
| PI-2 | Expenditure composition outturn | M1 | B | B | A | | B+ |
| PI-3 | Revenue outturn | M2 | B | C | | | C+ |
| Pillar II: Transparency of public finances | | | | | | | |
| PI-4 | Budget classification | | A | | | | A |
| PI-5 | Budget documentation | | A | | | | A |
| 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 | B | B | A | B | B+ |
| PI-9 | Public access to fiscal information | | B | | | | B |
| Pillar III: Management of assets and liabilities | | | | | | | |
| PI-10 | Fiscal risk reporting | M2 | C | NA | NA | | C |
| PI-11 | Public investment management | M2 | D | C | B | B | C+ |
| PI-12 | Public asset management | M2 | B | C | 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 | A | A | | B |
| PI-16 | Medium-term perspective in expenditure budgeting | M2 | A | D | B | D | C+ |
| PI-17 | Budget preparation process | M2 | C | A | C | | B |
| PI-18 | Legislative scrutiny of budgets | M1 | A | A | A | A | A |
| 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 | B | 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 | C | D | NA | A | D+ |
| PI-31 | Legislative scrutiny of audit reports | M2 | D | D | D | D | D |

1. Introduction

1.1 Rationale and Purpose

14. The purpose of this PEFA assessment is to conduct a review of Public Finance Management (PFM) in Georgia and assess progress achieved since the previous PEFA assessment in 2014 and provide a base line of PEFA scores using the 2016 methodology. The assessment of Tbilisi's PFM using the methodology was one of three subnational assessments carried out along with the City of Batumi and Municipality of Martvili. These subnational assessments followed on from the Central Government (repeat) assessment carried out earlier in 2018.

15. 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 for both central and subnational government.

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; Levan Mikava, Deputy Head of Finance Department, Tbilisi City; 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 Levan Mikava, Deputy Head of Finance Department Tbilisi City 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

- Arun Manuja World Bank - September 4, 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
- Levan Mikava, Deputy Head of Finance Department Tbilisi City Municipality (comments incorporated prior to the review)

PEFA CHECK

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

16. A substantial number of Tbilisi City officials participated in the assessment, readily providing most of the 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 they reviewed the draft report. This review was carried out in the context of overall PFM involvement in Georgia rather than in Tbilisi where no development partners are directly involved.

1.3 Assessment Methodology

17. **Coverage of the Assessment:** The assessment covers the municipality of Tbilisi (the capital of Georgia) including its executive spending units and Assembly (Sakrebulo), as well as 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. Tbilisi does have public corporations. The time period covered is fiscal years 2015 to 2017 (the last fiscal year) and the time of assessment is May to June 2018.

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

19. **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.

20. **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 31 indicators (and their 94 dimensions) were assessed and followed the methodology without deviation in terms of coverage and

application. Those indicators that were not applicable have been scored Not Applicable. Scores are reported in Chapter 3. The assessment team also scored using the 2011 PEFA methodology (28 government performance indicators with 71 dimensions) so that a comparison could be made with the result for the indicators scored in the 2014 PEFA assessment report for Tbilisi. A comparison between scores the 2014 and 2018 is included as Annex 4². The comparison did not include the three former donor practice indicators as no equivalent is retained in the 2016 PEFA Framework, and they were not scored in 2014.

21. 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 There are some limitations to this comparison as the 2014 PEFA was not subject to review by the PEFA Secretariat. It contains errors in aggregation (M1 and M2) and also some indicators were not scored. An attempt has been made to correct these where possible.

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.³ According to 2017 data, GDP per capita is GEL 10,231.4⁴. According to Geostat, the average monthly wage in 2016 was GEL 940⁵. According to the LEPL Social Service Agency of the Ministry of Labor, Health and Social Affairs of Georgia, 476,000 people are socially assisted.⁶

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 people⁷. 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 percent⁸. 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\$⁹. 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.

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).¹⁰

³http://www.geostat.ge/?action=page&p_id=472&lang=geo

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

⁵ http://www.geostat.ge/index.php?action=page&p_id=148&lang=geo

⁶ http://ssa.gov.ge/index.php?lang_id=GEO&sec_id=1195

⁷ In the fourth quarter of 2017 compared to the 2016.

⁸ https://www.nbg.gov.ge/uploads/mpc/2014/2015_2017/ziritadi_mimartulebebi.pdf

⁹ 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>

¹⁰ <https://mof.ge/images/File/newbdd/19-22%20BDD-GADAMUSHAVEBULI-16.08.2018-ganaxlebuli-programa.pdf> pages : 57-59

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).

2.1.1 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 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 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 INDICATORS¹¹

| | 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. Tbilisi is the capital and the largest city of Georgia, lying on the banks of the Kura River with a population of approximately 1.15 million people (about 31% of the total population of Georgia). Founded in the 5th century AD by Vakhtang I of Iberia, since then Tbilisi served as the capital of various Georgian kingdoms and republics. Between 1801 and 1917, then part of the Russian Empire, Tbilisi was the seat of the Imperial Viceroy, governing both Southern and Northern Caucasus. Because of its location on the crossroads between Europe and Asia, and its proximity to the lucrative Silk Road, throughout history Tbilisi was a point of contention among various global powers. The city's location to this day ensures its position as an important transit route for various energy and trade projects. Tbilisi's diverse history is reflected in its architecture, which is a mix of medieval, neoclassical, Beaux Arts, Art Nouveau, Stalinist and modern structures. Table 2.1.2 present data on Tbilisi's economy compared to Georgia's.

¹¹ for 2015-2017 data: <https://mof.ge/images/File/newbdd/2019-BD-Tables-sen-01-4-new-BDD.pdf>

for 2014 data: <https://mof.ge/images/File/newbdd/2019-BD-Tables-sen-01-4-new-BDD.pdf>

Indicators given are most recent; they were updated by the MOF over the indicators published in the national PEFA report of June 29, 2018.

TABLE 2.1.2 TBILISI ECONOMY DATA

| | Georgia | Tbilisi |
|------------------------------------|----------------|----------------|
| 2016 GDP (GEL m) | 34,030 | 16,600 |
| 2016 GDP (US\$ m) | 14,380 | 7,015 |
| City as % of total GDP | - | 49% |
| 2016 Population (000) | 3,729 | 1,132 |
| GDP Per Capita (GEL) | 9,126 | 14,666 |
| GDP per Capita (US\$) | 3,860 | 6,200 |
| 2017 Unemployment (%) | 13.9% | 24.7% |
| 2016 Average Monthly Salary (GEL) | 940 | 1,065 |
| Foreign Direct Investment (US\$ m) | 1,895 | 1,476 |
| City as % of total FDI | - | 78% |

Source: Geostat¹²

2.2 Fiscal and Budgetary Trends

35. Table 2.2.1 shows that Tbilisi has a healthy overall fiscal balance of 0.5% of Georgian GDP in 2017 up from 0.2 % in the previous year. Grants from central government in 2015 were more important than own revenue but this has now been reversed with some components of income tax in the municipality now being shared by the municipality. Interest payments are low reflecting the limited borrowing for capital projects. The capital account includes grants to homeowners in high rise apartments for repair and maintenance on a cost sharing basis.

TABLE 2.2.1: AGGREGATE FISCAL DATA TBILISI MUNICIPALITY

| | GEL 000 | | | As % of GDP | | |
|----------------------------------|----------------|-------------|-------------|--------------------|-------------|-------------|
| | 2015 | 2016 | 2017 | 2015 | 2016 | 2017 |
| Recurrent Revenue | | | | | | |
| Own Revenue | 385,058 | 551,801 | 507,725 | 1.2% | 1.6% | 1.3% |
| Grants | 443,625 | 242,693 | 333,050 | 1.4% | 0.7% | 0.9% |
| Total | 907,425 | 798,748 | 855,275 | 2.9% | 2.3% | 2.2% |
| Recurrent Expenditure | | | | | | |
| Recurrent Non-interest | 520,663 | 489,111 | 456,033 | 1.6% | 1.4% | 1.2% |
| Interest | 287 | 1,893 | 1,698 | 0.0% | 0.0% | 0.0% |
| Primary Balance | 386,763 | 309,637 | 399,243 | 1.2% | 0.9% | 1.0% |
| Current Balance | 386,476 | 307,744 | 397,545 | 1.2% | 0.9% | 1.0% |
| Capital Grants | 78,743 | 4,254 | 14,500 | 0.2% | 0.0% | 0.0% |
| Capital Expenditure | | | | | | |
| Grants | 111,817 | 126,509 | 123,155 | 0.4% | 0.4% | 0.3% |
| Increase in Non-financial assets | 216,380 | 107,989 | 111,742 | 0.7% | 0.3% | 0.3% |
| Overall Balance | 137,022 | 77,501 | 177,148 | 0.4% | 0.2% | 0.5% |

Source: Tbilisi Finance Department

¹² 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. Housing and utility services followed closely by social protection consume around 45 per cent of the total expenditure while spending on economic activity, education, and recreation, culture and religion are more than 10% of total expenditure over 2014-2017. With the transfer of public order and safety from the municipality to central government in 2015, public order and safety along with defense services are not provided by the municipality.

TABLE 2.2.2 TBILISI MUNICIPALITY CONSOLIDATED BUDGET ACTUAL EXPENDITURES (CURRENT, CAPITAL) ACCORDING TO FUNCTIONAL CLASSIFICATION (% OF TOTAL)

| Code | Item | 2015 | 2016 | 2017 |
|------|----------------------------------|---------------|---------------|---------------|
| 701 | General public service | 8.3% | 9.7% | 9.5% |
| 702 | Defense | 0.0% | 0.0% | 0.0% |
| 703 | Public order and safety | 2.9% | 0.0% | 0.0% |
| 704 | Economic activity | 11.6% | 13.3% | 14.3% |
| 705 | Environmental protection | 1.4% | 1.8% | 1.9% |
| 706 | Housing and utility services | 21.6% | 26.6% | 25.0% |
| 707 | Healthcare | 3.7% | 5.6% | 6.4% |
| 708 | Recreation, culture and religion | 17.1% | 4.9% | 5.3% |
| 709 | Education | 10.6% | 14.4% | 17.0% |
| 710 | Social protection | 22.7% | 23.7% | 20.8% |
| | Total¹³ | 100.0% | 100.0% | 100.0% |

Source: Tbilisi 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, however, has more than doubled since 2015.

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

| | 2015 | 2016 | 2017 |
|---|-------|-------|-------|
| Expenditures¹⁴ | 100% | 100% | 100% |
| Labor remuneration | 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% |
| Grants | 2.8% | 0.1% | 0.1% |
| Social security | 21.3% | 24.5% | 22.6% |
| Capital expenditures (including grants) | 38.7% | 32.3% | 33.9% |

Source: Tbilisi Finance Department

¹³ Totals may not add up to 100 due to rounding of components

¹⁴ Totals may not add up to 100 due to rounding of components.

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. This law 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 Arrangements For Decentralisation

39. 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 a coordination 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 de-concentrated district branches for all major line ministries (health, education, social welfare), while current local governments did not receive any responsibilities in these sectors other than communal affairs, local roads, kindergartens, and some public health programs and supplementary financing of healthcare. However, in addition to designating a number of specific functions as municipal responsibilities, the organic law on Local Self-Government also contains: (a) a "general competence" clause allowing local governments to perform functions beyond those specifically enumerated in the law as

long as they are not explicitly disallowed in the legislation; and (b) in addition a clause that allows for delegation of functions to local authorities by law or through intergovernmental agreements. All other sectors are now mostly administered directly from the central government’s line ministries and agencies. Nevertheless, at the subnational level, expenditures are reported on social programs (10.6 percent of consolidated SNG expenditures in 2017) and some health services (3 percent of consolidated SNG expenditures also in 2017).

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 for 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 Tbilisi municipality in terms of spending units. There are overall 110 budgetary units that deliver services of which 14 include the executive and services departments as well as the Sakrebulo. The municipality is divided into 10 districts, but these are not independent (lower tier administration) from the Mayor and the executive branch. There are 86 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 TBILISI MUNICIPALITY - NUMBER OF ENTITIES

| | <i>Public Sector (Year: 2017)</i> | | | | |
|-------------------------|---------------------------------------|------------------------------|------------------------------|--|--------------------------------------|
| | <i>Government Sub-sector</i> | | | <i>Public Corporation Sub-sector</i> | |
| | Budgetary Units | Extra-budgetary Units | Social Security Funds | Non-Financial Public Corporations | Financial Public Corporations |
| Tbilisi-Budgetary Units | 110 | 0 | 0 | 41 of which 15 are dormant | 0 |
| Spending units | 14 | | | | |
| Districts | 10 | | | | |
| LELPs/N(N)LEs | 86 | | | | |

Source: Tbilisi Finance Department

TABLE 2.4.2: STRUCTURE OF TBILISI 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) | 855,275.5 | | | 855,275.5 |
| Transfers to (-) and from (+) other units of general gov't | 347,550.4 | | | 347,550.4 |
| Expenditure | 692,627.0 | | | 692,627.0 |
| Liabilities | -4,394 | | | -4,394 |
| Financial Assets | 158,986 | | | 158,986 |
| Non-financial assets | 45,546 | | | 45,546 |

Source: Tbilisi 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 commission¹⁵ 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. There is sharing of some parts of income tax between central and local government. 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 by 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.

¹⁵ 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 two out of the three years the deviation of actual grants from the original budgeted grants was more than 95% of the original budget. In 2015, 126%, in 2016, 91% and in 2017 it was 104%. |
| 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, or with some front-loading, 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 Georgia¹⁶. 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: $T=E-R$.

¹⁶Decree 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 above mentioned 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 decree¹⁷;
 - 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 HLG 1.

¹⁷ 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 HLG 1.1: TOTAL BUDGET AND ACTUAL GRANTS (GEL)

| Grants | 2015 | 2016 | 2017 |
|-----------------|-------------|-------------|-------------|
| Budgeted Grants | 412,682,200 | 272,857,700 | 332,638,100 |
| Actual Grants | 518,944,349 | 246,946,854 | 347,497,100 |
| % Deviation | 126% | 91% | 104% |

Source: Tbilisi Finance Department

52. In 2015 the deviation of actual grants from the original budgeted grants was 126%, in 2016, it was 91% and in 2017, it was 104%. In two out of the three years it was more than 95% 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 annex 5 table 11.

54. The rate of deviation in grants by type of grants was 41.0% in 2015, 18.7% in 2016, and 8.6% in 2017 as information on some of the special grants in response to emergency situations and capital grants are provided after the budget 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 years¹⁸. 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 some years disbursements of equalization grants have been made in advance and consequently adjusted in the subsequent transfer as presented in the annex. Otherwise, all grants are transferred as per schedule. Score A.

¹⁸ As shown in Annex 5 table 11 using the PEFA excel sheets to calculate composition deviation (as in PI-2.1)

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 | A | |
| 1.1 Aggregate expenditure outturn | A | In 2 out of the 3 years the deviation was less than 5 percent (2.6% and 0.1%) and in the third year (2015) it was 6.9%. |

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: Tbilisi Finance Department

58. The table show that deviations between the actual expenditure (current and capital) and the budget were as follows: in 2015 – 106.9%, in 2016 – 97.4%, and in 2017 – 100.1%. The reason for the higher deviation in 2015 was increased expenditure due to flooding and European Youth Summer Olympic festival which was held in Tbilisi. Score A.

