



GEORGIA
City of Tbilisi

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

**Based on Guidance for Subnational Government PEFA Assessments
published May 2022**

November 2022



**ევროკავშირი
საქართველოსთვის**
The European Union for Georgia



WORLD BANK GROUP

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November 2022

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

PEFA Secretariat
23 February 2023

Abbreviations and Acronyms

BDD	Basic Data and Directions
CSO	Civil Society Organization
COFOG	Classification of the Functions of Government
E-	Electronic-
EBU	Extrabudgetary Units
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
GP	Government Procurement
GRS	Georgia Revenue Services
HLG	Higher Level Government
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
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

Executive Summary

1. The purpose of this PEFA assessment is to provide an objective analysis of the present performance of the Public Financial Management system in the City of Tbilisi against the PEFA indicators. This assessment provides an update of progress in PFM since the last assessment in 2018 which was the first assessment using the 2016 PEFA methodology. It establishes a new baseline of performance.
2. This assessment covered expenditures by subnational government budgetary units. Revenues are collected by the Georgia Revenue Services on behalf of Tbilisi; therefore, this topic was considered not applicable. There are no extrabudgetary units and no local government below the municipality level.
3. The full assessment team visited Tbilisi on its main fact-finding mission 10 to 15 October 2022. Follow up was conducted after the mission with a cut off period of 25 November. The assessment team met with the Vice Mayor, Head of the Finance Department, and Deputy Head of the Finance Department as well as other relevant officials. Prior to the main fact-finding mission there was contact with the Finance Department to discuss the data requirements and ensure that the mission timing was convenient. The financial years covered were 2019 to 2021.
4. Overall, the results of the assessment show that public financial management systems in the City of Tbilisi are strong and improved as the PFM Reform Action Plan was implemented over time.
5. Budget reliability in the municipality context depends on the reliability of information on grants to be received from the national government. The strengths from the distribution of VAT as a grant are offset by weakness on targeted grants, (albeit a small element of the grants total). While the aggregate expenditure side of the budget is good, the expenditure composition both by administrative type and by economic type is problematic. However, these results have been affected by the uncertainties that resulted from COVID-19 but also by the impact of targeted grants and the expenditure they support often not having been included in the original budget. Georgia has impressive information regarding the finances of the budgetary central government, which is replicated in Tbilisi. Information on performance plans and achievements in service delivery outputs and outcomes across the government sectors is good. Public access to fiscal information is good.
6. Good progress has been made towards a comprehensive medium-term expenditure framework based on a program budgeting for results approach. A medium-term approach is taken to expenditure budgeting. The budget is presented for the up-coming year and the following two fiscal years with a focus on determining medium term expenditures aligned to strategic plans and medium-term budgets. The multi-year information on grants from the distribution of VAT assists in this process but this is offset by information on other grants for the budget year only.
7. Revenue administration is carried out by the Georgia Revenue Services. A revenue report is prepared monthly for the municipality management. Tbilisi works in conjunction with the Georgian Treasury. Based on its cash inflow and outflow forecasts, it deposits a part of its cash in commercial banks through daily auctions. 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. Management of budget releases has been successful in controlling arrears.

8. The payroll system is strong. All government contracts are procured through the Georgian E-Government Procurement System. Ninety-two percent of the value of contracts is procured through competitive procurement methods. Internal controls on non-salary expenditure are very robust with strong segregation of duties, effective commitment controls, and compliance with payment rules and procedures. The internal audit function is strong with a focus on evaluations of the adequacy and effectiveness of internal controls in high risk areas. Account reconciliation and financial data integrity are areas of strength. Consolidated budget execution reports are prepared quarterly and issued to the Sakrebulo (Assembly) and published. The situation with respect to the annual financial reports is positive. Tbilisi applies current national accounting standards to its financial statements.

9. While external audit standards are an area of significant strength, annual audit coverage is not mandatory. In 2021, the SAO conducted the 2020 consolidated statement financial audit and also the audit of the 2019 financial statement in 2020. The Sakrebulo now conducts its own legislative scrutiny of audit reports. In the past this aspect of external scrutiny was left to Parliament.

10. The effectiveness of the internal control framework in the municipality is scrutinized by the Ministry of Finance and State Audit Office. The Central Harmonization Unit in the Ministry of Finance annually collects, consolidates and analyzes the information based on the annual reports. Under financial and compliance audits, the State Audit Office identifies/tests and evaluates the existence/functionality of the internal controls applied for the public expenditures, including salary and non-salary expenses.

11. An overriding feature of PFM during the assessment period (2019 to 2021) was the development and maintenance of processes in Georgia in budget preparation, budget execution (accounts, commitment control, and cash management), personnel and payroll, revenue services, and procurement. Development occurred at the central government and subnational levels. It was achieved even with the impact of COVID-19 on the country. This achievement continued with the application of IT developed in-country based on business processes in each of the subject areas, and not on the reconfiguration of business practices to suit particular software. Adoption of IT solutions, combined with the internet as a vehicle for its implementation by competent and trained personnel, has been fundamental to the development of strengths in PFM. The continued integration and roll out of IT, internet, and enhanced personnel skills through training resulted in effective and efficient PFM.

Aggregate Fiscal Discipline

12. Aggregate fiscal discipline has been affected by the pandemic. It has had an impact on the municipality's main source of income -- grant revenue from the distribution of VAT based on population characteristics. However, the built-in procedures for other grants from the center have impeded fiscal discipline as they are often outside the budget preparatory process. Nevertheless, control of spending during budget execution was maintained. Strong revenue administration ensured that revenues were efficiently collected. Given the need of flexibility in budget execution and that both virement and supplementary budgets were used, the rules and procedures relating to these processes were not circumvented. Treasury operations and cash management enabled expenditures to be managed within the available resources. Control of contractual commitments was effective and limited expenditure arrears. The strong internal and external audit function enhanced fiscal discipline.

13. The Georgian public financial management system includes clear rules and procedures for budget modification and flexibility in execution to meet national needs, and these proved their worth during the

COVID pandemic and economic downturn. Tbilisi used its formal processes to amend the budget and used formal virement processes to adjust spending to address the pandemic and economic priorities while still maintaining fiscal control. Policy officials had in-year data to manage spending, and the municipality management had the necessary instruments to assure fiscal discipline within government-approved spending parameters.

Strategic Allocation of Resources

14. 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. The Priorities Document, the medium-term action plan of the municipality, guides the allocation of resources over the next 4 years in terms of revenues and expenditures. The management of investment that has been implemented has affected the strategic allocation of resources. Recurrent cost implication of investment is factored into the budget process and investments are based on strategic priorities. Monitoring of project implementation has ensured that planned activities are being delivered.

15. Overall, Georgia, including both the central and local governments, has developed the key tools for strategic allocation of resources by elected officials (fiscal strategy, functional and programmatic budget classification, regular in-year reports on expenditure according to policy priorities, regularized budget amendments and virement procedures), covering tools for planning and tools for monitoring implementation and controlling to plan. Budget performance has been in alignment with plans, even considering the disruption of COVID. The past three years have been a challenge to fiscal management which tested the Georgian PFM system. The system performed as intended.

Efficient Use of Resources for Service Delivery

16. The previous weaknesses in competitive bidding in the procurement system with respect to the appeals and dispute process have been addressed which has positive implications for efficiency in service delivery. Tbilisi's level of competitive bidding is very high at 92% of total. The strengths in the accountability mechanisms make internal and external audits effective as counter checks on inefficient use of resources. The development of and timely consolidation of annual financial statements for the municipality enhances the impact of external audits. While external audits are not conducted annually (which in turn limits the effectiveness of oversight), audits have been performed in two of the three assessment years. Publishing of performance targets and outcomes also supports the efficient use of resources in municipal service delivery units.

Performance Changes since Previous Assessment

17. The 2018 and the current PEFA assessment were performed using the 2016 methodology. However, the guidance contains some changes to the application of the 2016 methodology with respect to subnational government. Annex 1 provides a summary of both 2018 and 2022 scores and changes in scores based on the *May 2022 Guidance for Subnational Government PEFA Assessments*, adjusting the 2018 scores where possible. Across the 87 individual subnational-related dimensions compared, there has been an improvement in 12 dimensions, deterioration in 6, and no change in the score in 69 dimensions. This overall improvement in scoring has been from a relatively high baseline achieved in 2018.

18. The comparison of the assessments indicates that the following dimensions have changed:

Improvement

Strategic Allocation of Resources

- Improved use of economic analysis in investment PI-11.1
- Improved budget calendar PI -17.1
- Improved system for monitoring arrears PI-22.2
- Improved use of competitive bidding PI-24.2
- Improved procurement complaints procedures PI-24.4
- Improved nature of audits applied PI-26.2
- Improved coverage of financial reports PIs-29.1 and 29.3.
- Improved process relating to audit of financial statements PIs 30.1, 30.2 and 30.3.
- Improved scrutiny of audit reports PI-31.1.

Deterioration

Fiscal Discipline

- Deterioration in aggregate and composition of expenditure PI-1, PIs-2.1, and 2.2 due to the impact of COVID.
- Deterioration in aggregate and composition of revenue PIs-3.1 and 3.2 due to the impact of COVID.

Strategic Allocation of Resources

- Deterioration in payroll audits PI-23.4 as no relevant audits were conducted in the assessment period.

19. In addition, there is a likely deterioration in medium-term expenditure and revenue estimates as targeted grants were not planned in the medium term. This pertains to PI-14.3 but there is no comparable indicator in the previous PEFA methodology as it was included in the old PI-16 which along with PI-14 and PI-15 has been collapsed into one new indicator, PI-14.

20. The improvements listed above can be attributed to continued strong management of the PFM reform program in Georgia. The government plans to update the reform program on the basis of the 2022 assessment. The Public Sector Financial Management Reform Action Plan 2018 - 2021 had set out a costed plan with targeted results. It also reflected the continued nature of the reform agenda, building upon achievements from previous reform activities across the broad PFM agenda. Due to the COVID-19 pandemic, a number of planned reforms were delayed or cancelled. Due to the state of emergency active in the country from 21 March 2020 to 22 May 2020, a number of economic activities were limited, as priority was placed on the expenditures for healthcare and business support. However, there are several reform initiatives that did make progress. For example, as a result of the 2018 PEFA findings, the reform achievements in public procurement have been significant. Although the reform in this sector had been evolving steadily, the law on state procurement recently was modified considerably and made compatible with EU legislation and international good practice. Significant changes have been made with respect to the procurement complaints procedures since the 2018 assessment highlighted a weakness. There have been actions specifically related to municipalities. In 2019, the equalization transfer system in use was replaced by one based on a value-added tax distribution system. This system directs at least 19% of the

value-added tax mobilized in the state budget to the municipal budgets. This revenue becomes municipalities' own revenue, which a municipality uses at its discretion. The requirement that municipality audits be scrutinized by Parliament was discontinued in 2020. This responsibility was transferred to the Sakrebulo of the municipality. The audit reports of municipalities are no longer discussed in the Parliament.

TABLE 1: OVERVIEW OF THE SCORES OF THE PEFA INDICATORS

Summary Assessment 2022 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	M2	C	D	A	C	C+
Pillar I: Budget reliability							
PI-1	Aggregate expenditure outturn		B				B
PI-2	Expenditure composition outturn	M1	D	D	A		D+
PI-3	Revenue outturn	M2	D	D			D
Pillar II: Transparency of public finances							
PI-4	Budget classification		A				A
PI-5	Budget documentation		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-9A	Public access to fiscal information		C				C
PI-9B	Public consultation	M2	C	D	D		D+
Pillar III: Management of assets and liabilities							
PI-10	Fiscal risk reporting	M2	C	NA	NA		C
PI-11	Public investment management	M2	C	C	B	B	C+
PI-12	Public asset management	M2	B	C	A		B
PI-13	Debt management	M2	C	NA	D		D+
Pillar IV: Policy-based fiscal strategy and budgeting							
PI-14	Medium-term budget strategy	M2	B	NA	B	D	C+
PI-17	Budget preparation process	M2	A	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	A			A
PI-23	Payroll controls	M1	A	A	A	D	D+
PI-24	Procurement	M2	NA	A	A	A	A
PI-25	Internal controls on non-salary expenditure	M2	A	A	A		A
PI-26	Internal audit	M1	A	A	A	A	A
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	A	D	B		D+
Pillar VII: External scrutiny and audit							
PI-30	External audit	M1	A	B	A	A	B+
PI-31	Legislative scrutiny of audit reports	M2	A	D	NA	D	C

1. Introduction

1.1 Rationale and Purpose

21. The purpose of this PEFA assessment is to conduct a review of Public Finance Management (PFM) reform in Tbilisi, the capital city of Georgia, which assesses the results since the previous PEFA assessment of 2018. The assessment of Tbilisi's PFM was accompanied by separate subnational assessments of the City of Batumi and Municipality of Martvili. The three subnational assessments followed the central government assessment performed earlier in 2022.