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 | B+ | |
| 2.1 Expenditure composition outturn by function | B | In 2 out of the 3 years the deviation was less than 10 percent (6.0% and 6.1%) and in the third year (2015) it was 22.6%. |
| 2.2 Expenditure composition outturn by economic type | B | In 2 out of the 3 years the deviation was less than 10 percent (6.1% and 9.0%) and in the third year (2015) it was 33.0%. |
| 2.3 Expenditure from contingency reserves | A | Actual expenditure charged to the contingency fund was 0% in all three years and was 0.3% in the budget. |

2.1 Expenditure Composition Outturn by Function

60 Actual and budgeted expenditures by function are presented in annex 5 tables 2 to 5. The deviation in expenditure structure according to the functional classification is 22.6% in 2015, 6.0% in 2016, and 6.1% in 2017. Score B.

2.2 Expenditure Composition Outturn by Economic Type

61. Actual and budgeted expenditure by economic classification are presented in annex 5 tables 6 to 8. The rate of deviation in expenditure structure by economic classification is 33.0% in 2015, 6.1% in 2016, and 9.0% in 2017. The reason for the high deviation in 2015 is due to the floods and European Youth Summer Olympic festival, but also the transfer of emergency services from the municipality to the Ministry of Internal Affairs of the Central Government during the year. This was accommodated by payment of unbudgeted grants during the year. Score B.

2.3 Expenditure from Contingency Reserves

62. Under the Tbilisi 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 0.3% 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 | C+ | |
| 3.1 Aggregate revenue outturn | B | Aggregate deviation was between 94 and 112 percent in two of the three years (101.6% and 108.3%). |
| 3.2 Revenue composition outturn | C | Variance in revenue collection was less than 15 per cent in two of the three years. In 2015 was 32.5%, 13.4% in 2016 and in 2017, 12.4%. |

3.1 Aggregate Revenue Outturn

64. Actual and budgeted revenue by broad generic type are presented in Annex 5, tables 9 to 11.

TABLE 3.1 ACTUAL REVENUE AS % OF FORECAST REVENUE

| Year | Actual as % of Forecast Revenue |
|------|---------------------------------|
| 2015 | 119.2% |
| 2016 | 101.6% |
| 2017 | 108.3% |

Source: Tbilisi Finance Department, Annex 5 Tables 9 to 11

65. As the deviation between actual revenues collected was between 94% and 112% of budgeted revenue in two out of the three years this dimension is scored B.

3.2 Revenue Composition Outturn

66. The deviation rate in revenue structure in 2015 was 32.3%, 13.4% in 2016 and in 2017 it had dropped slightly to 12.4%.

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 by 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 less than 15% in two of the three years, this dimension scores C.

TABLE 3.2 DEVIATION IN PERFORMANCE STRUCTURE

| Year | Deviation Percentage |
|------|----------------------|
| 2015 | 32.3% |
| 2016 | 13.4% |
| 2017 | 12.4% |

Source: Tbilisi Finance Department Annex 5 Tables 9 to 11

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 Georgia¹⁹. It is defined in more detail by the order of the Minister of Finance.²⁰ 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 2001²¹) 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 GFS²². 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 organizational classification and provides, at least, the same level of detail as the GFS second and third levels.

¹⁹ Budget Code of Georgia, Article 8.

²⁰ Order N672 of the Minister of Finance of Georgia, August 25, 2010.

²¹ 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.

²² GFS includes three levels (Ministry, Directorate and below)

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 | A | Budget documentation fulfils eight out of the 10 applicable elements, including the four basic elements and four additional elements. |

5.1. Budget documentation

77. Based on the table below the budget documentation meets 8 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 documentation includes information on fiscal data, including fiscal balance, for the last, current and forecasted years. ²³ |
| 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 | Yes | Tbilisi budget presents, in chapters II - IV and VI, 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. ²⁴ |

²³ <https://matsne.gov.ge/ka/document/view/3925152>

²⁴ <https://matsne.gov.ge/ka/document/view/3925152>;

| No. | Criteria | Achievement (yes / no) | Relevant Justification / Comment |
|----------------------------|---|------------------------|--|
| | aggregate level or the same 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 | Tbilisi budget presents, in chapters II - IV and VI, 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. ²⁵ |
| 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. ²⁶ |
| Additional Elements | | | |
| 5 | Deficit financing, describing its anticipated composition. | Yes | Sources of deficit financing are presented in Article 2 of the budget proposal. ²⁷ |
| 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. ²⁸ |
| 7 | Debt stock, including details at least for the beginning of the current fiscal year presented in accordance with GFS or other comparable standard. | Yes | Information on outstanding debt stock according creditors is presented in Article 11 of the budget proposal. Currently there are two outstanding debts for projects financed by EBRD and Municipal Development Fund of Georgia (MDFG – LEPL). ²⁹ |
| 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 |

²⁵ <https://matsne.gov.ge/ka/document/view/3925152>

²⁶ <https://matsne.gov.ge/ka/document/view/3925152>

²⁷ <https://matsne.gov.ge/ka/document/view/3925152>

²⁸ <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.

²⁹ <https://matsne.gov.ge/ka/document/view/3925152>

| No. | Criteria | Achievement (yes / no) | Relevant Justification / Comment |
|-----|--|------------------------|---|
| | | | and end of fiscal year is presented in budget execution reports ³⁰ . |
| 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. | Yes | The draft of the budget, its annexes, definitions and related / supporting documentation, including the municipality's Priorities Document. It comprises information on priorities of budgetary institutions and programs and measures to be implemented by them; Description of programs / subprograms / measures, as well as expected results. Revenue measures are not relevant given the nature of the tax structure. |
| 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 projection of expenditure, revenue, and fiscal balance. | Yes | The municipality Priorities Document includes medium-term fiscal forecasts, which contains projections for the main headings of revenue and main economic headings of expenditure, as well as the fiscal balance, for the budgeted years and the next 3 years. |
| 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 A relating to all relevant categories for the municipality of Tbilisi.

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.

³⁰ <http://tbilisi.gov.ge/page/43>

| 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 Legal Entities of Public Law (LEPL) and 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. Annual execution reports are presented in a separate attachment together with relevant reports on the municipality's budget performance. This information is available on the website of the Municipality³¹. 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. 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 City of Tbilisi, this does

³¹ <http://tbilisi.gov.ge/page/43>

not apply. The city has 10 districts, but these are implementing units of the city’s administration and are not independently funded by transfers from the city.

| 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 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 | B+ | |
| 8.1 Performance plans for service delivery | B | Information is annually prepared and published according to program objectives of the municipality. It includes performance indicators, programs about intermediate and final results or outcomes. |
| 8.2. Performance achieved for service delivery | B | Information is provided on results of the priority programs /subprograms implemented by municipality spending units. Performance Assessment Indicators are published in the annual budget execution report. |
| 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. |

| Indicator/Dimension | Minimum Requirements (Scoring Method M2 AV) | |
|--|---|---|
| | 2018 Score | Brief Justification for Score |
| 8.4. Performance evaluation for service delivery | B | Assessment of efficiency and effectiveness of service delivery has been prepared and published in reports of the Sakrebulo's Audit Commission, the Municipality's Internal Audit Unit and the Supreme Audit Office compliance audits covering the municipality's expenditure in the previous three years. |

85. For Central government operations program-based budgeting was introduced in 2010. Program budgeting was introduced for subnational governments 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. The preparation of the program budget is based on outputs to be produced (results) and its format includes assessment indicators (basic and targeted indicators, probability of failure and possible risks) of expected interim and final outcomes by programs / subprograms as defined in the framework of priorities defined in the Municipality Priorities Document (MPD) and the country's Basic Data and Directions Document (BDD) which includes an annex for each municipality. Annex³² of the program-based budget is attached to the draft Municipal Budget, which is submitted to Tbilisi Sakrebulo.

8.1 Performance Plans for Service Delivery

86. The current budget framework with programs, subprograms, and cost centers allows for information about service delivery planned by the spending units including districts. This program information covers the complete budget. The presentation of programs together with their objectives at each level, expected interim and final outputs and outcomes measured with performance indicators to assess the achievement of the program's objectives such as numbers of persons screened for cancer by cancer type, number of buildings rehabilitated, kilometers of roads improved, etc. Descriptions of some programs omit outcomes and outputs are presented as outcomes. Some programs outputs are not measurable. This provides relevant information for service delivery's evaluation, even though improvement is needed to refine key performance indicators. The program-based budget of the municipality's spending units and districts includes all this detailed information.

87. Based on the above mentioned, assessment of the dimension is B as all of the programs have either an output or outcome indicator specified. Score B.

8.2 Performance Achieved for Service Delivery

88. The Municipality publishes an annual report on interim and final outputs and/or outcomes of programs and sub-programs of all spending programs. Information on the financial performance of programs is also prepared on a quarterly (3, 6 and 9 months) and annual basis and these are available on the website of the Municipality³³.

³²<http://tbilisi.gov.ge/page/43>

³³ <http://tbilisi.gov.ge/page/43>

89. The annual budget performance report outlines the performance of planned outputs and outcomes with indicators. It shows if key objectives are met during the year for the various priority programs including LELPs covering transport, health and social divisions and pre-school education support units inter alia. Some program outcomes are not presented or included as outputs. Some indicators are not measurable. Explanation for main divergences or inconsistencies is documented. This annual report of the municipality budget performance is provided to the Sakrebulo no later than 2 months after the end of the fiscal year.

90. The annual budget execution reports are available on the website of the Tbilisi City Hall³⁴. The dimension is scored B.

8.3 Resources Received by the Service Delivery Units

91. In accordance with the Budget Code of Georgia, the budget is consolidated and includes 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 expenditure from own source revenue has also to be channeled through the TSA. Own source revenue has first to be paid into the TSA subaccount before it can be transferred to a deposit account. This information is included in the budget execution reports.

92. For Tbilisi municipality spending can be tracked by individual kindergartens, museums, art and musical schools, and cultural units. Spending on health is outsourced to individual clinics and can also be tracked.

93. Based on the above mentioned, the dimension score is A.

8.4 Performance Evaluation for Service Delivery

94. The Sakrebulo Audit Commission carries out assessments to evaluate the operations of the municipality. The commission has examined operations of 9 units of Tbilisi City Hall, 38 LEPL/NPOs and 6 MOEs in 2015. 17 units of Tbilisi City Hall, 9 LEPL/N(N)LEs and 3 MOEs were examined by the Audit Commission in 2016. 12 Units of Tbilisi City Hall, 11 LEPL/N(N)LEs and 1 MOE were examined by Sakrebulo Audit Commission in 2017. The focus is on implementation of programs of specific spending institutions, on planned and achieved results and indicators. In addition, the Tbilisi City Hall Internal Audit unit undertakes compliance audits as part of its activities.

95. The State Audit Office prepares reports and makes recommendations on service delivery performance at municipality budget level. The SAO's focus is on identifying systemic deficiencies and issuing relevant recommendations. In 2014-2016, the State Audit Office conducted 6 compliance audits and 1 financial audit which covered municipality and districts operations.

96. Consequently, the rating of the dimension is B as over 50% and less than 75% of the municipality expenditure³⁵ is deemed to be covered by the Sakrebulo Audit Commission. Score B.

³⁴ <http://tbilisi.gov.ge/page/43>

³⁵It has not been possible to calculate the share of Audit Commission's audited branches. The audited period does not fall in a single year only and may cover several months of current year and previous years as well.

PI-9. Public Access to Fiscal Information

97. 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 the 4 basic elements of listed information. |

98. The following elements are made publicly available:

- i. **Annual executive budget proposal documentation**³⁶ - The executive budget proposal, together with the supporting documentation and within the timeframe established by the law is available on the web-site of the Tbilisi Sakrebulo within one week after submission of the proposal by City Hall.
- ii. **Enacted budget**³⁷ - The annual budget approved by the Sakrebulo is available to the public on the website of the Tbilisi City Hall on the date of its approval. 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)³⁸ are submitted to the Sakrebulo together with the supporting documentation and materials within one month from the completion of the quarter and are uploaded on the web-site of the Tbilisi City Hall after their submission.
- iv. **Annual budget execution report**³⁹ - The Tbilisi annual budget report is presented to the Sakrebulo within two months after the end of the year and is available at Tbilisi City Hall web site immediately after presentation. 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 Tbilisi’s Financial Statements was in 2016 and covered the years 2014 and 2015 and was published on the SAO website⁴⁰. There is no audit report for the 2016 financial report. The SAO produced the audit of the 2017 financial statements in August 2018 and it is expected to be published in October 2018. The element is not met.

³⁶<http://tbsakrebulo.gov.ge>

³⁷<http://tbilisi.gov.ge/page/43>;

³⁸ <http://tbilisi.gov.ge/page/43>

³⁹<http://tbilisi.gov.ge/page/43> ;

⁴⁰<http://sao.ge/audit/audit-reports>

Additional Elements:

vi. **Pre-budget statement**⁴¹ - 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 the MPD is not ready or published before 4 months of the budget year start.

vii. **Other external audit reports**- The State Audit Office prepares a report on spending performance on selected activities in the municipality. It issues the annual report on the activity of the Audit Office. All reports of the State Audit Office are available on its website⁴² and are placed there immediately after submission.

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

ix. **Macroeconomic forecasts**⁴³- 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. This element is not applicable.

99. The rating is B as the 4 basic and 2 additional elements are available to the public. Score B.

⁴¹<http://mof.ge/5075>;

⁴²<http://sao.ge/audit/audit-reports>

⁴³<http://mof.ge/5075>

PILLAR THREE: Management of Assets and Liabilities

PI-10. Fiscal Risk Reporting

100. 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, public corporations, and contingent liabilities from subnational government’s own programs and activities, including extra budgetary units. They can also arise from other implicit and external risks such as market failure and natural disasters. 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 Tbilisi 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 | C | |
| 10.1 Monitoring of public corporations | C | The municipality receives financial reports from all the municipality owned public corporations within 3 months of the end of the fiscal year. Submitted financial reports are audited except for four MOE reports which include the two biggest MOEs. Financial reports are not published. A consolidated report on the financial performance of the public corporation sector is produced by the Municipality Property Agency but is not published. |
| 10.2 Monitoring of subnational government | NA | |
| 10.3 Contingent liabilities and other fiscal risks | NA | |

10.1 Monitoring of Public Corporations

101. The Municipality Property Agency is responsible for managing the municipality's owned enterprises which includes active and dormant enterprises. As of end of 2017 there were 41 Municipality owned enterprises (MOE). 15 are dormant and the liquidation process is ongoing. Management of 11 MOEs is carried out by private management companies with signed management contracts. Privately managed companies provide periodic (as agreed in management contract) external audit reports on the status of fulfillment of their obligations under the management contract. Municipality Property Agency actively manages 15 MOEs'.

102. Municipality Owned Enterprises are not allocated loans from the budget nor do they receive guarantees. They may receive equity injections from the Municipality if it considered necessary by the administration.

103. A number of organizations submit audited comprehensive information on financial statements. Information supplied by the Municipality Property Agency shows that in 2018 of the 15 active municipality owned enterprises, 4 submitted financial statements for 2017 without an audit report. These included the two largest, Tbilisi Transportation Company and TbilServiceGroup (Waste Management)⁴⁴.

104. The Municipality Property Agency produce a summary table of the main financial characteristics of all the enterprises covering revenues and expenditure, profit/loss and dividends, assets, claims and liabilities, long term assets and equity as well as the date of submission of the financial statement (and whether audited). While the dates of submission of those with audited financial statements is less than three months from the end of the financial year, the significance of those failing to submit audited statement means that the dimension score is C.