22. These assessments have been carried out to facilitate the continued development of Georgia's common vision and goals about public finance system reform for central and subnational government.

1.2 Assessment Management and Quality Assurance

Box 1.2 Assessment Management and Quality Assurance Arrangements

PEFA Assessment Management Arrangements

- Oversight Team Chair & Members:
 - Sebastian Molineus, Regional Director for the South Caucasus, World Bank; and Giorgi Kakauridze, Deputy Minister, Ministry of Finance, Georgia (co-chairs)
 - Assessment Manager Ian Hawkesworth, TTL, Senior Governance Specialist, 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, Papuna Petriashvili, and Tessa Cullen (consultants)

Review of Concept Note

- A draft Concept Note was sent to the PEFA Secretariat on 17 August 2022, and comments were received from Antonio Leonardo Blasco on 31 August 2022
- The Concept Note was circulated to Georgian Government and other peer reviewers on 8 September 2022.
- Invited Reviewers: Natia Gulua, Deputy Head of Budget Department, Ministry of Finance; Irakli Khmaladze, Vice-Mayor, Tbilisi City Hall, Gaioz Talakvadze, Head of Department of Finance, Tbilisi City Hall Irakli Khmaladze, Project Manager Economics, Regional Development and Public Finance, EU Delegation,

Reviewers who provided comments and did not

- Irakli Khmaladze, Project Manager Economics, Regional Development and Public Finance, EU Delegation (13 September 2022); Natia Gulua, Deputy Head of Budget Department, Ministry of Finance
- Date of final concept note sent to PEFA Secretariat (15 September 2022)

Review of the Assessment Report

- Draft circulated
- Invited reviewers and date they provided comments
 - PEFA Secretariat – 6 January 2023
 - World Bank - 2022
 - Irakli Khmaladze, Project Manager Economics, Regional Development and Public Finance, EU Delegation 2022
 - Natia Gulua Deputy Head of Budget Department – Head of Budget Policy Unit Ministry of Finance of Georgia - 2022
 - Irakli Khmaladze, Vice-Mayor, Tbilisi City Hall 9 December 2022
 - Gaioz Talakvadze, Head of Department of Finance, Tbilisi City Hall 9 December 2022

PEFA CHECK

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

23. A substantial number of Tbilisi City officials participated in the assessment, readily providing most of the documentation and their views and insights on all the subjects covered. In addition, the State Audit Office

and Procurement Agency were consulted about their interaction with the municipality. The assessment benefited from the earlier central government assessment with respect to revenue administration issues and the triangulation with the private sector. The central government assessment allowed for interaction with the Ministry of Finance, particularly on IT and reporting and the supervision of internal audit. There was also overlap in terms of assessors. Some development partners (World Bank and European Commission) participated in the assessment as reviewers of the concept note and draft report. The European Commission funded the assessment. It was informed about the process and reviewed the draft report. This review was carried out in the context of overall PFM involvement in Georgia (not specifically Tbilisi where no development partners are directly involved).

1.3 Assessment Methodology

24. **Coverage of the Assessment:** The assessment covers the municipality of Tbilisi including its executive spending units and Sakrebulo (Assembly or City Council), as well as the central government agencies that it interacts with on 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 (EBU) and no local government below the municipality level. Tbilisi does have public corporations. The time period covered is fiscal years 2019 to 2021. The time of the assessment was September to October 2022.

25. **The full assessment team** visited Tbilisi on its main fact-finding mission from 10 to 15 October 2022. Follow up was conducted after the mission with a cut off period of 25 November. The assessment team met with the Vice Mayor, the Head of the Finance Department, and the Deputy Head of the Finance Department as well as other relevant officials. The assessment benefited from the continuity of personnel (consultants and municipality staff) from the 2018 PEFA assessment.

26. **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.

27. **Other methodological issues for the preparation of the report:** The assessment was carried out using the *May 2022 Guidance for Subnational Government PEFA Assessments*. All indicators (and their 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 (NA). The justification for providing a NA score follows the aforementioned guidelines (see page 11).¹ Scores for Tbilisi are reported in Chapter 3 of this report. As the previous assessment of 2018 was conducted using the 2016 guidelines, the assessment team was able to use 2018 scores to make a comparison between the two assessments (except for indicators PI-14, PI-9B, and HLG-1.4 which are new indicators since 2018). The optional HLG-2 indicator (Fiscal Rules and Monitoring of Fiscal Position) was not used as it is not appropriate to the Georgian subnational context.

¹ In some cases, an indicator or dimension may not be applicable to the government system being assessed. In such cases “NA” is entered instead of a score. In cases where one or more dimensions of a multidimensional indicator are not applicable, the assessor proceeds as if the “not applicable” dimensions did not exist. In some cases, a D rating on an indicator or dimension can lead to NA on others. For example, if there is no internal audit function (PI-26.1), the other dimensions of PI-26 are NA because there will be nothing to assess for those dimensions in the absence of an internal audit function. If the SNG being assessed is not allowed to borrow, PI.13 Debt management will be not applicable.

2. Country Background Information

2.1 Country Economic Situation

28. According to the National Statistics Office of Georgia, as of 1 January 2021, the population was 3,728,600.² The 2021 data indicate that GDP per capita was 5,015 USD.³ In the fourth quarter of 2021, the average monthly nominal earnings in Georgia increased by 11.3 percent (GEL 149.1) compared to the same quarter of the previous year and amounted to GEL 1,463.8.⁴ Data from the social service agency indicate that 643,200 people were socially assisted.⁵

29. In 2021, real GDP growth was 10.4 percent. GDP in nominal terms was GEL 60,231.6 million (USD 18,696.4 million) which is an increase of 22.3 percent from the previous year's figure with GDP per capita at GEL 16,154.1 (USD 5,015.3). The data for 2021 show that economic growth occurred in art, entertainment and recreation (43.1%), water supply; sewerage, waste management and decontamination activities (38.9%), electricity, gas, steam and air conditioning (33.5%), accommodation and food service activities (29.8%), health and social service activities (28.7%), transport and warehousing (27.6%), information and communication (23.9%), and financial and insurance activities (23.5%). A decrease was observed in construction (21.8%), education (2.3%), and agriculture, forestry and fish farming (1.4%). The impact of the decline from the COVID-19 pandemic in 2020 and the recovery in 2021 are behind these figures with some sectors still being impacted in 2021.

30. In 2021, the leading role in economic growth was still held by the private sector. In 2021, the turnover volume of the business sector increased by 35.2 percent, and the value of products produced by enterprises increased by 25.8 percent. The number of employees in the business sector increased by 12,600 people on average, and by 51,800 people in the last quarter.⁶

31. In 2021, the annual inflation level was set at 13.9% compared to 2.6% in the previous year. The formation of annual inflation was mainly influenced by price changes in the following groups: food and non-alcoholic beverages: prices increased by 15.6%, which was reflected in the increase of the total index by 5.01%. Transport group: prices increased by 17.3%, which was reflected by 2.24% on the annual index. Housing, water, electricity, and gas: a 43.5% increase in prices was recorded, which was reflected in annual inflation by 3.64%. Hotels and restaurants: prices increased by 14.0%, which was reflected in annual inflation by 0.78%. Health Care: prices rose 7.9%, reflecting a 0.62% increase in the overall index.⁷

32. In 2021, the Georgian Lari strengthened against the USD. In 2021, compared to 2020, the exchange rate of the GEL against the USD strengthened by 5.5% and amounted to 3.1 GEL per one USD. The nominal effective exchange rate of GEL, which represents the average exchange rate of GEL with the exchange rates of the trading partners, strengthened by 17.9%.

²<https://www.geostat.ge/en/modules/categories/316/population-and-demography>

³<https://www.geostat.ge/en/modules/categories/23/gross-domestic-product-gdp>

⁴<https://www.geostat.ge/en/single-news/2474/average-monthly-nominal-earnings-of-employees-iv-quarter-2021>

⁵http://ssa.gov.ge/index.php?lang_id=&sec_id=1539

⁶<https://www.geostat.ge/en/single-archive/3364>

⁷<https://nbg.gov.ge/en/page/inflation-targeting>

33. In 2021, foreign trade turnover in goods in Georgia amounted to USD 14,342.4 million, 25.8% more than the previous year. Of this amount, exports were USD 4,242.7 million (29.6%), and imports USD 10,099.8 million (25.4%). In 2021, Georgia had a negative trade balance of USD 5,857.1 million.⁸

34. Foreign direct investments in Georgia amounted to USD 1,241.8 million in 2021. The three largest direct foreign investor countries and their shares were: United Kingdom 48.6 % (USD 603.6 million), Netherlands 11.1 % (USD 138.3 million) and Türkiye 8.1 % (USD 100.0 million).⁹

35. Table 2.1 provides selected economic indicators.

Table 2.1 – Selected Economic Indicators	2019	2020	2021
GDP (GEL, million)	49,253	49,267	60,003
GDP per capita (USD)	4,696	4,256	5,015
GDP real growth (%)	5.0%	-6.8%	10.5%
Public Debt (% of GDP)	40.4%	60.2%	49.7%
Foreign trade turnover in goods (% of GDP)	-21.7%	-20.0%	-20.3%
Current account balance (%)	-5.5%	-12.5%	-10.4%
External Debt (% of GDP)	32.0%	47.6%	39.9%
Total reserves (multiple of one month's imports)	3.8%	5.2%	4.6%

Source: Ministry of Finance

2.1.1 Significant Economic Challenges and Ongoing Reforms

36. Over the past decades, the economy has undergone a significant change. Developments with trade partners, and high dollarization in the country had a significant impact on the economy. Georgia does not have a special natural resource that could greatly affect its economy. Therefore, the success of the economy is dependent on the country's institutional development and structural reforms. As a result of reforms implemented over the last decade, Georgia has been able to establish uncomplicated regulations to support ease of doing business, low tax rates and a favorable tax regime, access to simple e-services, and favorable conditions to support private sector development. To achieve these outcomes, the most important tasks were to create a public sector free from corruption, to eradicate vicious practices existing after the collapse of the Soviet Union, and to set a distinctive example in the region.

37. The Government's new strategic document "Vision 2030" was approved in November 2022. It promotes principles for inclusive and sustainable development. The strategy complies with the agenda of the association agreement between Georgia and the European Union. The Government of Georgia is committed to carry out reforms for the development of economic and social policies, strengthening stability and security, improving governance, justice and human rights protection by 2030. The program envisages making progress on (i) foreign policy, peaceful resolution of the Russia-Georgia conflict and ensuring public security; (ii) economic development; (iii) social policy and human capital development; and (iv) governance. The Inter-agency Council for the Development and Reforms of the Country was established to ensure efficient coordination of these reforms.

⁸ <https://www.geostat.ge/en/single-archive/3373>

⁹ <https://www.geostat.ge/en/modules/categories/536/metadata-foreign-direct-investments>

2.1.2 Subnational Government Economic Situation

38. Tbilisi is the capital and the largest city of Georgia, lying on the banks of the Kura River with a population of approximately 1.203 million people (about 32.3% of the total population of Georgia). Founded in the fifth century AD by Vakhtang I of Iberia, 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 presents data on Tbilisi's economy compared to Georgia's as a whole.