10.2 Monitoring of Subnational Government

105. Not Applicable to the Municipality. Score NA.

10.3 Contingent Liabilities and Other Fiscal Risks

106. There are no contingent liabilities applicable to the municipality. All other fiscal risks in this dimension are 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 Tbilisi. Score NA.

PI-11. Public Investment Management

107. 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.⁴⁵

⁴⁴ The Waste Company has provided copies of audit report for FY 2015 and 2016 and are in the procurement process for the audit services for FY 2017. For the Transportation Company the most recent audit was performed in 2015 covering FY 2014.

⁴⁵ Georgia PER Diagnostics of Public Investment Management System June 2014 provides useful background information that is still relevant.

| 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 | B | Projections of the total capital cost of investment projects for the implementing timeframe, together with the collective recurrent costs for the forthcoming budget year, and next three years are included in the budget documents. |
| 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. |

108. 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*.

11.1 Economic Analysis of Investment Proposals

109. Economic analysis is carried out for some of the investment projects that are financed by donor organizations. This economic analysis is conducted by the financing agencies and in the recent past only 2 projects qualified but none in 2017. There has been no economic analysis for municipality funded investment. Score D.

11.2 Investment Project Selection

110. Investment projects are prioritized in line with the municipality's strategic objectives before their consideration in the budget. There are, however, no standard criteria to guide the process. Assessment is based on problem solving solutions to issues such as traffic jams though the application of intuition and judgment. Nominated projects are proposed to the budget Task Force comprising the Mayor and deputy Mayors and the heads of the priority services and the 10 Districts. Final selection is based on how these projects fit with the

municipality’s program priorities that has been established at the start of the budget formulation process. All of the projects implemented are prioritized in this way but there are yet no standard criteria which are required to score higher. Score C.

11.3 Investment Project Costing

111. Investment / Capital Projects are provided for the year to be planned and for the next 3 years in the budget documentation. The recurrent costs implications are factored into the budget as a whole for the budget year and outer years but not broken down by individual projects. The investment documents do however include running costs as well as capital costs of a given project. These documents are part of the overall budget documentation. Score B.

11.4 Investment Project Monitoring

112. Monitoring of project implementation including both physical such as volumes of inputs like concrete and cost is outsourced to appropriate consultancy/companies. Supervisory and inspection field visits are carried out the Project Task Management team which acts as coordinators for the different commissioning agencies such as water and telecom companies. These are done quarterly and during the implementation and warranty periods. Costs are monitored against budget in order to flag cost overruns so that any issues are known and can be addressed in a timely manner. There are standard procedures for monitoring and these are followed and adhered to.

113. Both quarterly and annual performance reports are provided to the Sakrebulo. The annual execution reports which are published have performance indicators related to the implementation of capital projects. Score B.

PI-12. Public Asset Management

114. This indicator assesses the management and monitoring of government assets and transparency of asset disposals. The assessment is based on the fiscal year 2016. Coverage for dimension 12.2 is Budgetary 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 real (market) value. Information on the performance of the major categories of financial assets is published annually. |

| Indicator/Dimension | Minimum Requirements (Scoring Method M2 AV) | |
|-------------------------------------|---|--|
| | 2018 | Brief Justification for Score |
| 12.2 Non-financial asset monitoring | C | 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

115. Issues related to financial assets are regulated by the Budget Code of Georgia, by the Law of Georgia on Public Debt, by the Law of Georgia on Tax Liabilities and State Loans, Restructuring, etc. Financial assets include various instruments such as loans, shares in authorized capital, etc. The municipality Treasury is responsible for accounting and monitoring of loans issued by internal and external credit resources. Shares in authorized capital are recorded in the financial statements of the municipality, mostly in the amount of the contributions made. Financial Data on loans according to the Government Finance Statistics Manual 2001 (GFSM 2001) is given in the annual financial statements.

116. 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 which are published on the municipality website. Financial assets are mainly estimated at the acceptance (initial) value, and in rare cases at fair (market) value. Score B.

12.2 Non-Financial Asset Monitoring

117. Non-financial assets are recorded in different registers without value – for recording, storage and maintenance purposes. These registers include movable and fixed assets such as land and buildings, cultural heritage assets (works of art, monuments, etc.), infrastructural assets (bridges, roads, etc.) and others such as desks, computers and vehicles.

118. For determination of the value of non-financial assets the cost of acquisition is mainly used. In some cases, the real (market) value is used e.g. for realization purposes. This 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 | Tbilisi architectural services www.tas.ge maintain a record of buildings as does reestri.gov.ge . However, 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, Art specimens, Other values | 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 |
| Non-Produced Assets | Land | In financial statements of municipality | www.tas.ge provides information on land ownership as does www.reestri.gov.ge . |
| Movable Assets | Vehicles | List of vehicles by age | Municipality and LELPs. |
| | Furniture, Computers, etc. | Ledger | Each spending unit and district. |

119. 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. Score C.

12.3 Transparency of Asset Disposal

120. 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 privatization, leases and dividends. In addition, the Agency produces ad hoc reports to the Administration and the Sakrebulo.

121. The Law on State Property provides comprehensive rules and procedures for the disposal of assets and this is available on the website⁴⁶. The agency sells the largest part of municipality property in the form of electronic auctions according to procedures as defined by the law. 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

⁴⁶ <https://matsne.gov.ge/ka/document/view/112588>

proceedings is public and can be accessed via a website⁴⁷. In addition to the above listed information, reports also include information on sale price. Score A.

PI-13. Debt Management

122. 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 | Debt records are complete, accurate, and updated when payments have been made or loans undertaken. Comprehensive management and statistical reports covering debt service, stock, and operations are produced quarterly as part of the budget execution reports, but reconciliation is done semi-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 assessment of the Municipality’s capacity to undertake and service debt is carried out by the lending agencies. Municipality does not have a debt management strategy. |

13.1 Recording and Reporting of Debt and Guarantees

123. The Municipality Treasury Service maintains complete and updated information on its debt. At the time of the assessment the municipality had two loans: i) from Central Government controlled LEPL “Municipal Development Fund” and ii) another on lent by the Ministry of Finance of Georgia on the same terms

⁴⁷ <http://auction.tbilisi.gov.ge>

and conditions that it undertook when receiving the original loan from the European Bank for Reconstruction and Development. The municipality has recently paid off a third loan.

124. Loan agreements are registered promptly. 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 the quarterly reporting requirements.

125. Payments are done quarterly on Municipal Development Fund loans and semi-annually on the Ministry of Finance on-lent loan. Comprehensive management and statistical reports covering debt service, stock, and operations are produced quarterly as part of the budget execution reports, but reconciliation is done semi-annually. As there are no monthly payments, there is no need to have monthly reconciliations. Score C.

13.2 Approval of Debt and Guarantees

126. 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.

127. 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)⁴⁸ 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).

128. Additional regulations of subnational debts and 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. Tbilisi municipality loan stock limit depends on the annual repayments: annual repayments (interest + principal) should not exceed 5% of Tbilisi municipality own 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 in-advance approval is needed to issue municipal guarantee (Article 100). Score A.

⁴⁸ Except for Eurobonds

13.3 Debt Management Strategy

129. The assessment of the Municipality's capacity to undertake and service debt is carried out by the lending agencies as part of its risk assessment before undertaking to provide loan financing. However, Tbilisi Municipality does not have its own debt management strategy. Score D.

PILLAR FOUR: Policy Based Fiscal Strategy and Budgeting

PI-14. Macroeconomic and Fiscal Forecasting

130. 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 is for dimension 14.1: Whole Economy and for Dimensions 14.2 and 14.3: Central Government.

131. 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 budgets⁴⁹.

| 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

132. 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.

⁴⁹ 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 | B | |
| 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 and the outer years as part of the budget preparation process, they are not necessarily specified individually. |
| 15.2 Fiscal strategy adoption | A | The municipality has adopted, submitted to the Sakrebulo, and published a current fiscal strategy for the budget year. |
| 15.3 Reporting on fiscal outcomes | A | The municipality prepares reports that include information on progress against its fiscal strategy. |

15.1 Fiscal Impact of Policy Proposals

133. All expenditures that result from changes in policy and programs are quantified for the budget year and the outer years 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 cost is included for the program as a whole and not specified by individual project (as outlined in 11.3). There are 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.

134. 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

135. Under the Budget Code, municipalities cannot borrow to finance any 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 and quantifiable information on revenues and expenditure and the resulting fiscal balance for the budget and subsequent two years. This information is included in the budget and supporting budget priority document that is submitted to the Sakrebulo. The fiscal strategy is embodied in the budget that is proposed and adopted in the municipality. Score A.

15.3 Reporting on Fiscal Outcomes

136. 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 (which is in itself quantifiable). Score A.

PI-16. Medium-Term Perspective in Expenditure Budgeting

137. 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 was 2017, and the current budget is 2018. The coverage is Budgetary Subnational Government.

| Indicator/Dimension | Minimum Requirements (Scoring Method M2 AV) | |
|--|---|---|
| | 2017 Score | Brief Justification for Score |
| PI-16 Medium-term perspective in expenditure budgeting | C+ | |
| 16.1 Medium-term expenditure estimates | A | The annual budget presents estimates of expenditure for the budget year and the two following fiscal years allocated by administrative, economic, and program (or functional) classification. |
| 16.2 Medium-term expenditure ceilings | D | Aggregate expenditure ceilings only for the budget year and spending unit-level ceilings only for budget year are approved by the municipality and issued for final budget proposals. |
| 16.3 Alignment of strategic plans and medium-term budgets | B | There are strategy plans that inform the priorities of the spending units and the allocation of resources to implement them. Municipal Departments and Districts (Spending Units) do not prepare sector strategies. |
| 16.4 Consistency of budgets with previous year’s estimates | D | The number of changes between the second year of the previous MTEF and the actual budget in the following MTEF is not assessed. The spending units do examine why nonperformance may have occurred as part of the budget formulation process in preparing the budget. |

16.1 Medium-Term Expenditure Estimates

138. The 2018 – 2021 Municipality’s Priorities Document, as part of the 2018 budget documentation, provides estimates for the budget year and the following three years annually on economic, administrative bodies and their related programs breakdown. However, the actual budget document itself covers only the budget year as it authorizes spending for the budget year only. Score A.

16.2 Medium-Term Expenditure Ceilings

139. 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 Municipality Budget Task Force and discussed with the spending units. Once the municipality receives information on grants from the Central Government, a budget circular is issued with ceilings for each spending agency for the budget year only. The budget proposals are finalized based on these ceilings. These ceilings are hard although the spending agencies are permitted to enter, as a separate entry in the e-budget system, a request and justification for additional resources to fund their programs. These will be considered as part of the subsequent budget negotiation process but are not certain to be granted.

140. The budget circular sets program (aggregate) expenditures for the budget and subsequent three year period based on Municipality’s Priorities Document. However, these are not based on ceilings that guide strategic allocation but are just forecasts of the likely aggregates of revenue and expenditure. These are not approved by the Sakrebulo. Score D.

16.3 Alignment of Strategic Plans and Medium-Term Budgets

141. 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 legislation⁵⁰ 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 these steps ensure a close relation between the policy documents, strategic strategies and budgets. The Tbilisi Priorities Document shows that this methodology has been followed and sector strategies are in place for all programs presenting outputs/outcome targets. Municipal Departments and Districts (Spending Units) do not as yet prepare aspirational sector plans to inform their sector strategies and resultant action plans but each program is underpinned by its strategic objectives. However, the Urban Development and Transport Departments of Tbilisi Municipality has been working on their sector plans. All

⁵⁰On 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).

of these programs are costed though assigning relevant expenditure to program economic categories in the budget and municipality priority documents. Score B.

16.4 Consistency of Budgets with Previous Year’s Estimates

142. The number of changes between the second year of the previous MTEF and the actual budget in the following MTEF is not assessed. 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

143. 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.

| Indicator/Dimension | Minimum Requirements (Scoring Method M2 AV) | |
|---|---|---|
| | 2018 Score | Brief Justification for Score |
| PI-17: Budget preparation process | B | |
| 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 | A | The budget circular is comprehensive and covers total expenditure for the fiscal year. The spending units’ ceilings reflected in the circular are approved before the circular’s distribution to budgetary units. |
| 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

144. 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, indicates relevant dates for the municipality.

1. Before March 1 Municipality Decree sets out the activities to prepare the draft budget. A Task Force is established to develop a municipality priorities document for the budget year and next three years, annually.
2. Before June 1 the spending units present information on priorities based on a template which includes information on previous year’s performance and issues and updated plans for the budget year and next four years.

3. By July 15 the Municipality receives from the Ministry of Finance the draft Basic Directions Document which has information on macro/fiscal projections, revenue forecasts and equalization grants.
4. By August 31 the municipality spending units submit budget proposals (without ceilings having been notified).
5. From August 31 review of proposals by Task force and discussions with spending units on proposals.
6. October 5 municipality receives information on its grants and tax revenue from the Ministry of Finance.
7. October 20 based on revenue and spending requests, ceilings are issued for each spending unit approved by the Municipal Government.
8. By November 5 spending units submit budget proposals based on ceilings with supplementary requests as an annex if justified.
9. By November 15 municipality Finance Department prepares draft budget.
10. November 15 Budget submitted to Sakrebulo.

145. The budget calendar is clear and adhered to. However, it allows budgetary units only 2 weeks from receipt of the budget circular with ceilings to meaningfully complete their detailed estimates on time. Based on the analysis and supporting evidence, the score for this dimension is C.

17.2. Guidance on Budget Preparation

146. There is a comprehensive budget preparation process. Based on revenue forecasts submitted by the Ministry of Finance and the Municipality's Priority Document, the initial budget proposal is reviewed by Budget Task Force. Budget ceilings approved by the Municipal Government are issued for each spending unit. Based on budget ceilings, the budget circular is issued to all spending units.

147. The circular is prepared according to the Budget Code requirements (Article 77.4) and is clear and comprehensive. It covers total expenditure of the municipality for the fiscal year and contains expenditure ceilings for all the budgetary units. Based on the analysis and supporting evidence, the score for this dimension is A.

17.3. Budget Submission to the Legislature

148. Article 77.7 of the Budget Code stipulates that the Municipality must submit the draft budget to the Sakrebulo by November 15th. 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 14, 2015 |
| 2017 | November 13, 2016 |
| 2018 | November 15, 2017 |

Source: Tbilisi Finance Department

149. The score for this dimension is C as the submission is only 6 weeks before the start of the fiscal year. A higher score requires at least two months.

PI-18. Legislative Scrutiny of Budgets

150. 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 (2017) for 18.1, 18.2 and 18.4. For 18.3 last three completed fiscal years (2015, 2016 and 2017). Coverage: Budgetary Subnational Government.

| Indicator/Dimension | Minimum Requirements (Scoring Method M1 WL) | |
|--|---|---|
| | 2018 Score | Brief Justification for Score |
| PI-18: Legislative scrutiny of budgets | A | |
| 18.1 Scope of budget scrutiny | A | The Sakrebulo's review covers fiscal policies, medium-term fiscal forecasts, and medium-term priorities as well as details of expenditure and revenue. |
| 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. |

18.1. Scope of Budget Scrutiny

151. The Sakrebulo analyzes the fiscal policy, medium-term priorities, budget revenues and expenditures in detail. According to the Budget Code of Georgia (Articles 77.9 and 77.10) the draft budget along with supporting materials which is submitted to the Sakrebulo includes detailed information about the revenues and expenditures of the municipal budget.

152. The Tbilisi draft budget of 2018 was fully compatible with the requirements defined by the Budget Code and the Sakrebulo reviewed it in compliance with the requirements of the Rules of Procedure.

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

18.2. Legislative Procedures for Budget Scrutiny

154. The legislative procedures for budget scrutiny are approved before the start of budget hearings and follow Article 78 of the Budget Code and these are followed. These procedures define the internal organizational procedures of the Sakrebulo, such as:

- the respective responsibilities of the Property Management and Finance-Budgetary Committee and other legislative committees in the process,
- the existence of technical supports within the Sakrebulo such as the staff of the Property Management and Finance-Budgetary Committee, and
- negotiation procedures between the Mayor and the Sakrebulo, such as the existence of a submission of a second version of the budget proposal by the executive to the Sakrebulo (by 10th of December) after it comments on the proposals.

155. The Rules of Procedure specifically defines procedures for reviewing the draft budget law and its attached materials. The submitted documents are publicly available immediately after their submission to the Sakrebulo (Article 78.1). In addition to the above, and in accordance with the Rules of Procedure of the Sakrebulo, the Committee sessions are public, and information on the Committee sessions and their agenda is available on the website of the Sakrebulo. During the public hearings, public representatives (citizens, NGOs, associations) are part of the discussion and the format allows them to ask questions, express their views, argue, and debate.

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

18.3. Timing of Budget Approval

157. 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 26, 2015 |
| 2017 | December 16, 2016 |
| 2018 | December 15, 2017 |

Source: Tbilisi Sakrebulo website

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

18.4. Rules for Budget Adjustments by the Executive

159. 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.

160. 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

161. 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.

162. 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); and
- the central (or other higher-level) government collects revenues through its revenue authority and has sharing arrangements with the subnational revenue authority.

163. 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.

164. The City of Tbilisi does administer and collect local fees and other minor revenue categories which amount to 5% of its revenues. The administration of revenue collected from sales of goods is addressed in PI-12.3.

| 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

165. 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. Although revenue administration is conducted by the Georgia Revenue Services the indicator 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 a 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

166. 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 City of Tbilisi. As from January 2016, a monthly revenue performance report is produced for management. The monthly report compares performance against the same month in previous years. 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

167. 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

168. Revenue Services (RS) 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 tax payer, 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

169. 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 2.7% of the original budget. These were done in a transparent and predictable way. |

21.1. Consolidation of Cash Balances

170. 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 of Tbilisi. 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).

171. All municipality budgetary units transfer their revenue in the TSA except for the own revenues e.g. kindergarten and other LELPs, which are deposited in commercial banks. On average, Tbilisi current account deposits in commercial banks constitute less than 5% of total deposit volume. As of May 24, 2018, Tbilisi current account deposits in commercial banks were GEL 0.4 million and all deposits totaled up to GEL 70 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.

172. 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.

173. 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

174. 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.

175. 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 based on revenue inflows from grants (actual quarterly releases greater/less than forecast)⁵¹. 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

176. 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.

177. 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.

⁵¹ Annex 5 table 11

178. 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

179. In-year budget adjustments have to 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 Tbilisi Sakrebulo. The percentage increase in expenditure resulting from the supplementary votes was 2.7 percent.

TABLE 21.4 SUPPLEMENTARY BUDGETS (GEL MILLION)

| | Original Budget | Amended Budget | Difference | |
|-------------|-----------------|----------------|------------|------|
| Expenditure | 691.6 | 710.2 | 18.7 | 2.7% |

Source: Tbilisi Finance Department

180. 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.

181. Although the adjustments to the budget were done in a transparent and predictable way the number of changes is high (7) in 2017. Based on the analysis and supporting evidence, the score for this dimension is C.

PI-22. Expenditure Arrears

182. 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. |
| 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

183. 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.

184. Arrears are regulated by the Budget Code of Georgia and Tbilisi annual budget which require their coverage by the subprogram 10 26 (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

185. 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

186. 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 years (2015, 2016 and 2017). Coverage is Budgetary 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. |
| 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 |

| Indicator/Dimension | Minimum Requirements (Scoring Method M1 (WL)) | |
|---------------------|---|--|
| | 2018 Score | Brief Justification for Score |
| | | 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

187. The annual budget provides information on the number of employees and the budget for salaries approved by the Sakrebulo. The municipality (14 central service departments under the Mayor, each of the 10 districts and municipal LEPL/N(N)LEs) maintains and recruits staff within the parameters defined by the annual budget. 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 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

188. The 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

189. 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 LEPL/N(N)LEs) is the only person who can sign for changes related to the payroll although this can be and is delegated to the Heads of Departments and Heads of Districts. 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. There are 3 supervisors who are 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. Payroll data integrity is high as external auditors who conduct regular payroll audits consider the risk to be low. Score A.

23.4. Payroll Audit

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

PI-24. Procurement

191. 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.

192. 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. |
| 24.2 Procurement methods | B | As per public procurement legislation open competition above GEL 5,000 equivalent to US\$ 2000 is a default method. 73% 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: <ul style="list-style-type: none"> (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 |

| Indicator/Dimension | Minimum Requirements (Scoring Method M2 AV) | |
|--|---|---|
| | 2018 Score | Brief Justification for Score |
| 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

193. Information on the complete cycle of procurement is kept in the database of the Georgian E-Government Procurement System (Ge-GP) 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.

194. As this system is not unique to the municipality it is Not Applicable in terms of scoring given the PEFA Guidelines. Score NA.

24.2 Procurement Methods

195. 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 supplier⁵²; 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 TBILISI MUNICIPALITY PUBLIC PROCUREMENT STATISTICS, 2017 YEAR

| Title | All Contracts | Contracts Procured Through Use of Competitive Methods | | Contracts Procured Through Use of Non-Competitive Methods | |
|----------------------------------|---------------|---|-----|---|-----|
| | | Number | % | Number | % |
| Number of contracts | 6,090 | 1,517 | 25% | 4,573 | 75% |
| Value of contracts (GEL million) | 348.7 | 253.1 | 73% | 95.5 | 27% |

Source: State Procurement Agency

196. In 2017, 73% of all contracts procured through the GPA system by the various Tbilisi municipality procuring bodies. Score B.

24.3. Public Access to Procurement Information

197. 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.⁵³. 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 others will have ability to run evidence based analysis to contribute to improved procurement, governance and overall public finance management.

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

⁵² Or a preferred supplier in cases such as defence procurement.

⁵³ 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.

TABLE 24.3 AVAILABILITY OF PROCUREMENT INFORMATION

| 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 |

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

24.4. Procurement Complaints Management

200. 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 2016.⁵⁴ 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.

201. Under the amendments in Decree №17 of December 30, 2016⁵⁵ of 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 Paragraph 5 of Article 1 of the Rule approved by the Decree №1.⁵⁶ An electronic complaint form is available along with the instruction for its completion and filing.

202. Data on complaints with respect to Tbilisi procurement are:

⁵⁴ 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

⁵⁵ Chairman of the State Procurement Agency (effective since January 16, 2017)

⁵⁶ 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 24.4.1 TBILISI PROCUREMENT: COMPLAINS AND RESOLUTION

| | 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 Tbilisi Municipality | 136 | 16 | 32 | 88 |

Source: State Procurement Agency

203. 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 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 “d ² ” of paragraph 2 and Article 23, paragraphs 2 ² 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 |

| Procurement Related Complaint Criteria | Yes / No | Proof / Comment |
|--|----------|---|
| | | 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. |

204. Score D as criterion 1 was not met.

205. 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 million⁵⁷, 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 applicable⁵⁸. 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 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.

206. 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.

⁵⁷ the thresholds defined by the EU procurement directives.

⁵⁸ dated Feb 8th, 2018.

PI-25. Internal controls on Non-Salary Expenditure

207. 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 expenditures | 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. |

208. Effectiveness of internal controls for non-salary expenditures is ensured by the established Integrated Financial Management Information System (PFMIS). 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

209. 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.

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

- Entering data / preparing document in electronic form (performed by a responsible person);
- Confirmation after the electronic document has been filled out (performed by a responsible person);

- Submission of the electronic document to the State Treasury Service (performed by a responsible person).

211. 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 will include the personal number, name and surname, place of work, position, and contact information of an authorized person. There are 15 persons at the municipality who have authorized access (confirmation and submission levels) to the system. 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

212. 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)⁵⁹. 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

213. 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:

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

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

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

PI-26. Internal Audit

216. 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.

⁵⁹<https://matsne.gov.ge/ka/document/view/2665096>

| 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 Tbilisi 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

217. 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.

218. The Tbilisi Municipality Internal Audit Unit has 23 staff in three divisions: analytical, monitoring and internal audit. It undertakes compliance audits, inspection audits and effectiveness audits on a regular basis with system audits and IT audits less frequently with the latter on a pilot basis. Internal audit covers the whole of the municipality's operation. Score A.

26.2. Nature of Audits and Standards Applied

219. 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.

220. 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 Internal Audit Unit works closely with the CHU.

221. 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.

222. 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

223. 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.

224. The municipality Internal Audit Unit has both a three year strategic plan and an annual plan. In 2017 the annual plan, broken down by month, provided for 12 audits based on risk assessment and all were completed. Additionally, there were 25 unplanned inspections in response to management requests that were identified during the year. These were often as a result of complaints lodged with management⁶⁰.

225. The PEFA Assessment team examined the 2017 Annual Report, an Inspection Report on the Environment and Green Spaces Department and a Report on Illegal Construction relating to Cultural and Historical Buildings. 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.

226. Reports are provided to the Mayor and to each inspected unit. Score A.

26.4. Response to Internal Audits

227. 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.

⁶⁰ Some 2,000 complaints were received between 2014 and 2017. Investigations have led to 85 cases sent to the Prosecutor and 210 administrative violation resulting in internal action.

228. 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 Municipality Management.
 - 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.
229. Data supplied by the Internal Audit Unit on implementation of recommendations are as follows:

TABLE 26.4 TBILISI MUNICIPALITY INTERNAL AUDIT INFORMATION

| | 2015 | 2016 | 2017 |
|--------------------------------|-------------|-------------|-------------|
| Number of Audits Carried out | 12 | 14 | 10 |
| Number of Recommendations | 83 | 93 | 85 |
| Number implemented completely | 83 | 93 | 74 |
| Number implemented but ongoing | 0 | 0 | 11 |
| Number ignored | 0 | 0 | 0 |

Source: Tbilisi Internal Audit Unit

230. Score A.

PILLAR SIX: Accounting and Reporting

PI-27. Financial Data Integrity

231. 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 reconciles 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

232. 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

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

27.3. Advance Accounts

234. 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.

235. Travel payments are covered by per diems with days calculated in accordance with travel tickets provided by the Municipality. Any changes to an authorized travel plan which have implications for per diem payment has to be cleared within two weeks of travel. If a refund to the Municipality has not been made, it is deducted from the next salary payment.

236. 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. Advance payment clearance dates are checked on a regular base. Score A.

27.4. Financial Data Integrity Processes

237. 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.

238. 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

239. 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

240. 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.

241. 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 LELP's expenditure made through the TSA. Score A.

28.2. Timing of In-Year Budget Reports

242. Budget execution reports are prepared monthly within 10 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). Quarterly reports are published on the Tbilisi Municipality website⁶¹. Score A.

28.3. Accuracy of In-Year Budget Reports

243. 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 following discussions with the Sakrebulo's Audit Commission. 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 commitments. Score B.

⁶¹ <http://tbilisi.gov.ge/page/43>

PI-29. Annual Financial Reports

244. 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. Scoring is in line with the PEFA 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

245. 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.

246. 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.

247. 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 Tbilisi City Hall only. Information is not consolidated for the municipality.

248. 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

249. 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"⁶². 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 is met in each of the last 3 years.⁶³ Score D.

29.3. Accounting Standards

250. 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. Despite the standards not being disclosed in specific financial statements these standards (Orders of the Minister of Finance #1321 and #364) are publicly available and are considered as disclosed. Score C.

⁶² Article 88.2

⁶³ 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

251. 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 | C | 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 years of 2015 and 2017 was the full audit of the municipality city 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 | NA | 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. There were no recommendations relating to the audit carried out in 2016. |
| 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 |

| Indicator/Dimension | Minimum Requirements (Scoring Method M1 WL) | |
|---------------------|---|--|
| | 2018 Score | Brief Justification for Score |
| | | 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

252. 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.

253. 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 Tbilisi's municipality city hall was carried out in 2016 covering two fiscal years together (2014 and 2015) and one also covered 2017. There were compliance audits for 3 of the 10 districts and 2 programs (Property Management and Greenery).

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

TABLE 30.1 TBILISI MUNICIPALITY EXTERNAL AUDITS

| Audit Type | 2015 | 2016 | 2017 |
|------------------|------|------|------|
| Financial Audit | 1 | - | 1 |
| Compliance Audit | 2 | 2 | - |
| Total | 3 | 2 | 1 |

Source: State Audit Office

255. Over the 2015 to 2017 period some 52% of Tbilisi Municipality finance was subjected to external audit. Score C.

256. Four additional compliance audits are being carried out in 2018 covering the 2015- 2016 period.

30.2. Submission of Audit Reports to the Legislature

257. 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 Mayor and 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 Audit Commission only addresses recommendations that relate to the Sakrebulo’s operations as a spending unit, not as a 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.

258. 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 Tbilisi municipality (Mayor’s Office) but the financial audit did not.

259. There are 25 auditors⁶⁴ 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.

260. 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

261. 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 TBILISI IMPLEMENTED EXTERNAL AUDIT RECOMMENDATIONS

| Number of Findings | Number of Recommendations | Implemented Recommendations | Recommendations implemented % |
|--|---------------------------|-----------------------------|-------------------------------|
| 72 | 17 | 10 | 58% |
| of which financial audit⁶⁵ | | | |
| 13 | 0 | 0 | No recommendations |

Source: State Audit Office

262. Over the past three years there was no recommendation relating to financial audits for Tbilisi. The 2017 Audit has just been completed and the draft report has been reviewed by stakeholders. The report is expected

⁶⁴ With support staff in the main SAO office in Tbilisi.
⁶⁵ 2014- 2015 Audit only

to become available for the general public in October 2018. The recommendations, if any, are yet to be implemented. Score NA.

30.4. Supreme Audit Institution Independence

263. 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 appointed⁶⁶ 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 SAO.⁶⁷

264. The Law of Georgia on the SAO ensures that it operates independently from the executive with respect to the planning of audit engagements⁶⁸; arrangements for publicizing reports⁶⁹; and the approval and execution of the SAO's budget⁷⁰. The SAO also has unrestricted and timely access to records, documentation and information⁷¹. Score A.

PI-31. Legislative Scrutiny of Audit Reports

265. 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.

266. 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 Tbilisi municipality. However, 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'. Score D.

⁶⁶ Article 9 paragraph 1 of the Law of Georgia on State Audit Office, Auditor General.

⁶⁷ Article 10 paragraph d of the Law of Georgia on State Audit Office, Authority of the Auditor General.

⁶⁸ Article 17 paragraph 3 of the Law of Georgia on State Audit Office, Audit Authority of the State Audit Office.

⁶⁹ Article 25 of the Law of Georgia on State Audit Office, International Standards on Auditing.