Table 2.1.2 Tbilisi economy data

	Georgia	Tbilisi
2021 GDP (GEL million) *	60,232	24,883
2021 GDP (US\$ million) *	18,696	8,003
City as % of total GDP	-	51%
2021 Population (000)	3,729	1,202.7
2021 GDP Per Capita (GEL) *	16,154	21,001
2021 GDP per Capita (US\$) *	5,015	6,755
2022 Unemployment (%)	13.90%	23.80%
2021 Average Monthly Salary (GEL)	940	1,539
Foreign Direct Investment (US\$ million)	1,895	1,043
City as % of total FDI	-	55%

* 2020 data for Tbilisi

Source: Geostat

2.2 Fiscal and Budgetary Trends

39. Table 2.2.1 shows that Tbilisi has an overall fiscal balance of 0.3% of Georgian GDP in 2021. This balance had fallen from 0.65% in 2019 but recovered from the COVID-19 situation of 2020 leading to a surplus of 0.07% of GDP in 2020. Grants from central government are more important than own revenue, reflecting the VAT sharing allocation formula in place with its emphasis on population. Interest payments are low reflecting the limited borrowing for capital projects.

TABLE 2.2.1: Aggregate fiscal data Tbilisi Municipality

Item	GEL 000			As % of GDP		
	2019	2020	2021	2019	2020	2021
Revenues	1,100,553.9	865,177.1	1,146,714.3	1.83%	1.44%	1.90%
Taxes	211,185.8	187,920.4	216,906.6	0.35%	0.31%	0.36%
Grants	648,266.5	534,851.5	720,106.0	1.08%	0.89%	1.20%
Other revenues	241,101.6	142,405.2	209,701.8	0.40%	0.24%	0.35%
Expenditures	710,069.2	825,205.2	968,333.0	1.18%	1.37%	1.61%
Labor remuneration	86,163.0	59,682.2	69,145.2	0.14%	0.10%	0.11%
Goods and services	137,144.3	123,138.4	141,247.6	0.23%	0.20%	0.23%
Interest	1,559.7	2,369.7	4,366.5	0.00%	0.00%	0.01%
Subsidies	181,518.1	290,416.7	409,111.2	0.30%	0.48%	0.68%
Grants	990.0	986.3	1,250.5	0.00%	0.00%	0.00%
Social security	167,429.5	143,110.8	153,327.6	0.28%	0.24%	0.25%
Other expenditures	135,264.6	205,501.0	189,884.3	0.22%	0.34%	0.32%
Operating balance	390,484.7	39,971.9	178,381.3	0.65%	0.07%	0.30%
Net growth of non-financial assets	225,491.1	177,622.4	158,392.5	0.37%	0.29%	0.26%
Growth	282,791.3	239,300.8	239,561.2	0.47%	0.40%	0.40%
Decrease	57,300.2	61,678.4	81,168.7	0.10%	0.10%	0.13%
Total balance	164,993.6	-137,650.5	19,988.8	0.27%	-0.23%	0.03%
Net growth of financial assets	-1,619.2	-94.5	0.0	0.00%	0.00%	0.00%
Growth						
Decrease	1,619.2	94.5				
Net increase in liabilities	-9,651.1	-16,046.2	-14,873.3	-0.02%	-0.03%	-0.02%
Growth	0.8	3.3	4.9			
Domestic		1.8	4.7			
Foreign	0.8	1.5	0.2			
Decrease	9,651.9	16,049.5	14,878.2			
Domestic	9,651.9	16,049.5	14,878.2			
Foreign						
Change of balance of deposits (+ growth)	156,961.7	-153,602.2	5,115.5	0.26%	-0.26%	0.01%
Balance	0.0	0.0	0.0			

Note: Revenues of municipalities from the distribution of VAT are considered transfers

Source Tbilisi Finance Departments

40. Table 2.2.2 shows the distribution of actual expenditure by function in Tbilisi. Spending on economic activity is the largest spending category and shows an upward trend. Housing and utility services is the second largest but shows a declining trend. By 2021 education (14%) and environmental protection (13.4%) were the next largest with the latter showing a significant increasing trend. With the transfer of virtually all public order and safety from the municipality to central government in 2015, public order and safety spending is minimal. 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	2019	2020	2021
701	General public service	7.4%	6.6%	6.6%
702	Defense	0.0%	0.0%	0.0%
703	Public order and safety	0.0%	0.0%	0.1%
704	Economic activity	19.5%	26.6%	28.5%
705	Environmental protection	8.7%	10.6%	13.4%
706	Housing and utility services	23.5%	24.2%	20.3%
707	Healthcare	5.5%	2.0%	2.0%
708	Recreation, culture and religion	5.1%	4.3%	4.3%
709	Education	15.1%	13.9%	14.0%
710	Social protection	15.1%	11.7%	10.9%
	Total	100.0%	100.0%	100.0%

Source: Tbilisi Finance Department

41. Table 2.2.3 shows that the functional classification is reflected in the economic classification. Subsidies (showing a large increasing trend), social security, and increase in nonfinancial assets (capital spending) are the biggest consumer of expenditure. Labor remuneration has fallen as a share of the total.

TABLE 2.2.3 Tbilisi Municipality Economic Classifications of Consolidated Budget Actual Expenditures (% of total)

Item	2019	2020	2021
Labor remuneration	8.7%	5.6%	5.7%
Goods and services	13.8%	11.6%	11.7%
Interest	0.2%	0.2%	0.4%
Subsidies	18.3%	27.3%	33.9%
Grants	0.1%	0.1%	0.1%
Social security	16.9%	13.4%	12.7%
Other expenses	13.6%	19.3%	15.7%
Increase in non-financial assets	28.5%	22.5%	19.8%
Total	100.0%	100.0%	100.0%

Source: Tbilisi Finance Department

2.3 Legal and Regulatory Arrangements

42. 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. 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 9 December 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

43. 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 five self-governing cities (Tbilisi, Kutaisi, Batumi, Rustavi, and Poti), 62 district-wide municipalities, and the Autonomous Republic of Adjara.

44. The law on self-government (enacted in June 2014) provides simple and straightforward governance structure. Each municipality has a directly elected local council (Sakrebulo); the executive branch on the level of these municipalities is managed by directly elected Mayors. Heads of municipalities appoint representatives, or as they are called “village trustees” (rtsmunebuli) for each village within respective municipalities. 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. Adjara has a higher level of self-governance than other regions and warrants 2 tiers of subnational levels because of its status as autonomous republic.

45. The system of intergovernmental finances went through 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) a clause that allows for delegation of functions to local authorities by law or through intergovernmental agreements. All other sectors are now largely administered directly from the central government’s line ministries and agencies. In 2019, the equalization transfer system in use was replaced by one based on a national value-added tax distribution system. This system directs at least 19% of the total VAT mobilized in the state budget to the municipal budgets. This revenue becomes the equivalent of municipalities' own revenue, which a municipality uses at its discretion. The municipalities’ share of value added tax is distributed in accordance with Article 71 of the Budget Code of Georgia.

46. Table 2.3.1 presents an overview of the subnational governance structure. There is a central government, two autonomous republics, and 67 municipalities (including cities). The population of the municipalities varies considerably from as little as 4,000 to over one million (Tbilisi). 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	3.728 million	85%	93%	0
State	Yes	Yes	Yes	2	0.24 million to 0.33 million	1%	2%	
Local 1	Yes	Yes	Yes	67	Ranges from 4,000 to 1.2 million	14%	7%	56%
Local 2	NA	NA	NA	0	NA	NA	NA	NA

Note: Revenues of municipalities from the distribution of VAT are considered transfers

2.3.2 Legal and Regulatory Arrangements for PFM

47. The legal basis for decentralization of PFM is encompassed in the framework for governance as specified above. that the Chart of Accounts is common to central government and all municipalities, regardless of size. There is a common IT system and a Treasury Single Account with sub accounts for all spending units (municipal and central government spending units). The Budget Code applies to central government and municipalities (with sections specific to municipalities).

48. Regulations on subnational debt and the issuance of municipal guarantees are stipulated by the Local Self-governance Code (2014). Municipalities may take loans only with the prior consent of the central government. Borrowing must also be approved by the Sakrebulo (Article 68). Loans can only be taken to finance investment (capital) projects. The municipality loan stock may not exceed 10% of the last three years average annual revenue. If this limit is going to be exceeded, a municipality must obtain central government’s

approval, and additional borrowing may only be sourced from central government agencies. Mortgaging municipal property is prohibited. Central government’s advance approval is needed to issue municipal guarantees (Article 100).

2.4 Institutional Arrangements for PFM

49. Table 2.4.1 presents the structure of the Tbilisi municipality spending units. There are 97 budgetary units that deliver services, of which 9 are municipal departments including the Executive, service departments, and 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 78 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 Budgetary Units

	Government Sub-sector			Public Corporation Sub-sector ¹⁰	
	Budgetary Units	Extra-budgetary Units ¹¹	Social Security Funds	Non-Financial Public Corporations	Financial Public Corporations
Municipal departments	9				
Districts	10				
Legal entities	78			14 of which 1 is dormant	

Source: Tbilisi Finance Department

TABLE 2.4.2: Structure of Tbilisi Public Sector - Actual Expenditure (GEL 000)

	Public Sector (Year: 2021)			
	Budgetary Unit	Extra Budgetary Units	Social Security Funds	Total Aggregated
Revenue (including grants)	1,146,914.0			1,146,914.0
Transfers to (-) and from (+) other units of general gov't	720,305.7			720,305.7
Expenditure	968,333.0			968,333.0
Liabilities	-14,873.3			-14,873.3
Financial Assets	5,315.2			5,315.2
Non-financial assets	158,392.5			158,392.5

Source: Tbilisi Finance Department

¹⁰ Public corporations are defined as an enterprise which sells goods and services at an economically significant price, has the ability to bring profit or other financial benefits to the owner and in addition, is independent in the decision-making process in line with IMF guidance.

¹¹ All agencies (LEPL and N(N)LE) related to and central government ministries and municipalities are included in the budget. These are accountable to the budget entities and thus are not independent. There is no Social Security Fund.

50. Parties involved in Georgia's budget process are in line with internationally accepted practice. The Government of Georgia, the Ministry of Finance, 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 have been implementing public finance management reforms for more than 15 years to strengthening of the capability of all these institutions.

51. Parties involved in the Tbilisi budget process are:

- **Ministry of Finance.** 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:** CHU ensures coordination of both internal audit and financial management and control. CHU ensures updating of the internal audit strategy and methodology of the state sector; conducting periodic educational/practical seminars and training for employees of internal audit entities and persons responsible for financial management and control, etc.
 - **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 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.
- **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. It receives and scrutinizes audit reports by the SAO
- **The Budget and Finance Commission.** The Sakrebulo, for the term of its authority, establishes from its own members a budget and finance commission¹² to control the financial activities of the municipality executive bodies. The commission reviews the budget proposals relating to revenues and expenditures and the budget execution reports on the activities implemented on a quarterly basis as well as the final annual budget execution report.
- **The Mayor** is an elected official who is the chief executive of the municipality. The mayor is responsible for budgeting and strategic planning functions across the whole municipality. The

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

plans of the mayor are scrutinized by the Sakrebulo and implemented by the different departments of the municipality.

- **The Finance Department** manages the finances.

2.5 Other Important Features of PFM and Its Operating Environment

52. 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 specific subnational regulations. 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 characteristics have been in place for some time but are being continuously improved by ongoing PFM reforms. The Budget Code provides for public hearings on the budget. The audit reports of municipalities are scrutinized by the Sakrebulo.

53. Municipalities receive grants – equalization (based on national VAT collection and formulae), capital, and special grants - from higher levels of government (central government and autonomous republics). These equalization grants are the most important source of revenue for municipalities. The grants are delivered according to an agreed schedule.

54. According to the legislation of Georgia, the authority of self-government units has two types: own authority and delegated authority (competence). Public school rehabilitation and public school student transportation functions are specific and distinct from other delegated functions. The delegation of these competencies to municipalities is determined by government decree; the delegation of all other competencies by laws. Every year the government determines which municipality should be given a transfer for the rehabilitation of schools and in which municipality the Ministry of Education should rehabilitate schools (for example, the Ministry of Education does this in Tbilisi). Transportation of school students - this program is implemented only in those municipalities that have villages. This program is not implemented in the self-governing cities of Tbilisi, Batumi, Kutaisi, Rustavi, and Poti.