⁷⁰ Article 34 of the Law of Georgia on State Audit Office, Funding of the State Audit Office

⁷¹ 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 |
| 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 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

267. There were no audit reports on Tbilisi submitted to the Sakrebulo. Score D.

31.2. Hearing on Audit Findings

268. There were no audit reports on Tbilisi submitted to the Sakrebulo. Score D.

31.3. Recommendations on Audit by the Legislature

269. There were no audit reports on Tbilisi submitted to the Sakrebulo. Score D.

31.4. Transparency of Legislative Scrutiny of Audit Reports

270. This dimension assesses the extent to which a subnational legislature scrutinizes external audit reports. Even though hearings are conducted at the Parliament in public⁷², except for national security or similar sensitive discussions, the hearings for municipalities are not conducted at the Sakrebulo for Tbilisi 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, then the score is D.

⁷² 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

271. Budget reliability in the municipality context depends for the most part on the reliability of information on grants to be received from the national government. This indicator scored A in terms of total grants and timely distribution but with weakness on targeted grants (Score D), a small element of the grants total. The challenges in producing accurate total revenue projections have been met in recent years; revenue actuals were relatively close in total overall (Score B) but composition less so (Score C) estimates. As a result, the aggregate expenditure side of the budget has scored A, with the expenditure composition both by administrative type and by economic type both scoring B. This overall result has been achieved in the context of strengths in virement (Score A) and the existence of supplementary budgets (Score C). The process of controlling budget allocations to match the availability of cash has been supported by good cash forecasting (Score A) with budgetary units having certainty in the availability of funds to execute their budgets as planned (Score A). There are no arrears (Score A) which reflects the strong commitment control.

Transparency of Public Finances

272. Georgia has an impressive array of information regarding the finances of the budgetary central government and this is replicated in the municipality. The CoA, which underpins budget preparation, execution and reporting, is comprehensive and consistent with GFS standards (Score A). Information is included in the budget on a timely basis. As a result, the budget documents include most of the basic, and much of the supplementary information, required to support a transparent budget process (Score A). This could be improved further by including information on financial assets and financial implications of new policy initiatives.

273. 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 government sectors is good (Score B+).

274. Public access to fiscal information is good (Score B) with most of required elements made available but lacking a citizen's (summary) budget.

Management of Assets and Liabilities

275. 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). Monitoring of investment implementation is rated higher at Score B. Reporting of risks associated with public corporations scores C as the overall consolidated overview is not published. Debt management is commensurate with need (Score A), but a debt management strategy (Score D) is delegated to the individual lender.

Policy-Based Fiscal Strategy and Budgeting

276. Good progress has been made 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 enough time to factor in ceilings. The legislature has adequate time to carry out its scrutiny function. A medium-term approach is taken to expenditure budgeting. However, baseline multi-year ceilings are just notional based on the approved forward estimates of the most recently approved prior budget (Score D). The budget is presented for the up-coming year and the following two fiscal years (Score A) with a focus on determining medium term expenditures aligned to strategic plans and medium-term budgets (Score B). Improvements can be achieved explaining any changes from previous expenditure estimates (Score D). The municipality fiscal strategy is related to not having a recurrent deficit that cannot be financed from savings and this is achieved and reported (Score B).

Predictability and Control in Budget Execution

277. Revenue administration is carried out by the Georgia Revenue Services. A revenue report is prepared monthly for the Municipality management (Score A).

278. The Municipality works in conjunction with the Georgian Treasury and 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).

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

280. All government contracts are procured through the Georgian E-Government Procurement System. 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. Seventy-three per cent of the value of contracts is procured through competitive procurement methods (Score B). 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).

281. 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 2015 to 2017 (Score A).

Accounting and Reporting

282. 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 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 good (Score A) as access and changes to records is restricted and recorded, and results in a sufficient audit trail.

283. 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 10 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).

284. The situation with respect to the annual financial reports is mixed (overall score of D+). The consolidated budget execution report for central government budgetary units are prepared annually and are comparable with the approved budget. There is also detailed analysis of performance. The financial statements generally contain full information on revenue, expenditure, financial and tangible assets, liabilities, guarantees and long-term obligations but just cover the City Hall 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

285. While external audit standards are an area of significant strength, annual audit coverage is not mandatory. The timing of audits should take place at least once every three years (Score D) 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 and there have been no recommendations to follow up. The independence of the SAO is assured by the Constitution of Georgia and the Law of Georgia on State Audit Office (Score A).

286. 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

287. 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.

288. 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.

289. 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.

290. 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.

291. 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.

292. 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.

293. In addition to these controls on financial transactions, the budget execution reporting system provides information on performance relating to service delivery, which enhances the overall control environment. In addition, the Sakrebulo Audit Commission and the State Audit Office conducts financial, compliance and performance audits, and makes recommendations on service delivery performance.

4.3 Strengths and Weaknesses of PFM

294. 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. 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

295. Aggregate fiscal discipline is achieved due to control over spending during budget execution, as well as relatively realistic revenue forecasts. Strong revenue administration ensures that revenues are efficiently collected. The planned budget on an aggregate basis is not circumvented using virement and supplementary budgets, although numerous (7 in all) only resulted in an increase in expenditure by 2.7 percent. Treasury operations and cash management enables expenditures to be managed within the available resources. Control of contractual commitments is effective and has removed expenditure arrears. The periodic strong external audit function enhances fiscal discipline. The activities of the Sakrebulo Audit Commission also provide an effective prop to fiscal discipline.

Strategic Allocation of Resources

296. The Chart of Accounts caters to a multi-dimensional analysis of expenditure. There is a strong link between the medium-term perspective in expenditure budgeting and strategic plans in the program budget approach to achieving results that is consistent with a strategic allocation of resources in the municipality's priorities document. There is an emphasis on the overall fiscal framework by the Central Government which feeds into the municipality's priority planning. 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

297. 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 which includes information on the realization of annual targets for outputs and objectives. The activities of the Sakrebulo's Audit Commission provide a counterbalance to the infrequency of external audit and the absence of their scrutiny. Publishing of performance targets and outcomes also supports the efficient use of resources in service delivery units. The activities of the municipality's internal audit unit also contribute to ensuring service delivery in this regard.

4.4 Performance Changes Since Previous Assessment

298. While the PEFA has been carried out using the 2016 methodology, it has been possible to score against the 2011 PEFA methodology, which was used in the previous PEFA assessment of Tbilisi in 2014. Across the 25 individual indicators compared, there has been an improvement in 11 indicators, deterioration in 2 and no change identifiable in 12 indicators. The comparison is shown in Annex 4.⁷³

⁷³ Annex 4 addresses issues that are found in the 2014 scoring: the use of M2 rather than M1 aggregation in some indicators and too high scoring in some dimensions given the knowledge of no change in process from the 2018 field work.

299. The comparison of the assessments indicates that between the two PEFAs that the following indicators (dimensions) have improved in relation to fiscal and budgetary outcomes.

Fiscal Discipline

- Aggregate actual expenditure compared to budget
 - Composition of expenditure outturns compared to original approved budget (variance in composition).
 - Aggregate actual revenue compared to budget
- Strategic Allocation of Resources*
- Comprehensiveness of information included in budget documentation
 - Public access to key fiscal information
 - Multi-year perspective in fiscal planning, expenditure policy and budgeting (costed sector strategies and investment linked to strategies) mainly due to implementing program based budgeting.

Efficient use of Resources for Service Delivery

- Predictability in the availability of funds for commitment of expenditures (cash flow forecasting and monitoring)
- Effectiveness of payroll controls (integration of personnel and payroll databases and payroll audits)
- Effectiveness of internal audit (frequency of reports)
- Timeliness of and regularity of accounts reconciliation (commitment controls)
- Scope, nature and follow-up of external audit (scope/nature/standards).

300. The main area of backsliding relates to earmarked grants and submission of accounts for audit, but these may have been scored too high in 2014, given the evidence of 2018 so there may have been no change in reality.

301. These improvements can be attributed to strong management of the PFM reform program in Georgia, which covered both the central and government levels.

5. Government PFM Reform Process

5.1 Approach to PFM Reforms

302. The history of PFM reform in Georgia is well documented in the publication Public Finance Management Reform in Georgia⁷⁴ 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.”

303. 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.

304. 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.

305. 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 reforms have been implemented using the internet and software such as the Public Financial Management Information System.

306. 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

⁷⁴ 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](#)

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

307. 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 SNGs 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.

308. 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.

309. 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.

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

311. 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. This was implemented for SNG budgets in 2015-2016.

312. 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.

313. 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, Tbilisi has not

yet established an effective monitoring structure for assessing the risk from its SOEs. 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

314. 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 throughout 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.

315. The IMF FAD Fiscal Transparency Evaluation⁷⁵ 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.

316. 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

317. 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 transparently fulfilling a desire by Georgia to be a modern and viable State and its longevity has helped to ensure 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.

⁷⁵ 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 two out of the three years the deviation of actual grants from the original budgeted grants was more than 95% of the original budget. In 2015, 126%, in 2016, 91% and in 2017 it was 104%. |
| 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, or with some front-loading, in each of the last three years. |
| PI-1 Aggregate expenditure outturn | A | |
| 1.1 Aggregate expenditure outturn | A | In 2 out of the 3 years the deviation was less than 5 percent (2.6% and 0.1%) and in the third year (2015) it was 6.9%. |
| PI-2 Expenditure composition outturn | B+ | |
| 2.1 Expenditure composition outturn by function | B | In 2 out of the 3 years the deviation was less than 10 percent (6.0% and 6.1%) and in the third year (2015) it was 22.6%. |
| 2.2 Expenditure composition outturn by economic type | B | In 2 out of the 3 years the deviation was less than 10 percent (6.1% and 9.0%) and in the third year (2015) it was 33.0%. |
| 2.3 Expenditure from contingency reserves | A | Actual expenditure charged to the contingency fund vote 0% in all three years and was 0.3% in the budget. |
| PI-3 Revenue outturn | C+ | |
| 3.1 Aggregate revenue outturn | B | Aggregate deviation was between 94 and 112 percent in two of the three years (97.9% and 106.8%). |
| 3.2 Revenue composition outturn | C | Variance in revenue collection was less than 15 per cent in two of the three years. In 2015, 16.3%, 10.9% in 2016 and falling to 8.0% 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 substitutes to the GFS administrative classification and provides, at least, the same level of detail. |

| Indicator/Dimension | Score | Explanation |
|---|-----------|---|
| PI-5 Budget documentation | A | |
| 5.1 Budget documentation | A | Budget documentation fulfills eight out of the 10 applicable elements, including the four basic elements and four additional elements. |
| 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 | |
| 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 | B+ | |
| 8.1 Performance plans for service delivery | B | Information is annually prepared and published according to program objectives of the municipality. It includes performance indicators, programs about intermediate and final results or outcomes. |
| 8.2 Performance achieved for service delivery | B | Information is provided on results of the priority programs /subprograms implemented by municipality spending units. Performance Assessment Indicators are published in the annual budget execution report. |
| 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 | B | Assessment of efficiency and effectiveness of service delivery has been prepared and published in reports of the Sakrebulo's Audit Commission, the Municipality's Internal Audit Unit and the Supreme Audit Office compliance audits covering the municipality's expenditure in the previous three years. |

| Indicator/Dimension | Score | Explanation |
|--|-----------|---|
| PI-9 Public access to fiscal information | B | |
| 9.1 Public access to fiscal information | B | The Municipality provides access to 6 elements, including the 4 applicable basic elements of listed information. |
| PI-10 Fiscal risk reporting | C | |
| 10.1 Monitoring of public corporations | C | The municipality receives financial reports from all the municipality owned public corporations within 3 months of the end of the fiscal year. Submitted financial reports are audited except for four MOE reports which include the two biggest MOEs. Financial reports are not published. A consolidated report on the financial performance of the public corporation sector is produced by the Municipality Property Agency but is not published. |
| 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 | B | Projections of the total capital cost of investment projects for the implementing timeframe, together with the collective recurrent costs for the forthcoming budget year, and next three years are included in the budget documents. |
| 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. |

| Indicator/Dimension | Score | Explanation |
|---|--------------|--|
| 12.2 Non-financial asset monitoring | C | 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. |
| PI-13 Debt management | C+ | |
| 13.1 Recording and reporting of debt and guarantees | C | Debt records are complete, accurate, and updated when payments have been made or loans undertaken. Comprehensive management and statistical reports covering debt service, stock, and operations are produced quarterly as part of the budget execution reports, but reconciliation is done semi-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 assessment of the Municipality's capacity to undertake and service debt is carried out by the lending agencies. Municipality does not have debt management strategy. |
| PI-14 Macroeconomic and fiscal forecasting | NA | |
| 14.1 Macroeconomic forecasts | NA | |
| 14.2 Fiscal forecasts | NA | |
| 14.3 Macroeconomic sensitivity analysis | NA | |
| PI-15 Fiscal strategy | B | |
| 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 and the outer years as part of the budget preparation process, they are not necessarily specified individually. |
| 15.2 Fiscal strategy adoption | A | The municipality has adopted, submitted to the Sakrebulo, and published a current fiscal strategy that includes explicit time-based quantitative fiscal goals and targets together with qualitative objectives for at least the budget year and the following two fiscal years. |

| Indicator/Dimension | Score | Explanation |
|---|-----------|---|
| 15.3. Reporting on fiscal outcomes | A | The municipality has submitted to the Sakrebulo and published with the annual budget information that shows its fiscal strategy and its implementation related to the objectives and targets set. |
| PI-16 Medium term perspective in expenditure budgeting | C+ | |
| 16.1 Medium-term expenditure estimates | A | The annual budget presents estimates of expenditure for the budget year and the two following fiscal years allocated by administrative, economic, and program (or functional) classification. |
| 16.2 Medium-term expenditure ceilings | D | Aggregate expenditure ceilings for the budget year and spending unit-level ceilings for budget year are approved by the municipality and issued for final budget proposals. |
| 16.3 Alignment of strategic plans and medium-term budgets | B | There are strategy plans that inform the priorities of the spending units and the allocation of resources to implement them. Municipal Departments and Districts (Spending Units) do not prepare sector strategies. |
| 16.4 Consistency of budgets with previous year's estimates | D | The number of changes between the second year of the previous MTEF and the actual budget in the following MTEF is not assessed. The spending units do examine why nonperformance may have occurred as part of the budget formulation process in preparing the budget. |
| PI-17 Budget preparation process | B | |
| 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 | A | The budget circular is comprehensive and covers total expenditure for the fiscal year. The spending units' ceilings reflected in the circular are approved before the circular's distribution to budgetary units. |
| 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 | A | |
| 18.1 Scope of budget scrutiny | A | The Sakrebulo's review covers fiscal policies, medium-term fiscal forecasts, and medium-term priorities as well as details of expenditure and revenue. |
| 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, |

| Indicator/Dimension | Score | Explanation |
|--|-----------|---|
| | | 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 adjustment 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 | The administration of revenues in Georgia for the municipalities is that the Georgia Revenue Services collects revenues and there is a sharing arrangement with the Central Government and Tiers 1 and 2. |
| 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 | 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. |
| 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. |

| Indicator/Dimension | Score | Explanation |
|---|--------------|---|
| 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 2.7% 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. |
| 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 | NA | Databases or records are maintained for all contracts including data on what has been procured, value of procurement, and who has been awarded |