55. Tbilisi performs the following functions delegated by the central government:

- Supervision of norms of public health protection, studies of epidemiological situations and prevention;
- Conscription and registration in military service;
- Support of guarantees of social protection of Internally Displaced Persons; among them, provision of housing, other forms of material and financial assistance;
- Memorial services for war veterans. Includes the costs of ritual services for veterans, and the costs of protection and beautification of military cemeteries;
- Decisions about granting, terminating, suspending, and restoring the status of persons permanently living in a high-mountainous settlement;
- Development of child rights protection and support programs that ensure promotion of children's' social development, education, health protection, and individual needs for disabilities, etc.

3. Assessment of PFM Performance

HLG-1. Transfers from higher level of government

56. 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 2019, 2020, and 2021.

Indicator/Dimension	Minimum Requirements (Scoring Method M2)		
	2018 Score	2022 Score	Brief Justification for Score
HLG-1: Transfers from a higher level of government	D+	C+	
HLG-1.1. Outturn of transfers from higher level government	A	C	Actual transfers were between 92% and 116% of the original budget estimate in two of the last three years. In 2019 the deviation of actual grants from the original budgeted grants was 123.7%, in 2020, it was 93.4% and in 2021 it was 107.8%.
HLG-1.2. Transfers Composition Outturn	D	D	Difference between the original budget estimate and actual earmarked grants was greater than 15 percent in two of the last three years. The rate of deviation in grants by type was 15.4% in 2019, 30.5% in 2020, and 12.0% in 2022.
HLG-1.3. Timeliness of transfers from higher level government	A	A	There are established procedures for the municipality to receive transfers from high-level governments on time.
HLG-1.4 Predictability of transfers	New Dimension	C	Tbilisi municipality receives information on the amount of distribution of VAT transfers for the budget year and the two years following. Changes are not explained.

57. The Budget Code of Georgia includes the following types of transfers from higher level government to Local Self-Government Units:

- **Special transfer** is allocated from the state budget of Georgia for municipal budget or the budget of Autonomous Republic in order to eliminate the effects of natural disasters, ecological and other disasters, hostilities, epidemics, and other emergency situations (damages), as well as to assist municipalities in the implementation of other activities. This transfer is allocated only if the reserve fund of the respective municipality budget is not enough for financing the measures envisaged to eliminate the aforementioned events.
- **Capital Transfer** allocated to municipalities according to the rule approved by Government Degree #23 implies that:
 - Special commission is created which among others includes Deputy Minister of Finance, Budget Department representative of the MOF, Deputy Minister of Regional Development and

- representatives of respective department dealing with coordination with municipalities from Ministry of Regional Development and Infrastructure.
- Municipalities submit proposals of different capital projects to the commission;
 - Criteria for selecting the projects is defined by the decree;¹³
 - Municipalities are obliged to co-finance the projects by at least 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** for delegated competencies. Municipalities exercise delegated competencies based on various laws. Municipalities perform services delegated by the central government. These are:
 - Supervision of norms of public health protection, study of epidemiological situation and prevention;
 - The issues of conscription and registration in military service;
 - Support of guarantees of social protection of IDPs. Among them, provision of housing, other forms of material and financial assistance;
 - Memorial services for war veterans. These are the costs of ritual services for warriors, the costs of protection and beautification of military cemeteries;
 - A decision is made on the issue of granting, terminating, suspending, restoring the status of a person permanently living in a high-mountainous settlement;
 - Development of child rights protection and support programs that ensure promotion of child's social development, promotion of child's education, promotion of child's health protection, promotion of individual needs of disabled child, etc.
 - Funding of relevant measures to improve the infrastructure of public schools, which involves the purchase of goods, services and works for public schools;
 - Providing public schools with student transportation, which aims to provide free transportation for students living far from school.
 - **Equalization transfer.** In 2019, the equalization transfer system in use was replaced by one based on VAT sharing system. This system directs at least 19% of VAT mobilized in the state budget to the municipal budgets. This revenue becomes municipalities' own revenue, which a municipality uses at its discretion to exercise its powers. VAT is sharing in accordance with Article 71 of the Budget Code of Georgia. VAT is sharing to municipalities according to population characteristics registered in the municipality and area of the municipality in the following percentage amounts:
 - 60% - The population of the municipality;
 - 15% - Percentage of children under 6 registered in the municipality;
 - 10% - Percentage of adolescents aged 6 to 18 registered in the municipality;
 - 5% - Area of the municipality;
 - 10% - Number of persons permanently residing in a highland settlement.

Although municipalities record the amount received from the distribution of VAT as sales tax revenue, the revenue is from the distribution of VAT as a grants transfer from central government. The amount is not related to the actual VAT collected in the municipality.

¹³ 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

HLG-1.1. Outturn of Transfers from Higher Level Government

58. This dimension assesses if and how actual total transfers from HLG to SNGs deviated from the originally budgeted total to be allocated. Transfers from higher levels of governments include all funds transferred either in the form of block or earmarked grants, as well as shared revenues that are not collected by the SNG.

59. Total transfers from central government to Tbilisi municipality are presented in Table HLG 1.1.

TABLE HLG 1.1: Total Budget and Actual Grants (GEL 000)

Grants	2019	2020	2021
Budgeted Grants	523,875.2	572,469.5	667,815.8
Actual Grants	648,266.5	534,851.5	720,106.0
% Deviation	123.7%	93.4%	107.8%

Source: Tbilisi Finance Department

60. In 2020, due to the economic problems caused by the COVID-19 pandemic, the budget revenues of Tbilisi municipality decreased significantly. At the end of 2020, 30.0 million GEL was allocated to the Tbilisi municipality from the central government in order to fill the revenue shortfall. Part of this amount was spent in 2020 and part in 2021.

61. In 2019 the deviation of actual grants from the original budgeted grants was 123.7%, in 2020 it was 93.4%, and in 2021 it was 107.8%. Actual transfers were between 92% and 116% of the original budget estimate in two of the last three years. Score C.

HLG-1.2. Transfers Composition Outturn

62. This dimension measures the difference in the functional composition of transfers between the actual outturn and the original budget estimates. Depending on the timing of the approval of the subnational budget relative to the higher level budget, there may be some deviation from the amount included in the higher level budget.

63. The 2022 central government assessment indicates that 84% of grants to municipalities are rule based. Included in these grants are capital grants under Government Decree # 23 issued on 7 February 2013. For the purpose of this indicator, they are classified as earmarked because they related to specific projects. Grants by type are presented in Annex 4, Tables 16 to 18.

64. The rate of deviation in grants by type of grants was 15.4% in 2019, 30.5% in 2020, and 12.0% in 2022. Information on some of the special grants in response to emergency situations and capital grants are provided after the budget has been passed and thus are not included in the budget. The difference between the original budget estimate and actual earmarked grants was greater than 15 percent in two of the last three years. Score D.

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

65. This dimension assesses the in-year timeliness of all transfers from HLGs, with reference to timetables for in-year distribution of disbursements.

66. In the 2019-2021 period under consideration, Tbilisi municipality received 3 types of transfers from the central government. These are: targeted transfer for delegated competencies, special transfer and transfer received from the distribution of VAT. See detailed information in Annex 4, Tables 16 to 18.

67. Targeted transfers for delegated competence are planned to be allocated to the municipality every month from the central budget, in the amount of 1/12 of the volume provided for in the annual plan.

68. Special transfers were based on need, in accordance with the justified request of the municipality.

69. The revenues received by Tbilisi municipality from the distribution of VAT depended (non-earmarked transfer) on the actual collection relating to the economic situation of the country. The municipality did not receive the revenues in 2020 as planned due to the impact of COVID-19 although revenue was still transferred monthly. However, in 2019 and 2021 the revenues received from the distribution of VAT were timely in accordance with the plan and in many cases in excess of the initial forecast, given VAT collection rates.

70. In accordance with established procedures, all planned transfers over the assessment period were received by the municipality on time. Score A.

HLG–1.4 Predictability of transfers

71. This dimension assesses the extent to which the higher level government (HLG) provides information to the SNG on the amount and composition of transfers for the current fiscal year and the two following fiscal years. It also requires an explanation of any major changes in the amount and composition of transfers for the next year between the outer year estimates presented in the previous-year and the estimates presented in the current year.

72. The central government provides Tbilisi municipality with information on the volume of transfers according to the type of transfer.

73. The municipality is informed about the transfer to be received from the distribution of VAT for the upcoming budget year and the 2 years following. Changes are not explained. Changes depend on economic growth and its impact on VAT collection and also whether there may have been changes in the population characteristics. In addition, when a capital transfer/grant is agreed for a specific project and that project may take more than one year to implement, the multi-year nature of the project is reflected in the funding profile.

74. Information about the amount of the special (emergency) transfer and targeted transfer is provided to a municipality only for the year in question. Changes are not explained.

75. Information about capital, targeted, and special transfers is provided to the municipality often after the municipality approves the budget.

76. The existing procedures and the share of the transfer received from the distribution of VAT is significantly higher than other transfers as a share of the total transfers. Score C.

Changes since 2018 PEFA

77. The dimension 1 score has moved from A to C. In 2018 the deviation was less than 10% in two of the three years, but the scoring guidelines were different. The previous methodology scored excess actual relative to planned beyond 5% as an A. The 2022 PEFA uses M2 aggregation and 2018 used M1.

PILLAR ONE: Budget Reliability

78. For the government budget to be useful for policy implementation, it is necessary that it be realistic and implemented as passed.

PI-1. Aggregate Expenditure Outturn

79. This indicator measures the extent to which aggregate budget expenditure outturn reflects the amount originally approved, as defined in subnational government (SNG) budget documentation and fiscal reports. There is one dimension for this indicator. Coverage is budgetary units of the subnational government. The assessment is based on the budget and actual expenditure for the fiscal years 2019, 2020, and 2021.

Indicator/Dimension	2018 Score	2022 Score	Brief Justification for Score
PI-1 Aggregate expenditure outturn	A	B	
1.1 Aggregate expenditure outturn	A	B	Actual aggregate expenditure deviates from the original budget were between 90% and 110% in two of the last three years: in 2019 – 108.8%, in 2020 – 106.1%, and in 2021 – 116.7%.

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

Table 1.1: Total budget and actual expenditure (GEL 000)

	2019	2020	2021
Approved budget	912,221.0	1,003,577.0	1,034,695.0
Actual expenditure	992,860.5	1,064,506.0	1,207,894.2
% Deviation	108.8%	106.1%	116.7%

Source: Tbilisi Finance Department

81. The table show that deviations between the actual expenditure (current and capital) and the budget were as follows: in 2019 – 108.8%, in 2020 – 106.1%, and in 2021 – 116.7%. Actual aggregate expenditure deviates from the original budget were between 90% and 110% in two of the last three years. Score B.

82. A significant impact in the estimates for 2020-2021 was caused by the outbreak of the new coronavirus disease (COVID-19) worldwide in late 2019, which significantly changed the global and Georgian economic trends. This was certainly reflected in the expenditure, transfers to, and revenue of Tbilisi municipality.

Changes since 2018 PEFA

83. The impact of COVID-19 can be seen as a main cause of deterioration in the scores from A to B since the previous 2018 PEFA.

PI-2. Expenditure Composition Outturn

84. 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 2019, 2020, and 2021. Coverage is budgetary SNG.

Indicator/Dimension	Minimum Requirements (Scoring Method M1)		
	2018 Score	2022 Score	Brief Justification for Score
PI-2 Expenditure composition outturn	B+	D+	
2.1 Expenditure composition outturn by function	B	D	The deviation (actual and budgeted expenditures) by function for all three years was more than 15%: 17.4% in 2019, 29.1% in 2020, and 22.8% in 2021.
2.2 Expenditure composition outturn by economic type	B	D	The deviation (actual and budgeted) expenditures by economic classification in 2 out of the 3 years was more than 15%: 4.9% in 2019, 22.1% in 2020, and 18.1% in 2021.
2.3 Expenditure from contingency reserves	A	A	According to the average of the three considered years, the actual expenditures of the reserve fund amounted to 0.8% of the total budget expenditures.

2.1 Expenditure Composition Outturn by Function

85. Dimension 2.1 measures the difference between the original, approved budget and end-of-year outturn in expenditure composition, by functional classification (excluding contingency items), and interest on debt.

86. Actual and budgeted expenditures by function are presented in Annex 4, Tables 2 to 5. The deviation in expenditure structure according to the functional classification is 17.4% in 2019, 29.1% in 2020, and 22.8% in 2021.

87. The deviation between actual and budgeted expenditures by function for all three years was more than 15%. Score D.

2.2 Expenditure Composition Outturn by Economic Type

88. Dimension 2.2 measures the difference between the original, approved budget and end-of-year outturn in expenditure composition by economic classification during the last three years including interest on debt but excluding contingency items.

89. Actual and budgeted expenditure by economic classification is presented in Annex 4 Tables 6 to 8. The rate of deviation in expenditure structure by economic classification is 4.9% in 2019, 22.1% in 2020, and 18.1% in 2021.

90. The deviation between actual and budgeted expenditures by economic classification in 2 out of the 3 years was more than 15%. Score D.

2.3 Expenditure from Contingency Reserves

91. Dimension 2.3 measures the average amount of expenditure charged to a contingency vote.

92. Under the Tbilisi municipal budget, the reserve fund is considered to be within the total public expenditures. According to the Article 67 of the Budget Code of Georgia, the volume of municipal reserve funds shall not exceed 2% of the total amount of budget allocations envisaged by the annual budget. According to the average of the three considered years, the expenditures of the reserve fund amounted to 0.8% of the total budgeted expenditures. Score A.

Changes since 2018 PEFA

93. The impact of COVID-19 can be seen as a main cause of deterioration in the scores from B+ to D+ since 2018 as the municipality was forced to change the economic and functional composition of the budget in response to the emergency.

PI-3. Revenue Outturn

94. 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 2019, 2020, and 2021. Coverage is budgetary subnational government.

Indicator/Dimension	Minimum Requirements (Scoring Method M2)		
	2018 Score	2022 Score	Brief Justification for Score
PI-3 Revenue outturn	C+	D	
3.1 Aggregate revenue outturn	B	D	Deviation between budgeted revenue and actual revenues collected in all three years was outside of the range of 92% to 116%: in 2019 – 120.4%, in 2020 – 81.0%, and in 2021 – 121.2%.
3.2 Revenue composition outturn	C	D	Variance in revenue collection was more than 15% in two of the three years: 2019, 11.2%, and 24.5% in 2020, and in 2021 to 21.0%.

3.1 Aggregate Revenue Outturn

95. Dimension 3.1 measures the extent to which revenue outturns deviate from the originally approved budget.

96. Actual and budgeted revenue by broad generic type is presented in Annex 4, Tables 9 to 11. They are from taxes on property and income relating to rent from property owned by the municipality, sales of goods and services and fines and penalties.

TABLE 3.1 Actual Revenue as % of Forecast Revenue

Year	Actual as % of Forecast Revenue
2019	120.4%
2020	81.0%
2021	121.2%

Source: Tbilisi Finance Department

97. Deviation between budgeted revenue and actual revenues collected in all three assessment years was more than 116%. Score D.

3.2 Revenue Composition Outturn

98. Dimension 3.2 measures the variance in revenue composition and attempts to capture the accuracy of forecasts of the revenue structure and the ability of the government to collect the amounts of each category of revenues as intended.

99. The deviation rate in revenue structure was 11.2% in 2019, 24.5% in 2020, and 21.0% in 2021.

TABLE 3.2 Deviation in Performance Structure

Year	Deviation Percentage
2019	11.2%
2020	24.5%
2021	21.0%

Source: Tbilisi Finance Department Annex 4 Tables 9 to 11

100. The deviation was more than 15% in two of the three years. Score D.

Changes since 2018 PEFA

101. Own source revenue is difficult to predict given its composition and the impact of COVID will have made this even more problematic resulting in a lowering of the indicator score.

PILLAR TWO: Transparency of Public Finances

102. Transparency of information on public finances is necessary to ensure that activities and operations of governments are taking place within the government fiscal policy framework and are subject to adequate budget management and reporting arrangements. Transparency is an important feature that enables external scrutiny of government policies and programs and their implementation.

PI-4. Budget Classification

103. This indicator assesses the classification of the budget and the consistency with international standards during all stages of the budget cycle including formulation, execution and reporting in the last completed year 2021. It consists of a single dimension and coverage is budgetary subnational government.

Indicator/Dimension	2018 Score	2022 Score	Brief Justification for Score
PI-4 Budget classification	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 is derived from the administrative classification in Georgia.

104. Article 4 of the Budget Code¹⁴ of Georgia defines the main principles of the budget system of Georgia, among which is the principle of unity. The existence of a single budget classification is a constituent part of the principles of this unity.

105. In Georgia, the budget classification is uniform for central, autonomous, and municipal governments. The budget classification was approved by the order #99 of the Minister of Finance of Georgia dated 5 April 2019.¹⁵ The classification includes:

- Economic and functional classification that is used at all levels of the budget system for public accounting and is based on the standards of Government Finance Statistics Manual 2014 (GFSM 2014) and Classification of the Functions of Government (COFOG). Economic and functional classifications include revenues, expenditures, operations with 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 detail than the one recommended by GFS.
- An administrative classification that is ensured by the program classification coded with a 5-digit segment and that allows identification of the detail of expenses (or revenues) at least at the level required by GFS. In the case of Georgia, the detail is captured at the cost center level (the third GFS level and below).

¹⁴ <https://www.matsne.gov.ge/ka/document/view/91006?publication=51> Budget Code of Georgia, Article 4.

¹⁵ <https://www.matsne.gov.ge/ka/document/view/4530811?publication=0#DOCUMENT:1>; Order N99 of the Minister of Finance of Georgia, 5 April 2019.

106. According to the 2014 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. An example of GFS-compliant economic coding system is given below:

Example of GFS-Compliant Coding System in Georgia

For example: expenditure coding is in line with GFS

Expenses – Code 2:

- *Compensation of employees - Code 21*
- *Use of goods and services - Code 22*
- *Consumption of fixed capital¹⁶ - Code 23*
- *Interest – Code 24*
- *Subsidies – Code 25*
- *Grants – Code 26*
- *Social benefits - Code 27*
- *Other expenses – Code 28*

Change in non-financial assets – Code 31

Change in financial assets – Code 32

Change of liabilities – Code 33

For example: Expenditure coding:

5-digit economic code: 2.2.3.12.1.

- *Expenditures: 2*
- *Goods and services: 2 2*
- *Office expenses: 2 2 3*
- *Utilities: 2 2 3 12*
- *Electricity: 2 2 3 12 1*

107. While program classification is not a GFS requirement (or a COFOG one), Georgia has developed a comprehensive program budgeting system with a specific classification. It is a combination of priorities (4-digit), programs (4-digit) and sub-programs (6-digit and more detailed), and the classification is determined by 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. According to the program classification, the allocations are distributed to the priorities and to the programs and sub-programs to be implemented by the priorities, the detail of which is captured at the cost center (program or sub-program implementer). An example is provided below:

Example of Program classification coding for SNG that substitutes GFS-compliant organizational classification

Tbilisi Municipality

Priority - Construction and restoration of transport infrastructure - code 01 00 (first-level budget organization, GFS level)

Program - Transport development - code 01 02 (Level 2)

Subprogram - Arrangements for transport infrastructure - code 01 02 01 (Level 3)

Subprogram - Reconstruction of metro stations - code 01 02 03 (Level 3)

¹⁶ According to the budget classification (Order №99 of the Minister of Finance of Georgia, 05.04.2019), this article is valid only in case of the accrual method.

108. It is to be noted that each cost center (program or sub-program implementer) is identified as such in the Electronic Public Financial Management System (e-treasury and e-budget).

109. 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.

110. The difference between the previous assessment: The Order №99 of the Minister of Finance of Georgia dated 5 April 2019 “On Approval of the New Budget Classification of Georgia” was approved based on the standards of Government Finance Statistics Manual 2014 developed by the International Monetary Fund. The order entered into force on 1 January 2019 and includes the following major amendments:

- ✓ A separate chapter (Chapter II) for state institutions and sectors was added to the budget classification, covering all state institutions and all non-market non-profit institutions controlled by state entities;
- ✓ Economic classification of operations related to revenues, expenditures, non-financial assets, financial assets and liabilities has been brought in line with the requirements of the Government Finance Statistics Manual 2014;
- ✓ When accounting for the financing of public corporations (state-owned enterprises) the accounting of the "capital contributions" was clarified, taking into account the economic nature. This is accounted for in expenses, as well as in the classification of financial assets and liabilities and related operations, and is clarified in the budget classification.

111. The score for this dimension is A.

Changes since 2018 PEFA

112. While the score in 2018 and 2022 remains A there has been an extension of the classification system.

PI-5. Budget Documentation

113. 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 2022) and the coverage is budgetary subnational government.

Indicator/Dimension	2018 Score	2022 Score	Brief Justification for Score
PI-5: Budget documentation	A	A	Budget documentation fulfils seven out of the nine applicable elements, including the four basic elements and three additional elements.

5.1. Budget documentation

114. 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 deficit and surplus, for the last, current and forecast years. These data are presented in Chapter 1, Article 1. ¹⁷
2	Previous year's budget outturn, presented in the same format as the budget proposal.	Yes	Tbilisi 2021 budget outturn is presented in the same format as Tbilisi 2022 budget proposal. The tables presented in the first and second chapters of the Tbilisi budget contain columns with data on the budget outturn of the 2021 year's budget and the budget proposal is presented. This data is in the same format and can be easily compared. ¹⁸
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	The Tbilisi 2022 budget and the 2022 revised budget are in the same format as the 2022 budget proposal that was submitted to the Sakrebulo. ¹⁹
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	Detailed breakdown of information on revenues and expenditures is presented in Chapters I and III according to all main articles of budget classification for all three of the 2020-2022 years (past, current and planned). Aggregate revenue and expenditure indicators are presented according to the main categories of budget classification. ²⁰
Additional Elements			
5	Deficit financing, describing its anticipated composition.	Yes	Sources of deficit financing are presented in Article 2 of the budget proposal. ²¹
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 2022 to 2026. The macroeconomic indicators are GDP, GDP growth, inflation, interest rates, exchange rates, etc. ²²
7	Debt stock, including details	Yes	Information on outstanding debt stock according to projects

¹⁷ <https://tbilisi.gov.ge/page/43>

¹⁸ <https://tbilisi.gov.ge/page/43>

¹⁹ <https://tbilisi.gov.ge/page/43>

²⁰ <https://tbilisi.gov.ge/page/43>

²¹ <https://tbilisi.gov.ge/page/43>

²² [https://mof.ge/images/File/2022-biujeti/13-10-](https://mof.ge/images/File/2022-biujeti/13-10-2022/danartebi/10.2023%20BD%20Tables%20sen%2009_1_BDD_LEPL.pdf)

[2022/danartebi/10.2023%20BD%20Tables%20sen%2009_1_BDD_LEPL.pdf](https://mof.ge/images/File/2022-biujeti/13-10-2022/danartebi/10.2023%20BD%20Tables%20sen%2009_1_BDD_LEPL.pdf)

No.	Criteria	Achievement (yes / no)	Relevant Justification / Comment
	at least for the beginning of the current fiscal year presented in accordance with GFS or other comparable standard.		is presented in Article 12 of the budget proposal. Currently there are outstanding debts for projects financed by EBRD and Municipal Development Fund of Georgia (MDFG – LEPL). ²³
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 2022 budget proposal (Articles 1, 2 and 11) included information regarding the changes of financial assets for the current and past years as well as the one to be planned. There is no information presented regarding the volume of financial assets for the beginning or end of fiscal year. Information on volume of financial assets for the beginning and end of fiscal year is presented in budget execution reports ²⁴ .
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 which emanate from MOEs.
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.	NA	The 2022 budget proposal of Tbilisi had no new policy initiatives that could impact the expected major revenue and/or major expenditure programs.
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.

115. Based on the analysis and supporting evidence, of 9 applicable elements, 4 basic and 3 additional elements are met. The score for this indicator is A for the municipality of Tbilisi.