| Indicator/Dimension | Score | Explanation |
|--|----------|--|
| monitoring | | contracts. All government contracts are procured through Georgian E-Government Procurement System. |
| 24.2 Procurement methods | B | As per public procurement legislation open competition above GEL 5,000 equivalent to US\$ 2,000 is a default method. 73% 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: <ul style="list-style-type: none"> (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 (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 | A | Compliance with payment rules and procedures is very high. |

| Indicator/Dimension | Score | Explanation |
|--|-----------|--|
| procedures | | |
| 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 Tbilisi 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 reconciles 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 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. |

| Indicator/Dimension | Score | Explanation |
|---|-----------|---|
| 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 | C | 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 years of 2015 and 2017 was the full audit of the municipality city 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 Sacrebulo. |
| 30.3 External audit follow-up | NA | 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. There were no recommendations from the 2016 Financial Audit. |
| 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 |

| Indicator/Dimension | Score | Explanation |
|--|----------|--|
| | | 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> |

| Internal Control Components and Elements | Summary of Observations |
|--|--|
| 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. |
| 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>Macroeconomic 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. |

| Internal Control Components and Elements | Summary of Observations |
|--|---|
| 3 Control Activities | |
| <p>3.1 Authorization and approval procedures</p> | <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 guaranteed debt records are complete, accurate, updated, and reconciled quarterly. 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> |

| Internal Control Components and Elements | Summary of Observations |
|--|---|
| | <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 used. Internal and external auditors assess payroll risk as low hence integrity of payroll data is high.</p> |
| <p>3.2 Segregation of duties (authorizing, processing, recording, reviewing)</p> | <p>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.</p> |
| <p>3.3 Controls over the access to resources and records</p> | <p>Compliance with payment rules and procedures is rated ‘A’ in 25.3. Compliance with payment rules and procedures is very high.</p> <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>3.4 Verifications</p> | <p>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.</p> |
| <p>3.5 Reconciliations</p> | <p>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.</p> <p>Suspense account reconciliations is rated ‘NA’ in 27.2. There are no suspense accounts.</p> |
| <p>3.6 Reviews of operating performance</p> | <p>Revenue audit and investigations are rated ‘A’ in 19.3 in the Central Government PEFA and are 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.</p> |
| <p>3.7 Reviews of operations, processes and activities</p> | <p>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</p> |

| Internal Control Components and Elements | Summary of Observations |
|--|--|
| | <p>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> |
| 3.8 Supervision (assigning, reviewing, and approving, guidance and training) | <p>The audit trail in place indicates a supervisory focus. Personnel development through mentoring and training is in place.</p> |
| 4. Information and Communication | |
| 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>Monitoring of public corporations is rated ‘C’ in 10.1. Audited annual financial statements for most public corporations are published within six months of the end of the fiscal year. The consolidated report on the financial performance of the public corporation sector is not published.</p> <p>Contingent liabilities and other fiscal risks is rated ‘NA’ in 10.3. 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 ‘NA’ in 24.1. Databases or records are maintained for all contracts including data on what has been procured, value of procurement, and who has been awarded 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> |

| Internal Control Components and Elements | Summary of Observations |
|--|---|
| 5.2 Evaluations | <p>Performance evaluation for service delivery is rated ‘B’ 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 ‘B’ in 30.3 in the Central Government PEFA but is considered Not Applicable for municipalities. Formal responses are made by the audited entities on audits for which follow up was expected during the last 3 completed 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)

May 17, 2018

Irakli Khmaladze, Vice-Mayor
Gaioz Talakvadze, Head of Finance Department
Levan Mikava, Deputy Head of Finance Department
Maya Grdzeldze, Head of Budgeting Unit, Finance Department

May 18, 2018

Levan Mikava, Deputy Head of Finance Department
Maya Grdzeldze, Head of Unit, Finance Department

May 21, 2018

George Tkemaladze, Speaker of Tbilisi Assembly
Irakli Zarkua, Chair of Finance and Property Commission, Tbilisi Assembly
Ramina Beradze, Chair of Inspection Commission, Tbilisi Assembly
Gaioz Talakvadze, Head of Finance Department
Levan Mikava, Deputy Head of Finance Department
Maya Grdzeldze, Head of Unit, Finance Department
Vakhtang Gadelia, Head of HR Department
Manuchar Jagodlishvili, Head of Accounting Unit, Finance Department
Irakli Darakhvelidze, Head of Infrastructure Service
Givi Chumburidze, Deputy Head of Procurement Service
Omari Bardavelidze, Head of Treasury Unit, Finance Department

May 22, 2018

David Chankseliani, Head of Division, MOE Tbiliservicegroup
David Churgulia, Deputy Head of Internal Audit Service
Kakha Koridze, Head of Unit, Internal Audit Service
Rusudan Mirzikashvili, Head of Urban Development Unit
Levan Mikava, Deputy Head of Finance Department

May 23, 2018

David Churgulia, Deputy Head of Internal Audit Service
Irakli Tavartkiladze, Head of Municipal Property Management Agency
Gia Todria, Deputy Head of Municipal Property Management Agency
Omari Bardavelidze, Head of Treasury Unit, Finance Department
Levan Mikava, Deputy Head of Finance Department

May 24, 2018

Levan Mikava, Deputy Head of Finance Department
Manuchar Jagodlishvili, Head of Accounting Unit, Finance Department
Marika Natsvlishvili, Director of Department, State Audit Office and others– conference call and follow up

People Consulted

(Name Department, Organization, Position)

May 25, 2018

Kakha Demetrashvili, Deputy Head of State Procurement Agency

Dimitri Gulisashvili, Head of Department, State Procurement Agency

Wrap up meeting with WB resident office, Mariam Dolidze, Tamuna Namicheishvili

Wrap up meeting with Tbilisi City Hall, Gaioz Talakvadze, Levan Mikava

June 8, 2018, Kutaisi

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

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

June 18 2018

Mr. Shalva Lomsadze, Head of Legal Department

Mr. David Gamtsemlidze, Head of Finance Department

Mrs. Nato Kakauridze, Head of Secretariat of Property Management and Finance-Budget Commission

Mrs. Mariam Lutidze, Staff member of Secretariat of Property Management and Finance-Budget
Commission

Mr Levan Kereselide, Staff member of Secretariat of Property Management and Finance-Budget
Commission

Mrs. Maya Oniani, Head of Secretariat of Audit Commission

Mr. David Mirotadze, Staff member of Secretariat of Audit Commission

July 18, 2018

May 17, 2018

Irakli Khmaladze, Vice-Mayor

Gaioz Talakvadze, Head of Finance Department

Levan Mikava, Deputy Head of Finance Department

ANNEX 3C: SOURCES OF INFORMATION BY INDICATOR

| List of Documents/Reports Consulted | |
|--|---|
| Indicator | Evidence |
| HLG-1: Transfers from a higher level of government | Data from Tbilisi Department of Finance |
| 1. Aggregate expenditure outturn | Data from Tbilisi Department of Finance |
| 2. Expenditure composition outturn | Data from Tbilisi Department of Finance |
| 3. Revenue outturn | Data from Tbilisi Department of Finance |
| 4. Budget classification | Data from Ministry of Finance |
| 5. Budget documentation | <ul style="list-style-type: none"> • https://matsne.gov.ge/ka/document/view/3925152 • 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_2%20BDD.pdf • http://mof.ge/images/File/biujetis-kanoni2017/damtkicebuli/2017-BD-Tables-sen-16_3-BDD.pdf; • http://tbilisi.gov.ge/page/43 |
| 6. Subnational government operations outside financial reports | Information from Tbilisi Department of Finance |
| 7. Transfers to subnational governments | NA |
| 8. Performance information for service delivery | Tbilisi Priorities Document |
| 9. Public access to fiscal information | <ul style="list-style-type: none"> • http://tbsakrebulo.gov.ge • http://tbilisi.gov.ge/page/43 ; • http://sao.ge/audit/audit-reports • http://mof.ge/5075 |
| 10. Fiscal risk reporting | Discussion with and information from Municipality Property Management Agency |
| 11. Public investment management | Discussion with and information from Municipality Infrastructure Department |
| 12. Public asset management | Discussion with and information from Municipality Property Management Agency |
| 13. Debt management | <ul style="list-style-type: none"> • Data from Tbilisi Department of Finance • Budget Code of Georgia |
| 14. Macroeconomic and fiscal forecasting | NA |
| 15. Fiscal strategy | <ul style="list-style-type: none"> • Data from Tbilisi Department of Finance • Annual Budget Document |
| 16. Medium-term perspective in expenditure budgeting | <ul style="list-style-type: none"> • 2017 – 2020 Tbilisi 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 Tbilisi Department of Finance • Budget Code • 2017 – 2020 Tbilisi Priorities Document |
| 18. Legislative scrutiny of budgets | <ul style="list-style-type: none"> • Tbilisi Sakrebulo website • Discussions with Tbilisi Sakrebulo Audit Commission |
| 19. Revenue administration | NA |
| 20. Accounting for revenue | Discussion and Data from Tbilisi Department of Finance |

| List of Documents/Reports Consulted | |
|---|---|
| Indicator | Evidence |
| 21. Predictability of in-year resource allocation | Data from Tbilisi Department of Finance |
| 22. Expenditure arrears | Data from Tbilisi Department of Finance. Annual financial statements |
| 23. Payroll controls | Discussion with Tbilisi Human Resources Department |
| 24. Procurement management | Discussion and data from the State Procurement Agency |
| 25. Internal controls on non-salary expenditure | Discussion and Data from Tbilisi Department of Finance |
| 26. Internal audit | Discussion and information from Internal Audit Department |
| 27. Financial data integrity | Discussion and information from Tbilisi Department of Finance |
| 28. In-year budget reports | Monthly and quarterly budget reports Discussion and information from Tbilisi Department of Finance |
| 29. Annual financial reports | <ul style="list-style-type: none"> • Budget execution reports and annual financial statement. • Discussion and information from Tbilisi Department of Finance |
| 30. External audit | 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 |

Annex 4: Comparison of PEFA Scores of 2014 and 2018

| | 2014 | 2018 | Direction of Change | Description of requirements met and progress between 2014 and 2018 using 2011 PEFA methodology updated in 2011 |
|---|------|------|---------------------|--|
| Subnational PEFA indicator HLG-1 Transfers from a higher level of government | | | | |
| HLG-1: Transfers from a higher level of government | A | D+ | ↓ | |
| HLG-1.1. Outturn of transfers from higher-level government | A | A | | In two out of the three years the deviation was more than 95% of the original budget. In 2015, 126%, in 2016, 91% and in 2017 it was 104%. |
| HLG-1.2. Earmarked grants outturn | A | D | | Difference between the original budget estimate and actual earmarked grants was greater than 10 percent in two of the last three years. The score in 2014 may be uncertain and the overall indicator score may be no change. |
| HLG-1.3. Timeliness of transfers from higher-level government | A | A | | Actual transfers have been distributed evenly across the year, or with some front-loading, in each of the last three years. |
| A. PFM-OUTTURNS: Credibility of the Budget | | | | |
| PI-1 Aggregate expenditure outturn compared to original approved budget | C | A | ↑ | The aggregate expenditure outturn was 107% in 2015, 97% in 2016 and 100% in 2017 of the original budget |
| PI-2 Composition of expenditure outturn compared to original approved budget | C+ | B+ | ↑ | |
| (i) Extent of the variance in expenditure composition during the last three years | D | B | | The deviation in expenditure structure according to the functional classification is 22.6% in 2015, 6.0% in 2016, and 6.1% in 2017. |
| (ii) The average amount of expenditure actually charged to a contingency vote over the last three years | A | A | | The average amount of expenditure actually charged to a contingency vote over the last three years was zero |
| PI-3 Aggregate revenue outturn compared to original approved budget | D | B | ↑ | The aggregate revenue outturns were 119.2% in 2015, 101.6% in 2016 and 108.3% in 2017 of the original budget |
| PI-4 Stock and monitoring of expenditure payment arrears | A | A | → | |
| (i) Stock of expenditure payment arrears and a recent change in the stock. | A | A | | There are no arrears |
| (ii) Availability of data for monitoring the stock of expenditure payment arrears. | A | NA | | |

| | 2014 | 2018 | Direction of Change | Description of requirements met and progress between 2014 and 2018 using 2011 PEFA methodology updated in 2011 |
|--|------|------|---------------------|---|
| B. KEY CROSS-CUTTING ISSUES: Comprehensiveness and Transparency | | | | |
| PI-5 Classification of the budget | A | A | → | Budget formulation, execution, and reporting are based on every level of economic and functional classification (10 functions) using GFS/COFOG standards. Program classification substitutes to the GFS administrative classification and provides, at least, the same level of detail. |
| PI-6 Comprehensiveness of information included in budget documentation | B | A | ↑ | Budget documentation fulfills seven out of the eight applicable elements, |
| PI-7 Extent of unreported government operations. | A | A | → | |
| (i) Level of unreported government operations | A | A | | All expenditures are included in financial reports |
| (ii) Income/expenditure information on donor-funded projects | A | NA | | There are no donor grants |
| PI-8 Transparency of inter-governmental fiscal relations. | NA | NA | | |
| (i) Transparency and objectivity in the horizontal allocation amongst Subnational Governments | NA | NA | | |
| (ii) Timeliness and reliable information to SN Governments on their allocations | NA | NA | | |
| (iii) Extent of consolidation of fiscal data for general government according to sectoral categories | NA | NA | | |
| PI-9 Oversight of aggregate fiscal risk from other public sector entities. | C | C | → | |
| (i) Extent of Subnational government monitoring of autonomous entities and public enterprises | C | C | | The municipality receives financial reports from all the municipality owned public corporations within 3 months of the end of the fiscal year. Submitted financial reports are audited except for four MOE reports which include the two biggest MOEs. Financial reports are not published. A consolidated report on the financial performance of the public corporation sector is produced by the Municipality Property Agency but is not published. |
| (ii) Extent of Subnational government monitoring of | NA | NA | | |

| | 2014 | 2018 | Direction of Change | Description of requirements met and progress between 2014 and 2018 using 2011 PEFA methodology updated in 2011 |
|--|---------------|-----------|---------------------|--|
| SN government's fiscal position | | | | |
| PI-10 Public access to key fiscal information | B | A | ↑ | The Municipality provides access to 5 elements. |
| C. BUDGET CYCLE | | | | |
| C (i) Policy-Based Budgeting | | | | |
| PI-11 Orderliness and participation in the annual budget process | A (B+) | B+ | → | |
| (i) Existence of, and adherence to, a fixed budget calendar | A (C) | 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. It is likely that the 2014 was scored too high |
| (ii) Guidance on the preparation of budget submissions | A | A | | The budget circular is comprehensive and covers total expenditure for the fiscal year. The spending units' ceilings reflected in the circular are approved by the Mayor before the circular's distribution to budgetary units. |
| (iii) Timely budget approval by the legislature | A | A | | During the last three fiscal years the Sakrebulo approved the annual budget law before the start of the fiscal year. |
| PI-12 Multi-year perspective in fiscal planning, expenditure policy and budgeting | C+ | B | ↑ | |
| (i) Multiyear fiscal forecasts and functional allocations | C | A | | The annual budget presents estimates of expenditure for the budget year and the two following fiscal years allocated by administrative, economic, and program (or functional) classification on a rolling basis and linkages are made. |
| (ii) Scope and frequency of debt sustainability analysis | A | D | | The municipality relies on lenders to assess debt sustainability. It is likely that the 2014 score was too high. |
| (iii) Existence of costed sector strategies | B | A | | There are strategy plans that inform the priorities of all spending units and the allocation of resources to implement them. |
| (iv) Linkages between investment budgets and forward expenditure estimates | D | B | | Projections of the total capital cost of investment projects for the implementing timeframe, together with the collective recurrent costs for the forthcoming budget year, and next three years are included in the budget documents |
| C (ii) Predictability and Control in Budget Execution | | | | |
| PI-13 Transparency of taxpayer obligations and liabilities | NA | NA | | |
| (i) Clarity and comprehensiveness of tax liabilities | NA | NA | | |