²³<https://tbilisi.gov.ge/page/43>

²⁴<https://tbilisi.gov.ge/page/43>

Changes since 2018 PEFA

116. The score has remained A with 4 basic elements and 3 additional elements covered. Nine elements were assessed in 2022. The 2022 budget proposal did not include any new policies initiatives that could impact the expected major revenue and/or major expenditure programs. Due to this fact, the non-applicable elements have increased from 2 to 3.

PI-6. Subnational Government Operations Outside Financial Reports

117. 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 2021. The coverage is subnational government.

118. The Georgian legislation and the basic principles of the budget system do not provide for non-budgetary / extra budgetary entities outside the budget structure. The structure of the public sector in terms of the municipality with respect to budgetary units, nonbudgetary units, and public corporations is outlined in section 2.4 Institutional Arrangements for PFM and Table 2.4.1.

Indicator/Dimension	Minimum Requirements (Scoring Method M2)		
	2018 Score	2022 Score	Brief Justification for Score
PI-6 Subnational government operations outside financial reports	A	A	
6.1 Expenditure outside financial reports	A	A	All expenditures are included in financial reports.
6.2 Revenue outside financial reports	A	A	All revenues are included in financial reports.
6.3 Financial reports of extrabudgetary units	NA	NA	There are no extrabudgetary units.

6.1 Expenditure Outside Financial Reports

119. Dimension 6.1 assesses the magnitude of expenditures incurred by budgetary and extrabudgetary units (including social security funds) that are not reported in the SNG’s financial reports.

120. 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 municipality.²⁵ Score A.

6.2 Revenue Outside Financial Reports

121. Dimension 6.2 assesses the magnitude of revenues received by budgetary and extrabudgetary units (including social security funds) that are not reported in the SNG’s financial reports.

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

6.3 Financial Reports of Extrabudgetary Units

123. Dimension 6.3 assesses the extent to which ex-post financial reports of EBUs are provided to the SNG.

124. There are no extrabudgetary units. Score NA.

Changes since 2018 PEFA

125. The situation remains the same with no EBUs in Georgia at any level of government.

PI-7. Transfers to Subnational Governments

126. 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 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	2022 Score	Brief Justification for Score
PI-7 Transfers to subnational governments	NA	NA	There are no subnational entities under Tbilisi in 2022 which has not changed since the 2018 PEFA.
7.1 Systems for allocating transfers	NA	NA	
7.2 Timeliness of information on transfers	NA	NA	

²⁵ <http://tbilisi.gov.ge/page/43>

PI-8. Performance Information for Service Delivery

127. 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 next fiscal year; dimension 8.2 the last completed fiscal year; dimensions 8.3 and 8.4, the last three completed fiscal years. Budgetary and extrabudgetary units of the SNG. The coverage is subnational government services managed and financed by other tiers of government. They 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	2022 Score	Brief Justification for Score
PI-8: Performance information for service delivery	B+	B+	
8.1 Performance plans for service delivery	B	B	Information is annually prepared and published according to program objectives of the municipality in the budget documentation. It includes performance indicators, programs about intermediate and final results or outcomes.
8.2. Performance achieved for service delivery	B	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	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	B	Assessment of efficiency and effectiveness for the majority of service delivery units 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.

128. 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.

129. The period, structure, and format of budget documents are determined by the Budget Code of Georgia and Order #385 of 2011 of the Minister of Finance of Georgia “Methodology of Program Budget

Compilation”. Various changes were made in the state budget part of the order of the Minister of Finance in 2015 and in the part of autonomous republics and self-governing units – in 2018.²⁶ Conducting the budget process according to the updated methodology has become mandatory for municipalities since 2019. The updated methodology for drawing up the program budget established many innovations in the budgeting process of municipalities. Among them, it should be noted:

- More emphasis is placed on the correct development of Municipality Priorities Document (MPD);
- It became mandatory to introduce the medium-term action plan of the municipality;
- Determining the basic indicators of the program/subprogram became mandatory in the budget documentation.

130. 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 of the Municipality Priorities Document and the country's Basic Data and Directions Document (BDD) which includes an annex for each municipality. An annex²⁷ 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

131. Dimension 8.1 assesses the extent to which key performance indicators for the planned outputs and outcomes of programs or services that are financed through the budget are included in the Executive's budget proposal or related documentation for 2021, at the function, program, or entity level.

132. 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. 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. Information, as part of annual budget, is published annually.

133. In accordance with the updated methodology of the program budget, starting in 2019 the basic indicators of the results of programs/subprograms are presented in the budget documentations. All of the programs have either an output or outcome indicator specified. Score B.

²⁶ <https://matsne.gov.ge/ka/document/view/4273795?publication=0> Order #283 of the Minister of Finance of July 27, 2018

²⁷ <http://tbilisi.gov.ge/page/43>

8.2 Performance Achieved for Service Delivery

134. Dimension 8.2 examines the extent to which performance results for outputs and outcomes are presented either in the executive's budget proposal or in an annual report or other public document, for 2020 in a format and at a level (program or unit) that is comparable to the plans previously adopted within the annual or medium-term budget.

135. 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 and annual basis and these reports are available on the website of the municipality.²⁸

136. The 2021 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. 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.

137. The annual budget execution reports are available on the website of the Tbilisi City Hall.²⁹ Score B.

8.3 Resources Received by the Service Delivery Units

138. Dimension 8.3 measures the extent to which information is available on the level of resources actually received by service delivery units of at least two large ministries (such as schools and primary health clinics) and the sources of those funds for 2019, 2020, and 2021.

139. 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 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 is also channeled through the TSA. Own source revenue must first be paid into the TSA subaccount before it can be transferred to a deposit account.

140. 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. This information is included in the budget execution reports of the individual spending units which is then aggregated for the municipality.

141. The score of this dimension is A.

8.4 Performance Evaluation for Service Delivery

142. Dimension 8.4 considers the extent to which the design of public services and the appropriateness, efficiency, and effectiveness of those services is assessed in a systematic way through program or performance evaluations for 2019, 2020 and 2021.

²⁸ <http://tbilisi.gov.ge/page/43>

²⁹ <http://tbilisi.gov.ge/page/43>

143. The Sakrebulo Audit Commission carries out assessments to evaluate the operations of the municipality. The commission has examined operations of 23 units of Tbilisi City Hall in 2019. Four units were examined by the Audit Commission in 2020. 12 Units of Tbilisi City Hall were examined by Sakrebulo Audit Commission in 2021. Internal Audit Unit has audited 15 audits in 2019, 13 audits in 2020 and 14 audits in 2021. Audited organizations were kindergartens, Transport Agency, Property Management Agency, music and art schools, health centers etc. 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.

144. 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 2019-2021, the State Audit Office conducted 3 compliance audits, 3 effectiveness audits and 2 financial audits which covered municipality and districts operations. Nevertheless, the SAO has carried out performance audits of a group of municipalities. These are: 1. Audit of activities of regional development associations established by municipalities. 2. Management audit of non-entrepreneurial (non-commercial) legal entities established by municipalities. 3. Management audit of pre-school education institutions established by Tbilisi, Kutaisi, Rustavi and Poti municipalities. These audits are common to all municipalities (pre-school education institutions in 4 municipalities) and the general picture across all municipalities is evaluated. This includes the financial indicators of these organizations, number of employees, compliance with common standards, etc. The recommendations are general and common to all municipalities.³⁰

145. Consequently, the rating of the dimension is B as over 50% and less than 75% of the municipality expenditure³¹ is deemed to be covered by the Sakrebulo Audit Commission and Internal Audit Unit as well as the SAO municipality wide performance audits that included Tbilisi. Score B.

Changes since 2018 PEFA

146. There has been no change since the previous PEFA.

³⁰ These audits are published as follows:

<https://www.sao.ge/ka/%E1%83%9B%E1%83%A3%E1%83%9C%E1%83%98%E1%83%AA%E1%83%98%E1%83%9E%E1%83%90%E1%83%9A%E1%83%98%E1%83%A2%E1%83%94%E1%83%A2%E1%83%94%E1%83%91%E1%83%98%E1%83%A1-%E1%83%9B%E1%83%98%E1%83%94%E1%83%A0-%E1%83%93%E1%83%90%E1%83%A4%E1%83%A3%E1%83%AB%E1%83%9C%E1%83%942021123110226148ka.html>

<https://www.sao.ge/ka/%E1%83%9B%E1%83%A3%E1%83%9C%E1%83%98%E1%83%AA%E1%83%98%E1%83%9E%E1%83%90%E1%83%9A%E1%83%98%E1%83%A2%E1%83%94%E1%83%A2%E1%83%94%E1%83%91%E1%83%98%E1%83%A1-%E1%83%9B%E1%83%98%E1%83%94%E1%83%A0-%E1%83%93%E1%83%90%E1%83%A4%E1%83%A3%E1%83%AB%E1%83%9C%E1%83%942022041503297192ka.html>

<https://www.sao.ge/ka/%E1%83%97%E1%83%91%E1%83%98%E1%83%9A%E1%83%98%E1%83%A1%E1%83%98%E1%83%A5%E1%83%A3%E1%83%97%E1%83%90%E1%83%98%E1%83%A1%E1%83%98%E1%83%A1%E1%83%A0%E1%83%A3%E1%83%A1%E1%83%97%E1%83%90%E1%83%95%E1%83%98%E1%83%A1%E1%83%93%E1%83%90%E1%83%A4%E1%83%9D%E1%83%972021060403304087ka.html>

³¹It has not been possible to calculate the share of Audit Commission's and Internal Audit'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-9A. Public Access to Fiscal Information

147. 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 fees). The time period is last completed fiscal year and the coverage is budgetary subnational government.

Indicator/Dimension	2018 Score	2022 Score	Brief Justification for Score
PI-9A Public access to fiscal information	B	C	Out of 6 applicable elements 4 of basic elements are available to the public, but no additional ones.

148. The following elements are made publicly available:

- i. **Annual executive budget proposal documentation**³² - The executive budget proposal, together with the supporting documentation and within the timeframe established by the law is available on the website of the Tbilisi Sakrebulo within one week after submission of the proposal by City Hall.
- ii. **Enacted budget**³³ - 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 approved budget of Tbilisi is also published on Georgia's official legislative web portal "Sakanonmdablo Matsne."³⁴ The passing of the budget by the Sakrebulo is publicized 2-3 working days after its approval on the website.
- iii. **In-year budget execution reports.** Quarterly reports³⁵ are submitted to the Sakrebulo together with the supporting documentation and materials within one month of the completion of the quarter and are uploaded on the website of the Tbilisi City Hall after their submission.
- iv. **Annual budget execution report**³⁶ - 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 website immediately after submission to Sakrebulo. 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 the 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 Treasury by end March of the following year. The State Audit Office is not obliged to audit these annually by law but does periodically based on its work plan. The last two audits of Tbilisi's financial statements occurred in 2021 and 2020 and covered the years 2020 and 2019 and was published on the SAO website³⁷. However, as a current audit for the 2021 financial statement has not been carried out, this element is not applicable.

³²http://tbsakrebulo.gov.ge/index.php?m=255&news_id=6185

³³<http://tbilisi.gov.ge/page/43>

³⁴<https://matsne.gov.ge/document/view/5329146?publication=0>

³⁵<http://tbilisi.gov.ge/page/43>

³⁶<http://tbilisi.gov.ge/page/43>

³⁷<https://sao.ge/ka/%E1%83%A5-%E1%83%97%E1%83%91%E1%83%98%E1%83%9A%E1%83%98%E1%83%A1%E1%83%98%E1%83%A1-%E1%83%9B%E1%83%A3%E1%83%9C%E1%83%98%E1%83%AA%E1%83%98%E1%83%9E%E1%83%90%E1%83%9A%E1%83%98%E1%83%A2%E1%83%94%E1%83%A2%E1%83%98%E1%83%A1-%E1%83%99%E1%83%9D%E1%83%9C2022021102506167ka.html>

Additional Elements:

- vi. **Pre-budget statement**³⁸ - The preparation of the annual executive budget proposal starts with the preparation of the BDD from 1 March of each year. The BDD 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 10 July 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 10 July) 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 website³⁹ and are placed there immediately after submission. As there were no qualifying reports for Tbilisi this element is not applicable.
- viii. **Summary of the budget proposal (often referred to as a “Citizens’ Guide”)** - There was no Citizen's Guide or other document presented in a format understandable by non-budget experts on the 2021 budget proposal.