| | 2014 | 2018 | Direction of Change | Description of requirements met and progress between 2014 and 2018 using 2011 PEFA methodology updated in 2011 |
|---|----------------|-----------|---------------------|--|
| (ii) Taxpayer access to information on tax liabilities and administrative procedures | NA | NA | | |
| (iii) Existence and functioning of a tax appeal mechanism. | NA | NA | | |
| PI-14 Effectiveness of measures for taxpayer registration and tax assessment | NA | NA | | |
| (i) Controls in the taxpayer registration system | NA | NA | | |
| (ii) Effectiveness of penalties for non-compliance with registration and declaration obligations | NA | NA | | |
| (iii) Planning and monitoring of tax audit and fraud investigation programs | NA | NA | | |
| PI-15 Effectiveness in collection of tax payments | NA (A) | A | → | |
| (i) Collection ratio for gross tax arrears | NA | NA | | |
| (ii) Effectiveness of transfer of tax collections to the Treasury by the revenue administration | NA | NA | | All revenues are transferred directly to the Treasury Single Account on the daily basis |
| (iii) Frequency of complete accounts reconciliation between tax assessments, collections, arrears records, and receipts by the Treasury | NA | NA | | Entities collecting most municipal revenue undertake complete reconciliation of assessments, collections, arrears and transfers to Treasury Single Account on a daily basis. |
| PI-16 Predictability in the availability of funds for commitment of expenditures | C+ (D+) | C+ | ↑ | Scored as M2 rather than M1 in 2014 |
| (i) Extent to which cash flows are forecasted and monitored | D | 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. |
| (ii) Reliability and horizon of periodic in-year information to MDAs on ceilings for expenditure | A | A | | Budgetary units are able to plan and commit expenditure for twelve months in advance in accordance with the budgeted appropriations and commitment releases. |
| (iii) Frequency and transparency of adjustments to budget | C | C | | Adjustments to budget allocations were made 7 times in 2017 and amounted to 2.7% of the original budget. These were done in a transparent and predictable way. |

| | 2014 | 2018 | Direction of Change | Description of requirements met and progress between 2014 and 2018 using 2011 PEFA methodology updated in 2011 |
|--|---------------|-----------|---------------------|---|
| allocations above the level of management of MDAs | | | | |
| PI-17 Recording and management of cash balances, debt and guarantees | A | A | → | |
| (i) Quality of debt data recording and reporting. | A | B | | Debt records are complete, accurate, and updated when payments have been made or loans undertaken. Comprehensive management and statistical reports covering debt service, stock, and operations are produced bi-annually. |
| (ii) Extent of consolidation of the government's cash balances. | B | 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. |
| (iii) Systems for contracting loans and issuance of guarantees. | A | 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. |
| PI-18 Effectiveness of payroll controls | B (D+) | B+ | ↑ | Scored as M2 instead of M1 in 2014 |
| (i) Degree of integration and reconciliation between personnel records and payroll data. | B | 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. |
| (ii) Timeliness of changes to personnel records and the payroll. | A | 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. |
| (iii) Internal controls of changes to personnel records and the payroll. | B | 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. |

| | 2014 | 2018 | Direction of Change | Description of requirements met and progress between 2014 and 2018 using 2011 PEFA methodology updated in 2011 |
|---|---------------|----------|---------------------|--|
| (iv) Existence of payroll audits to identify control weaknesses and/or ghost workers. | D | 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-19 Competition, value for money and controls in procurement | A (B) | B | → | |
| (i) Transparency, comprehensiveness and competition in the legal and regulatory framework | A (B) | B | | 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). This should have been scored B in 2014 |
| (ii) Use of competitive methods | A | B | | As per public procurement legislation open competition above GEL 5,000 equivalent to US\$ 2,000 is a default method. 71% of contracts by value procured in 2017 were conducted through competitive selection. |
| (iii) Public access to complete, reliable and timely procurement information | A | A | | All the key procurement information is made available to the public. |
| (iv) Existence of an independent administrative procurement complains system | A (D) | D | | 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. This should have been score D in 2014 |
| PI-20 Effectiveness of internal controls for non-salary expenditure | A (B+) | A | ↑ | This was scored as M2 rather than M1 in 2014 |
| (i) Effectiveness of expenditure commitment controls | B | 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. |
| (ii) Comprehensiveness, relevance and understanding of other internal control rules/procedures. | A | A | | Financial data integrity is done by Treasury, which reviews financial information from budgetary units and its IT department monitors unauthorized systems access. |
| (iii) Degree of compliance with rules for processing and recording transactions | A | A | | Compliance with payment rules and procedures is very high. |

| | 2014 | 2018 | Direction of Change | Description of requirements met and progress between 2014 and 2018 using 2011 PEFA methodology updated in 2011 |
|--|---------------|-----------|---------------------|--|
| PI-21 Effectiveness of internal audit | B | A | ↑ | |
| (i) Coverage and quality of the internal audit function. | B | A | | 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. |
| (ii) Frequency and distribution of reports | C | 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. |
| (iii) Extent of management response to internal audit findings. | B | A | | Data supplied by Management show that all of internal audit recommendations are implemented in a timely manner. |
| C (iii) Accounting, Recording and Reporting | | | | |
| PI-22 Timeliness and regularity of accounts reconciliation | A | A | → | |
| (i) Regularity of bank reconciliation | A | 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 |
| (ii) Regularity and clearance of suspense accounts and advances | A | A | | There are no suspense accounts and advances are reconciled monthly |
| PI-23 Availability of information on resources received by service delivery units | D (A) | A | → | The financial information system allows information at service delivery unit level. It is likely that this was scored too low in 2014 |
| PI-24 Quality and timeliness of in-year budget reports | A (C+) | C+ | → | |
| (i) Scope of reports in terms of coverage and compatibility with budget estimates. | A (C) | C | | Information on expenditure is covered at the payment stage in the e-Treasury system. It is likely that this was scored to include commitments in 2014 and thus too high, |
| (ii) Timeliness of the issue of reports | A | A | | Monthly reports are submitted within 14 days of the end of the month |
| (iii) Quality of information | A | A | | There are no material concerns regarding data accuracy |
| PI-25 Quality and timeliness of annual financial statements | B (D+) | D+ | → | |
| (i) Completeness of the financial statements | C | 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. |

| | 2014 | 2018 | Direction of Change | Description of requirements met and progress between 2014 and 2018 using 2011 PEFA methodology updated in 2011 |
|---|---------------|-----------|---------------------|---|
| (ii) Timeliness of submissions of the financial statements | A (D) | 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. In line with the PEFA guidance in scoring, even though the legal timeframe for their completion is met. This would have been scored too high in 2014 |
| (iii) Accounting standards used | B (C) | C | | Municipalities are required to prepare financial statements that comply with the national standards established by the Ministry of Finance. |
| | | | | |
| PI-26 Scope, nature and follow-up of external audit | D | D+ | ↑ | |
| (i) Scope/nature of audit performed (including adherence to auditing standards) | D | C | | 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 2015 was the full audit of the municipality city hall. The audits highlighted relevant material issues and systemic and control risks. |
| (ii) Timeliness of submission of audit reports to the Legislature | D | 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. |
| (iii) Evidence of follow up on audit recommendations | D | A | | 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 Tbilisi is 100% over for the past three years. |
| PI-27 Legislative scrutiny of the annual budget law | A (B+) | B+ | → | This was scored as M2 rather than MI in 2014. |
| (i) Scope of the legislature scrutiny | A | A | | The Sakrebulo's review covers fiscal policies, medium-term fiscal forecasts, and medium-term priorities as well as details of expenditure and revenue. |
| (ii) Extent to which the legislature's procedures are well established and respected. | A | 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. |

| | 2014 | 2018 | Direction of Change | Description of requirements met and progress between 2014 and 2018 using 2011 PEFA methodology updated in 2011 |
|---|----------|----------|---------------------|--|
| (iii) Adequacy of time for the legislature to provide a response to budget proposals both the detailed estimates and, where applicable, for proposals on macro-fiscal aggregates earlier in the budget preparation cycle (time allowed in practice for all stages combined) | B | B | | During the last three fiscal years the Sakrebulo has had 6 weeks to approve the annual budget law before the start of the fiscal year. |
| (iv) Rules for in-year amendments to the budget without ex-ante approval by the legislature | A | 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-28 Legislative Scrutiny of External Audit Reports | D | D | → | |
| (i) Timeliness of examination of audit reports by the legislature | D | D | | The Sakrebulo has not undertaken the scrutiny of audit reports |
| (ii) Extent of hearing on key findings undertaken by the legislature | D | D | | The Sakrebulo has not undertaken the scrutiny of audit reports |
| (iii) Issuance of recommended actions by the legislature and implementation by the executive | D | D | | The Sakrebulo has not undertaken the scrutiny of audit reports |

Annex 5: Calculation Sheets for PI-1, PI-2 and PI-3

TABLE 1: RESULTS MATRIX

| | for PI-1 | for PI-2.1 | for PI-2.3 |
|-------|----------------------|----------------------|-------------------|
| Years | Total Exp. Deviation | Composition Variance | Contingency Share |
| 2015 | 93.1% | 22.6% | |
| 2016 | 97.4% | 6.0% | 0.0% |
| 2017 | 9.9% | 6.1% | |

Figures in Tables in GEL 000

TABLE 2: 2015 YEAR

| Functional Classification Codes | Budget | Actual | Adjusted Budget | Deviation | Absolute deviation | Percent |
|---------------------------------|------------------|------------------|------------------|------------|--------------------|---------|
| 701 | 81,230.6 | 70,273.2 | 87,134.6 | -16,861.4 | 16,861.4 | 19.4% |
| 702 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | |
| 703 | 24,781.0 | 25,019.0 | 26,582.1 | -1,563.1 | 1,563.1 | 5.9% |
| 704 | 90,796.7 | 98,693.8 | 97,396.0 | 1,297.8 | 1,297.8 | 1.3% |
| 705 | 69,710.0 | 11,967.1 | 74,776.7 | -62,809.6 | 62,809.6 | 84.0% |
| 706 | 164,561.8 | 183,517.9 | 176,522.5 | 6,995.4 | 6,995.4 | 4.0% |
| 707 | 34,450.0 | 31,510.4 | 36,953.9 | -5,443.5 | 5,443.5 | 14.7% |
| 708 | 62,625.7 | 144,840.4 | 67,177.5 | 77,662.9 | 77,662.9 | 115.6% |
| 709 | 92,633.1 | 90,293.4 | 99,365.9 | -9,072.5 | 9,072.5 | 9.1% |
| 710 | 170,554.0 | 192,744.3 | 182,950.3 | 9,794.0 | 9,794.0 | 5.4% |
| Grand Total | 791,342.9 | 848,859.6 | 848,859.6 | 0.0 | 191,500.3 | |
| Interest | 318.8 | 286.9 | | | | |
| Reserve funds | 3,000.0 | | | | | |
| Total Expenditures | 794,661.7 | 849,146.5 | | | | |

PI-1 indicator variation 93.1%
PI-1 indicator structure 22.6%
Reserve fund share in total expenditure 0.4%

TABLE 3: 2016 YEAR

| Functional Classification Codes | Budget | Actual | Adjusted Budget | Deviation | Absolute deviation | Percent |
|---------------------------------|------------------|------------------|------------------|------------|--------------------|---------|
| 701 | 79,028.3 | 70,367.5 | 77,207.7 | -6,840.3 | 6,840.3 | 8.9% |
| 702 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | |
| 703 | 100.0 | 0.0 | 97.7 | -97.7 | 97.7 | 100.0% |
| 704 | 105,466.0 | 95,898.9 | 103,036.4 | -7,137.5 | 7,137.5 | 6.9% |
| 705 | 16,240.8 | 12,891.5 | 15,866.7 | -2,975.2 | 2,975.2 | 18.8% |
| 706 | 193,597.9 | 192,675.9 | 189,138.0 | 3,537.9 | 3,537.9 | 1.9% |
| 707 | 40,390.0 | 40,658.7 | 39,459.5 | 1,199.2 | 1,199.2 | 3.0% |
| 708 | 40,854.3 | 35,221.3 | 39,913.1 | -4,691.8 | 4,691.8 | 11.8% |
| 709 | 91,103.8 | 104,555.2 | 89,005.0 | 15,550.2 | 15,550.2 | 17.5% |
| 710 | 173,890.4 | 171,339.8 | 169,884.5 | 1,455.3 | 1,455.3 | 0.9% |
| Grand Total | 740,671.5 | 723,608.7 | 723,608.7 | 0.0 | 43,485.1 | |
| Interest | 1,894.6 | 1,893.0 | | | | |
| Reserve funds | 2,500.0 | | | | | |
| Total Expenditures | 745,066.1 | 725,501.6 | | | | |

PI-1 indicator variation 97.4%

PI-1 indicator structure 6.0%

Reserve fund share in total expenditure 0.3%

TABLE 4: 2017 YEAR

| Functional Classification Codes | Budget | Actual | Adjusted Budget | Deviation | Absolute deviation | Percent |
|---------------------------------|------------------|------------------|------------------|------------|--------------------|---------|
| 701 | 64,847.8 | 65,425.2 | 65,144.4 | 280.7 | 280.7 | 0.4% |
| 702 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | |
| 703 | 665.7 | 0.0 | 668.7 | -668.7 | 668.7 | 100.0% |
| 704 | 99,110.3 | 98,491.4 | 99,563.7 | -1,072.3 | 1,072.3 | 1.1% |
| 705 | 18,423.0 | 12,799.2 | 18,507.3 | -5,708.1 | 5,708.1 | 30.8% |
| 706 | 185,510.5 | 172,887.3 | 186,359.1 | -13,471.8 | 13,471.8 | 7.2% |
| 707 | 39,983.9 | 44,100.9 | 40,166.8 | 3,934.1 | 3,934.1 | 9.8% |
| 708 | 36,387.3 | 36,452.3 | 36,553.8 | -101.4 | 101.4 | 0.3% |
| 709 | 105,189.4 | 117,217.3 | 105,670.6 | 11,546.7 | 11,546.7 | 10.9% |
| 710 | 137,664.8 | 143,555.3 | 138,294.5 | 5,260.8 | 5,260.8 | 3.8% |
| Grand Total | 687,782.7 | 690,928.9 | 690,928.9 | 0.0 | 42,044.7 | |
| Interest | 1,823.4 | 1,698.2 | | | | |
| Reserve funds | 2,000.0 | | | | | |
| Total Expenditures | 691,606.1 | 692,627.1 | | | | |