149. The municipality has met 4 basic elements. The requirements for a B score of 3 basic elements and 1 additional element is not fully met as no additional elements are made available. Score C.

Changes since 2018 PEFA

150. There has been a reduction of score from B to C since the previous PEFA. However, the scoring guidelines for this indicator have changed. In the 2018 PEFA 4 basic elements and 2 additional elements were accessible.

PI-9B Public Consultation

151. This indicator assesses the extent to which the subnational government conducts public consultation in preparing the budget, designing service delivery programs, and planning investments. It contains three dimensions and uses the M2 (AV) method for aggregating dimension scores. Coverage is budgetary subnational government.

³⁸<https://mof.ge/5439>

³⁹<https://sao.ge/en/reports?isAudit=true>

	2018 Score	2022 Score	Brief justification for score
PI-9B Public consultation	This indicator is new	D+	
9B.1 Public consultation in budget preparation		C	Consultation in budget preparation is conducted prior to approval of the budget by the Sakrebulo.
9B.2 Public consultation in the design of service delivery programs		D	Public consultation for service delivery programs was not conducted.
9B.3 Public consultation in investment planning		D	Public consultation for some major investment projects was not conducted.

152. One of the disruptions to public consultations in 2020-2021 was the COVID-19 pandemic, which limited public gatherings. It is reasonable to assume that the pandemic had influence on the assessment of this indicator.

9B.1 Public consultation in budget preparation

153. This dimension assesses the extent to which public consultation has been conducted in preparing the budget proposal. It requires public consultation to have been organized prior to the approval of the budget by the subnational council.

154. Article 91 of the Law of Georgia "On Local Self-Government" specifies that the Sakrebulo must publish the draft budget for public consultations within 5 days of its presentation by the executive authority. The Sakrebulo posted the 2022 budget draft on its official website immediately after receiving it on 15 November.

155. Public consultation about the 2022 budget, during which the Sakrebulo publishes a summary of the inputs received and an explanation of how those inputs have been considered was not held. In addition, the budget proposal was not presented in a user-friendly and understandable format.

156. The Sakrebulo considers the draft budget at the meetings of the sectoral commissions. The meetings are public; any interested person and organization can attend them. At the meetings of the sectoral commission, all interested persons can ask questions on matters important to them.

157. According to the officials of the Sakrebulo, citizens and non-governmental organizations were present at the meetings of the sectoral commission during the discussion of the 2022 budget, which took place 3-4 weeks before the budget was approved. They had the opportunity to participate in budget consultations, ask questions, and receive answers from officials.

158. Based on the supporting evidence, public consultation in budget preparation is conducted prior to approval of the budget by Sakrebulo. Score C

9B.2 Public consultation in the design of service delivery programs

159. This dimension assesses the extent to which the design of service delivery programs has benefited from public consultation to meet citizens' needs and wants. It covers the last three completed fiscal years, 2019, 2020 and 2021

160. There was no public consultation at least once within the last three years to identify the needs for some service delivery programs. Score D

9B.3 Public consultation in investment planning

161. This dimension assesses the extent to which public consultation has been conducted for the major investment projects managed and decided by the SNG. It covers last completed fiscal year 2021.

162. There was no public consultation for some major investment projects. Score D

Changes since 2018 PEFA

163. This is a new indicator for subnational PEFA assessments so it was not assessed in 2018.

PILLAR THREE: Management of Assets and Liabilities

164. Effective management of assets and liabilities ensures that risks are adequately identified and monitored, public investments provide value-for-money, financial investments offer appropriate returns, asset maintenance is well planned, and asset disposal follows clear rules. It also ensures that debt service costs are minimized and fiscal risks are adequately monitored so that timely mitigating measures may be taken.

PI-10. Fiscal Risk Reporting

165. 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 2021. 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.

Indicator/Dimension	Minimum Requirements (Scoring Method M2 AV)		
	2018 Score	2022 Score	Brief Justification for Score
PI-10 Fiscal risk reporting	C	C	
10.1 Monitoring of public corporations	C	C	Of the 13 active municipality owned enterprises, 9 submitted financial statements (representing most by turnover). 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	NA	
10.3 Contingent liabilities and other fiscal risks	NA	NA	

10.1 Monitoring of Public Corporations

166. Dimension 10.1 assesses the extent to which information on the financial performance and associated fiscal risks of the municipality’s public corporations is available through audited annual financial statements.

167. The Municipality Property Agency is responsible for managing the municipality owned enterprises (MOE) which includes active and dormant enterprises. As of end of 2021 there were 14 MOEs of which one is dormant, and the liquidation process is ongoing. MOEs are neither 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.

168. A number of organizations submit comprehensive information on financial statements. Information supplied by the Municipality Property Agency for 2021 shows that of the 13 active municipality-owned enterprises, 9 submitted financial statements (representing most corporations under Tbilisi ownership by equity and by turnover) without an audit report within 9 month of the end of the year. The two largest (which are also among the largest in Georgia, including central government SOEs), Tbilisi Transportation Company⁴⁰ and TbilServiceGroup (Waste Management)⁴¹ have published their audited financial statements within 12 month of the end of the fiscal year. These two Tbilisi founded MOEs are so significant that they are included in the Fiscal Risk Report covering general government produced by the Ministry of Finance's Fiscal Risk Department. The information obtained from the annual reports of SOEs and MOEs is consolidated in the fiscal risk document, which was submitted to the Parliament on 24 September 2021 as an annex to the 2021 budget.⁴²

169. The turnover of the Tbilisi Transport Company was GEL 82.7 million with equity of GEL 625 million. Turnover of TbilServiceGroup was GEL 99.2 million with equity of GEL 97.2 million. Total turnover of all MOEs founded by Tbilisi municipality was GEL192.2 million, therefore the two MOEs represent 95% of the total in size. The next largest (Ecoservices) turnover was GEL 7.7 million.

170. The Municipality Property Agency produces 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). Score C.

10.2 Monitoring of Subnational Government

171. Dimension 10.2 assesses the extent to which information on the financial performance, including the municipality's potential exposure to fiscal risks is available through audited annual financial statements of sub national governments.

172. Not Applicable to the municipality. Score NA.

10.3 Contingent Liabilities and Other Fiscal Risks

173. Dimension 10.3 assesses monitoring and reporting of the central government's explicit contingent liabilities from its own programs and projects, including those of EBUs.

174. 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.

⁴⁰ <https://reportal.ge/ka/Reports/Report?q=202886788> Audited Financial Statement for 2020 submitted 1 July 2021

⁴¹ <https://reportal.ge/ka/Reports/Report?q=206267494> Audited Financial Statement for 2020 submitted 2 December 2021

⁴² <https://fof.ge/5477>

Changes since 2018 PEFA

175. The situation with respect to fiscal risk relating to MOEs is unchanged with respect to monitoring activities of the Municipality Property Agency. There are fewer MOEs as there has been a liquidation process. In the 2018 PEFA only 4 MOEs including Tbilisi Transportation Company and TbilServiceGroup produced a financial statement, but these were not audited.

PI-11. Public Investment Management

176. 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 2021 and covers subnational government.

Indicator/Dimension	Minimum Requirements (Scoring Method M2 AV)		
	2018 Score	2022 Score	Brief Justification for Score
PI-11 Public investment management	C+	C+	
11.1 Economic analysis of investment proposals	D	C	Economic analyses are conducted to assess some (30%) major investment projects but are not independently reviewed or published.
11.2 Investment project selection	C	C	Prior to their inclusion in the budget, the major investment projects are prioritized but not based on standard criteria.
11.3 Investment project costing	B	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	B	The monitoring of cost and physical progress of investment projects are outsourced and monitored by the Supervisory Unit. Information on implementation of projects is prepared quarterly and annually and reported to the Sakrebulo.

177. An investment projects management guide was developed in 2016 and was approved by Decree No.191 of 22 April 2016, for the purpose of establishing mechanisms for developing and implementing a single cycle management of capital investment projects. Detailed methodology for Investment Projects Management (Decree No.165 of 22 July 2016 of the Minister of Finance of Georgia) was approved on the

basis of this guide. The provisions defined by the investment project management guide and methodology apply to those capital projects whose value is greater than or equal to GEL 5 million.

178. According to the Budget Code, the budget documentation submitted to the Sakrebulo should include information on each capital project financed by the annual budget – the capital budget annex of annual budget. The structure and content of the capital budget annex of the municipal budget is presented in the methodology of program budgeting, updated in 2018.⁴³

179. In applying this indicator to SNGs, “major investment projects” are defined as projects meeting the following criteria:

- The total investment cost of the project is 1 percent or more of total annual budget expenditure; and/or
- The project is among the largest 10 projects (by total investment cost) of the SNG.

The table shows the 10 largest investment projects, according to which the PI-11 indicator was assessed.

Table 11.1: 10 largest investment projects of the Tbilisi 2021 budget

#	Project Title*	Size of Project (GEL million)	% in 2021 budget expenditures
1	Rehabilitation of Vake Park	25.0	2.1%
2	Construction of a new road connecting Mukhran Machavariani and Marshal Gelovani	12.5	1.0%
3	Tbilisi waste management project	10.0	0.8%
4	Construction of a road bridge connecting University Street and Tskneti Highway (Baggi)	6.0	0.5%
5	Construction of a multifunctional sports center in the 2nd MCR of Didi Dighomi	12.0	1.0%
6	Construction of a multifunctional sports center in Varketili 3	13.0	1.1%
7	Rehabilitation of the cadet corps	9.6	0.8%
8	Improvement of Gudiashvili Square and surrounding area	22.3	1.8%
9	Rehabilitation of the National Palace of Student Youth	13.4	1.1%
10	Designing and construction works of strengthening the collapsed neighborhood with retaining walls near Sheshelidze Street	7.5	0.6%

Note: Most of the presented projects are longer than 1 year. Funding primarily covers 2021, but may also cover 2020 or 2022.

⁴³ <https://matsne.gov.ge/ka/document/view/4273795?publication=0> ; Order #283 of the Minister of Finance of 27 July 2018

11.1 Economic Analysis of Investment Proposals

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

181. Economic analysis is carried out by investment projects, which are mainly financed by donor organizations. Economic analysis was done on only a few projects that are not financed by international donors. The assessment team found only a few top investment projects financed in 2019-2021, where preliminary assessments, including economic ones, have been made. These projects are:

- Construction of a new road connecting Mukhran Machavariani and Marshal Gelovani – GEL 12.5 million;
- Construction of a road bridge connecting University Street and Tskneti Highway (Baggi) – GEL 6.0 million;
- Construction of a multifunctional sports center in the second mini-city of Didi Dighom – GEL 12.0 million;
- Construction of a multifunctional sports center in Varketili 3 – GEL 13.0 million GEL.

182. The financing of these 4 projects accounts for 33% of the 10 largest projects. Accordingly, it meets the condition according to which "Economic analyzes are conducted to assess some major investment projects."

183. The assessments are not reviewed by other than sponsoring entity and the results are not published. Score C.

11.2 Investment Project Selection

184. This dimension assesses the extent to which the project selection process prioritizes investment projects against clearly defined criteria to ensure that selected projects are aligned with SNG priorities. Rigorous and transparent arrangements for the selection of investment projects aim to strengthen the efficiency and productivity of public investments. It requires that SNGs carry out an independent review of the major investment project appraisals before including projects in the budget submitted to the subnational council.

185. Investment projects are prioritized in line with the municipality's strategic objectives before their consideration to be 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, 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.

186. Although there are no standard criteria for investment projects, strategic plans of the municipality, requirements of the "General Land Use Plan of the Capital City" approved by the City Council, other norms

and coefficients of construction approved by the City Council are always taken into account when selecting projects.