PI-1 indicator variation 99.9%

PI-1 indicator structure 6.1%

Reserve fund share in total expenditure 0.3%

TABLE 5: 2015 YEAR

| Title | Budget | Actual | Adjusted Budget | Deviation | Absolute Deviation | Percent |
|----------------------------------|------------------|------------------|------------------|------------|--------------------|---------|
| Salaries | 49,539.8 | 42,343.5 | 53,137.0 | -10,793.5 | 10,793.5 | 20.3% |
| Goods and Services | 103,304.9 | 114,269.5 | 110,806.2 | 3,463.4 | 3,463.4 | 3.1% |
| Interest | 318.8 | 286.9 | 341.9 | -55.1 | 55.1 | 16.1% |
| Subsidies | 171,285.3 | 159,302.2 | 183,722.8 | -24,420.6 | 24,420.6 | 13.3% |
| Grants | 0.0 | 23,983.2 | 0.0 | 23,983.2 | 23,983.2 | |
| Social Support | 202,912.6 | 180,764.0 | 217,646.7 | -36,882.6 | 36,882.6 | 16.9% |
| Other Expenses | 167,586.3 | 111,816.6 | 179,755.2 | -67,938.6 | 67,938.6 | 37.8% |
| Increase of Non-Financial Assets | 96,714.0 | 216,380.5 | 103,736.7 | 112,643.8 | 112,643.8 | 108.6% |
| Total Expenditures | 791,661.7 | 849,146.5 | 849,146.5 | 0.0 | 280,180.8 | |

| | | |
|----------------------|------------------|------------------|
| Reserve Funds | 3,000.0 | |
| Total | 794,661.7 | 849,146.5 |
| Total Variation | 93.2% | |
| Structural Variation | 33.0% | |

TABLE 6: 2016 YEAR

| Title | Budget | Actual | Adjusted Budget | Deviation | Absolute Deviation | Percent |
|----------------------------------|------------------|------------------|------------------|------------|--------------------|---------|
| Salaries | 100,771.7 | 94,307.2 | 98,455.9 | -4,148.8 | 4,148.8 | 4.2% |
| Goods and Services | 136,189.6 | 126,130.2 | 133,059.9 | -6,929.7 | 6,929.7 | 5.2% |
| Interest | 1,894.6 | 1,893.0 | 1,851.1 | 41.9 | 41.9 | 2.3% |
| Subsidies | 74,367.8 | 90,235.5 | 72,658.8 | 17,576.7 | 17,576.7 | 24.2% |
| Grants | 726.5 | 1,046.9 | 709.8 | 337.1 | 337.1 | 47.5% |
| Social Support | 181,775.4 | 177,391.1 | 177,598.1 | -207.0 | 207.0 | 0.1% |
| Other Expenses | 125,088.4 | 126,509.1 | 122,213.8 | 4,295.3 | 4,295.3 | 3.5% |
| Increase of Non-Financial Assets | 121,752.2 | 107,988.7 | 118,954.3 | -10,965.6 | 10,965.6 | 9.2% |
| Total Expenditures | 742,566.2 | 725,501.6 | 725,501.6 | 0.0 | 44,502.1 | |

| | | |
|----------------------|------------------|------------------|
| Reserve Funds | 2,500.0 | |
| Total | 745,066.2 | 725,501.6 |
| Total Variation | 102.4% | |
| Structural Variation | 6.1% | |

TABLE 7: 2017 YEAR

| Title | Budget | Actual | Adjusted Budget | Deviation | Absolute deviation | Percent |
|----------------------------------|------------------|------------------|------------------|-----------------|--------------------|---------|
| Salaries | 87,670.2 | 81,941.2 | 88,054.2 | -6,113.1 | 6,113.1 | 6.9% |
| Goods and Services | 126,964.4 | 117,444.8 | 127,520.6 | -10,075.8 | 10,075.8 | 7.9% |
| Interest | 1,823.4 | 1,698.2 | 1,831.4 | -133.2 | 133.2 | 7.3% |
| Subsidies | 83,956.7 | 99,772.1 | 84,324.5 | 15,447.6 | 15,447.6 | 18.3% |
| Grants | 29.5 | 491.4 | 29.6 | 461.8 | 461.8 | 1558.4% |
| Social Support | 146,574.3 | 156,383.1 | 147,216.4 | 9,166.7 | 9,166.7 | 6.2% |
| Other Expenses | 116,572.8 | 123,154.8 | 117,083.5 | 6,071.3 | 6,071.3 | 5.2% |
| Increase of Non-Financial Assets | 126,014.8 | 111,741.6 | 126,566.8 | -14,825.2 | 14,825.2 | 11.7% |
| Total Expenditures | 689,606.1 | 692,627.1 | 692,627.1 | 62,294.6 | 62,294.7 | |

| | | |
|----------------------|------------------|------------------|
| Reserve Funds | 2,000.0 | |
| Total | 691,606.1 | 692,627.1 |
| Total Variation | 99.6% | |
| Structural Variation | 9.0% | |

TABLE 8: 2015

| Economic Head | Budget | Actual | Adjusted Budget | Deviation | Absolute Deviation | Percent |
|--|------------------|------------------|------------------|-------------------|--------------------|--------------|
| Tax Revenues | 160,000.0 | 158,174.2 | 197,335.5 | (39,161.3) | | 0.0% |
| Taxes on income, profit and capital gains | | | 0.0 | 0.0 | 0.0 | |
| Taxes on payroll and workforce | - | - | 0.0 | 0.0 | 0.0 | |
| Taxes on property | 160,000.0 | 157,838.7 | 197,335.5 | -39,496.8 | 39,496.8 | 20.0% |
| Taxes on goods and services | | | 0.0 | 0.0 | 0.0 | |
| Taxes on exports | - | - | 0.0 | 0.0 | 0.0 | |
| Other taxes | - | 335.5 | 0.0 | 335.5 | 335.5 | |
| Other Revenues | 163,060.1 | 226,883.5 | 201,109.7 | 25,773.8 | | 0.0% |
| Property income | 16,844.0 | 10,424.8 | 20,774.5 | -10,349.7 | 10,349.7 | 49.8% |
| Sales of goods and services | 87,295.0 | 89,138.2 | 107,665.0 | -18,526.8 | 18,526.8 | 17.2% |
| Fines, penalties and forfeits | 25,500.0 | 25,652.5 | 31,450.3 | -5,797.9 | 5,797.9 | 18.4% |
| Transfers not elsewhere classified | - | - | 0.0 | 0.0 | 0.0 | |
| Premiums, fees, and claims related to nonlife insurance and standardized guarantee schemes | - | - | 0.0 | 0.0 | 0.0 | |
| Sum of rest | 33,421.1 | 101,668.0 | 41,219.8 | 60,448.2 | 60,448.2 | 146.6% |
| Total Revenues | 323,060.1 | 385,057.7 | 385,057.7 | 0.0 | 124,337.4 | 32.3% |
| Overall Variance | | | | | | 119.2% |
| Composition Variance | | | | | | 32.3% |

TABLE 9: 2016 YEAR

| Economic Head | Budget | Actual | Adjusted Budget | Deviation | Absolute Deviation | Percent |
|--|------------------|------------------|------------------------|------------------|---------------------------|----------------|
| Tax Revenues | 350,000.0 | 326,023.8 | 342,645.2 | | | 0.0% |
| Taxes on income, profit and capital gains | 190,000.0 | 172,691.0 | 186,007.4 | -13,316.4 | 13,316.4 | 7.2% |
| Taxes on payroll and workforce | - | - | 0.0 | 0.0 | 0.0 | ! |
| Taxes on property | 160,000.0 | 153,332.8 | 156,637.8 | -3,305.0 | 3,305.0 | 2.1% |
| Taxes on goods and services | | | 0.0 | 0.0 | 0.0 | |
| Taxes on exports | | | 0.0 | 0.0 | 0.0 | |
| Other taxes | | | 0.0 | 0.0 | 0.0 | |
| Other Revenues | 193,035.5 | 225,777.5 | 188,979.1 | | | 0.0% |
| Property income | 14,160.0 | 7,133.7 | 13,862.4 | -6,728.7 | 6,728.7 | 48.5% |
| Sales of goods and services | 93,745.0 | 99,658.8 | 91,775.1 | 7,883.8 | 7,883.8 | 8.6% |
| Fines, penalties and forfeits | 25,500.0 | 28,680.1 | 24,964.1 | 3,716.0 | 3,716.0 | 14.9% |
| Transfers not elsewhere classified | - | - | 0.0 | 0.0 | 0.0 | |
| Premiums, fees, and claims related to nonlife insurance and standardized guarantee schemes | - | - | 0.0 | 0.0 | 0.0 | |
| Sum of rest | 59,630.5 | 90,304.8 | 58,377.4 | 31,927.4 | 31,927.4 | 54.7% |
| Total Revenues | 543,035.5 | 551,801.3 | 551,801.3 | 0.0 | 73,761.6 | |
| Overall Variance | | | | | | 101.6% |
| Composition Variance | | | | | | 13.4% |

TABLE 10: 2017 YEAR

| Economic Head | Budget | Actual | Adjusted Budget | Deviation | Absolute Deviation | Percent |
|--|------------------|------------------|------------------------|-------------------|---------------------------|----------------|
| Tax Revenues | 260,000.0 | 256,944.2 | 277,512.9 | (20,568.6) | | 0.0% |
| Taxes on income, profit and capital gains | 100,000.0 | 91,300.0 | 106,735.7 | -15,435.7 | 15,435.7 | 14.5% |
| Taxes on payroll and workforce | - | - | 0.0 | 0.0 | 0.0 | |
| Taxes on property | 160,000.0 | 165,644.2 | 170,777.2 | -5,132.9 | 5,132.9 | 3.0% |
| Taxes on goods and services | | | 0.0 | 0.0 | 0.0 | |
| Taxes on exports | | | 0.0 | 0.0 | 0.0 | |
| Other taxes | | | 0.0 | 0.0 | 0.0 | |
| Other Revenues | 208,663.9 | 250,780.8 | 222,718.9 | 28,061.9 | | 0.0% |
| Property income | 14,294.8 | 9,528.3 | 15,257.7 | -5,729.3 | 5,729.3 | 37.6% |
| Sales of goods and services | 93,488.7 | 132,379.0 | 99,785.8 | 32,593.2 | 32,593.2 | 32.7% |
| Fines, penalties and forfeits | 26,500.0 | 27,819.3 | 28,285.0 | -465.6 | 465.6 | 1.6% |
| Transfers not elsewhere classified | - | - | 0.0 | 0.0 | 0.0 | |
| Premiums, fees, and claims related to nonlife insurance and standardized guarantee schemes | - | - | 0.0 | 0.0 | 0.0 | |
| Sum of rest | 74,380.4 | 81,054.1 | 79,390.5 | 1,663.6 | 1,663.6 | 2.1% |
| Total Revenues | 468,663.9 | 507,725.0 | 507,725.0 | 0.0 | 63,145.7 | |
| Overall Variance | | | | | | 108.3% |
| Composition Variance | | | | | | 12.4% |

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 | 412,682,200 | 518,944,349 | 103,170,600 | 110,731,600 | 103,170,600 | 156,224,347 | 103,170,500 | 139,674,285 | 103,170,500 | 112,314,117 |
| Equalisation Grant | 412,282,200 | 412,282,200 | 103,070,600 | 103,070,700 | 103,070,600 | 103,070,700 | 103,070,500 | 103,070,700 | 103,070,500 | 103,070,100 |
| Targeted Grant | 400,000 | 400,000 | 100,000 | 99,900 | 100,000 | 99,900 | 100,000 | 99,900 | 100,000 | 100,300 |
| Special Grant | | 27,519,396 | | | | 11,274,647 | | 15,729,749 | | 515,000 |
| Special Grant | | 33,123,006 | | | | 10,000,000 | | 14,497,897 | | 8,625,109 |
| Capital Grant | | 45,619,747 | | 7,561,000 | | 31,779,100 | | 6,276,039 | | 3,608 |
| Grants | | | | | | | | | | |
| Equalisation Grant | | 100% | | 100% | | 100% | | 100% | | 100% |
| Targeted Grant | | 100% | | 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 | 272,857,700 | 246,946,854 | 70,138,440 | 93,284,751 | 69,878,160 | 44,957,061 | 66,945,550 | 72,689,370 | 65,895,550 | 36,015,672 |
| Equalisation Grant | 242,182,200 | 242,182,200 | 60,545,550 | 92,633,500 | 60,545,550 | 44,363,800 | 60,545,550 | 69,363,800 | 60,545,550 | 35,821,100 |
| Targeted Grant | 400,000 | 400,000 | 100,000 | 99,900 | 100,000 | 99,900 | 100,000 | 99,900 | 100,000 | 100,300 |
| Special Grant | | 110,405 | | | | 110,405 | | | | |
| Capital | 30,275,500 | 4,254,249 | 9,492,890 | 551,351 | 9,232,610 | 382,956 | 6,300,000 | 3,225,670 | 5,250,000 | 94,272 |
| Special Grant | 5,275,500 | 4,254,249 | 3,692,890 | 551,351 | 1,582,610 | 382,956 | - | 3,225,670 | - | 94,272 |
| Capital Grant | 25,000,000 | - | 5,800,000 | | 7,650,000 | | 6,300,000 | | 5,250,000 | |
| Grants | | | | | | | | | | |
| Equalisation Grant | | 100% | | 153% | | 73% | | 115% | | 59% |
| Targeted Grant | | 100% | | 100% | | 100% | | 100% | | 100% |

TABLE 12: 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 | Grants | 332,638,100 | 347,497,100 | 83,159,525 | 89,159,700 | 83,159,525 | 77,518,500 | 83,159,525 | 80,506,332 | 83,159,525 |
| Equalisation Grant | Equalisation Grant | 332,182,200 | 332,182,200 | 83,045,550 | 89,045,700 | 83,045,550 | 77,045,500 | 83,045,550 | 80,363,800 | 83,045,550 |
| Targeted Grant | Targeted Grant | 455,900 | 455,900 | 113,975 | 114,000 | 113,975 | 114,000 | 113,975 | 114,000 | 113,975 |
| Special Grant | Special Grant | | 359,000 | | | | 359,000 | | 0 | |
| Capital | Capital | 0 | 14,500,000 | 0 | 0 | 0 | 0 | 0 | 28,532 | 0 |
| Special Grant | Special Grant | | 500,000 | | | | | | 28,532 | |
| Capital Grant | Capital Grant | | 14,000,000 | | | | | | | |
| Grants | | 100% | | 107% | | 93% | | 97% | | 103% |
| Equalisation Grant | | 100% | | 107% | | 93% | | 97% | | 103% |
| Targeted Grant | | 100% | | 100% | | 100% | | 100% | | 100% |

TABLE 13: TBILISI MUNICIPALITY COVERAGE OF EXTERNAL AUDIT 2015 TO 2017

| Audits | 2015 | 2016 | 2017 | Total |
|--|------------------|------------------|------------------|--------------------|
| Financial Audit of Tbilisi Municipality City Hall | 490,525.6 | | 692,627.1 | 1,183,152.7 |
| Compliance Audit of Tbilisi Municipality's Isani District | 15,589.0 | | | 15,589.0 |
| Compliance Audit of State Property Management by Tbilisi City Hall during 2015-2016 | | | | - |
| Compliance audit of Tbilisi City Hall's program - "Greenery Activities" during 2015-2016 | | 12,372.1 | 12,358.2 | 24,730.3 |
| Total * | 506,114.6 | 12,372.1 | 704,985.3 | 1,223,472.0 |
| Total Expenditure | 849,146.5 | 725,501.6 | 692,627.1 | 2,267,275.2 |

Coverage 52.2%

** Total includes financial audits and compliance audits*