187. Of the 10 largest projects studied, "Some" projects met all of the pre-selection criteria outlined above. Score C.

11.3 Investment project costing

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

189. Investment capital projects are provided for the year to be planned and for the next 3 years in the budget documentation and in particular, in the Priorities Document of the municipality. The Priority Document presents expenditures for investment projects, although not all expenditures are broken down by individual project. The document presents projects whose implementation has already started and will continue in 2023-2025. Rarely is a project presented, which should start in 2023 and beyond. 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

190. This dimension assesses the extent to which prudent project monitoring and reporting arrangements are in place to ensure value for money and fiduciary integrity. The monitoring system should maintain records on both physical and financial progress, including estimates of work in progress, and produce periodic project-monitoring reports.

191. Monitoring of project implementation including both physical aspects such as volumes of inputs like concrete and costs. Monitoring is outsourced to appropriate consultancy companies with requisite expertise. 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 adhered to.

192. Investment projects are monitored by the company that has the appropriate license and is recognized by the relevant regulatory body of Georgia. Accordingly, the assessment team believes that monitoring is carried out with a high level, standard procedures, and rules.

193. 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

193. This indicator assesses the management and monitoring of government assets and transparency of asset disposals. The assessment is based on fiscal year 2021. Coverage for dimension 12.2 is budgetary

subnational government and dimension 12.3: subnational government for financial assets and nonfinancial assets.

Indicator/Dimension	Minimum Requirements (Scoring Method M2 AV)		
	2018 Score	2022 Score	Brief Justification for Score
PI-12 Public asset management	B	B	
12.1 Financial asset monitoring	B	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.
12.2 Non-financial asset monitoring	C	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	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. A detailed report of each disposed asset is available to the public.

12.1 Financial Asset Monitoring

194. Dimension 12.1 assesses the nature of financial asset monitoring by budgetary subnational government which is critical to identifying and effectively managing the key financial exposures and risks to overall fiscal management.

195. 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. 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 2014 is given in the annual financial statements.

196. 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 including performance are recorded in annual budget execution reports which are published on the municipality website and Treasury website.⁴⁴ Out of the financial categories,

⁴⁴ <https://treasury.ge/files/showfiles?id=ab65149b-c659-46ae-b113-ae638f5a82a0>

monetary funds, finance lease receivables, and long terms loans are recognised at fair or market value. Others such as equity are measured at initial cost. Score B.

12.2 Non-Financial Asset Monitoring

197. Dimension 12.2 assesses the features of nonfinancial asset monitoring for BSNG. Reporting on nonfinancial assets should identify the assets and their use.

198. 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.

199. 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 2014. Table 12.2 shows the classification of non-financial assets and their management according to the GFSM 2014 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.

Source: Tbilisi Finance Department

200. Non-financial assets are listed by categories indicating initial cost, depreciation, various sources of use and accumulation, residual value and are published. Therefore, the use and accumulation of the assets are indicated per each category. The age of non-financial assets is not typically available but can be deduced from

when they have been 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. The municipality conducts periodic inventory of its movable assets. Movable assets have bar codes attached to them. Records are not published.

201. Despite the inclusion of these assets in the financial statements and the register of the holdings of non-financial assets only partial information on their usage and age is available. Score C.

12.3 Transparency of Asset Disposal

202. Dimension 12.3 assesses whether the procedures for transfer and disposal of assets are established through legislation, regulation, or approved procedures -for financial assets coverage is SNG and for nonfinancial assets BSNG.

203. The Law on State Property provides comprehensive rules and procedures for the transfer and disposal of assets. The mayor is responsible for deciding on asset disposal. The Sakrebulo validates the list of items to be disposed of and the announcement of tenders. All assets transfer and disposal are under the responsibility of the LELP Municipality Property Agency. The Agency prepares an annual action plan and reports annually on its achievements against the plan in its annual report, which is also submitted to the Sakrebulo. The Agency sells and leases the largest part of municipality property and assets in the form of electronic auctions according to procedures as defined by the law.

204. The annual procedure is as follows: At the first stage, the Agency makes a list of properties to be sold during the year. They include both immovable property (land, buildings) and movable (automobile or other) property. This list is approved by the Sakrebulo. After that, on request from the Agency, the State Appraisal Bureau values the properties at their market value. After the evaluation, the Agency makes a privatization plan, which is also approved by the Sakrebulo. Sale is then carried out electronically through the <https://eauction.ge/> website. An auction is held on the website. The initial value on the price to be sought of the property and assets at the auction is determined by the market price assessed by the State Appraisal Bureau. The auction is public, and any interested person can take part in it and get information. After the end of the year, the Agency submits information on the implementation of the privatization plan to the Sakrebulo. First, the report is discussed at the property management commission of the Sakrebulo and then at the session of the Sakrebulo. Detailed information about the initial and final value of the property is on <https://eauction.ge/>.

205. The annual report submitted to the Sakrebulo contains information on:

How many requests were submitted to the Agency during the year, and what did these requests refer to: privatization, leasing, and various current issues;

How many and which properties did the Agency sell. The total cost of property sold. Identification codes of privatized property are specified.

Information on what property was transferred to the municipality during the year is presented. These are mainly the properties transferred by the central government to the municipality.

Information about leased properties is presented covering fulfillment of obligations undertaken by tenants and others.

Other information related to the property of the municipality.

206. More detailed information regarding the disposal of municipal property and assets can be obtained by all interested persons from <https://eauction.ge> website. In particular, information on assets for transfer and disposal includes detailed descriptions, photographic images, size (area), usage terms, initial price, auction date, payment, and other details.

207. Information on funds received from the sale and lease of municipal property is also presented in the annual budget execution report. The annual budget execution report is submitted to the Sakrebulo and posted on the official website of the municipality.

208. The Law on State Property provides comprehensive rules and procedures for the transfer and disposal of assets. These are available on the website of the Municipality Property Agency which sells and leases the largest part of municipality property in the form of electronic auctions according to procedures as defined by the law. The State Appraisal Bureau determines the initial value of the property. Publicity is ensured through the website promoting electronic auctions. Information about significant facilities subject to privatization is publicly available through media outlets as well. Given the procedures and rules for transfer and disposal are both established and transparent practices are followed the score for this dimension is A.

Changes since 2018 PEFA

209. There have been no changes since the 2018 PEFA.

PI-13. Debt Management

210. 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, 2021 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 AV)		
	2018 Score	2022 Score	Brief Justification for Score
PI-13 Debt Management	C+	D+	
13.1 Recording and reporting of debt and guarantees	C	C	Debt records are complete, accurate, and updated when payments have been made or loans undertaken. 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	NA	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	D	The assessment of the municipality's capacity to undertake and service debt is carried out by the lending agencies. The municipality does not have a debt management strategy.

13.1 Recording and Reporting of Debt and Guarantees

211. Dimension 13.1 assesses the integrity and comprehensiveness of domestic, foreign, and guaranteed debt recording and reporting for SNG at the time of assessment.

212. The Municipality Treasury Service maintains complete and updated information on its debt. At the time of the assessment the municipality had loans from the Ministry of Finance on the same terms and conditions as the original loan from international institutional donors. The municipality has paid off a loan from LEPL Municipal Development Fund in 2020.

213. 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.

214. Payments are done semi-annually on the Ministry of Finance on-lent loans. 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

215. Dimension 13.1 assesses the integrity and comprehensiveness of domestic, foreign, and guaranteed debt recording and reporting for SNG at the time of assessment.

216. 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.

217. 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)⁴⁵ 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).

218. 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, the municipality needs 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).

219. The PEFA Guidelines state that when primary legislation grants the powers of approval of debt and guarantees to the central government level or another HLG, this dimension will be not applicable. This is the case in Georgia. Score NA.

13.3 Debt Management Strategy

220. Dimension 13.3 assesses whether the government has prepared a debt management strategy with the long-term objective of contracting debt within robust cost–risk trade-offs at the time of assessment for SNG with reference to 2019, 2020 and 2021.

221. Outstanding loan stock as of end of 2021 is GEL 710.7 million. That is about 61.9% of Tbilisi annual income. Debt stock is material. The assessment of the municipality’s capacity to undertake and service debt is

⁴⁵ Except for Eurobonds

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.

Changes since 2018 PEFA

222. The change in overall indicator score since 2018 from C+ to D+ is a methodological one. Dimension 13.2 has not changed but is now NA rather than A, and dimension 13.1 remains a C and dimension 13.3 remains a D in both PEFAs.

PILLAR FOUR: Policy Based Fiscal Strategy and Budgeting

223. Policy-based fiscal strategy and budgeting processes enable the government to plan the mobilization and use of resources in line with its fiscal policy and strategy.

PI-14. Medium-term budget strategy

224. This indicator measures the ability of the subnational government (SNG) to prepare budget estimates on the basis of a fiscal strategy, the impact of economic context and policy changes. It assesses the ability of the SNG to develop a medium-term budget that is aligned with the strategic plans for service delivery. It also examines the extent to which annual budgets are derived from medium-term estimates.

Indicator/Dimension	Minimum requirements (Scoring Method M2)		
	2018 Score ⁴⁶	2022 Score	Brief justification for score
PI-14. Medium-term budget strategy		C+	
PI-14.1 Underlying forecasts for medium-term budget		B	Estimates of revenue and expenditure for the budget year are based on information on transfers, revenue, and expenditure assignments and on key demographic and macroeconomic indicators. Estimates together with the underlying assumptions are included in the budget documentation submitted to the subnational council.
PI-14.2: Fiscal impact of policy proposals		NA	In 2021, no proposals in Tbilisi municipality impacted budget revenues or expenditures.
PI-14.3: Medium-term expenditure and revenue estimates		B	Medium-term estimates include information on expenditures by economic, administrative, and program classification. Information on revenues by major types of VAT related grants are for three years and capital grants for the implementation period, but not special and targeted transfers which are presented only for 1 year.
PI-14.4: Consistency of budget with previous year estimates	D	D	The budget documents do not explain any changes to expenditure estimates between the second year of the last medium-term budget and the first year of the current medium-term budget at the aggregate level

⁴⁶ This indicator is new and is an amalgamation of PIs 14 to 16 in the previous PEFA.

PI-14.1 Underlying forecasts for medium-term budget

225. This dimension assesses the extent to which estimates of revenue and expenditure for the budget year and two following fiscal years are prepared by considering the economic context. It covers the last budget submitted to the subnational council (in 2021).

226. According to the Budget Code of Georgia, the municipal budget should be based on the Priorities Document of the municipality. The Priorities Document is the basic plan of the development of the municipality, which reflects the information about the medium-term action plans. The Priorities Document is updated annually and is developed for a period of 4 years – the budget year and 3 years after the budget year. This document includes the municipality's revenues by major sources and expenditures by major programs. The Priorities Document is submitted to the Sakrebulo together with the draft budget. Unlike the budget, the Priorities Document is not approved by the Sakrebulo.

227. The revenues presented in the Priorities Document are mainly based on the information provided to the municipality by the central government. In particular, the Ministry of Finance sends the main fiscal parameters to the municipality twice: the first time by 15 July and the second time by 5 October. There are: expected GDP growth forecast, inflation rate, revenues from VAT distribution for the next 4 years (the largest component of revenue). When a capital project covers more than one year in terms of its implementation, the relevant grants are related to that time scale. However, property tax revenue, targeted and special transfers are only estimated for the budget year, given the nature and justification (See HLG-1 introduction). Only a small part of the revenue presented in the Priorities Document is forecasted by the municipality independently. These are mainly cleaning fees, licenses, municipal fines, and revenues from privatization.

228. The municipality is free to decide on its own authority how to spend this revenue. All revenues, except targeted transfers, can be allocated by the municipality at its own discretion to its spending programs.

229. In 2021, the Priorities Document was developed by Tbilisi municipality and submitted to the Sakrebulo. The annual budget was based on the calculations presented in the approved Priorities Document. Changes made in the budget during the year are based on needs as they arise such as emergencies. As well amendments to the budget are mainly based on additional revenues received in the year from the central government (capital transfer, distribution of grants from VAT, etc.), which information was not previously available. These are approved using the supplementary budget process (covered in PI-24.4). The Priorities Document is updated only once a year during the preparation of the next year's budget.

230. Based on the analysis and supporting evidence the score for this dimension is B as medium-term estimates include information on expenditures by economic, administrative, and program classification. Also, estimates include information on revenues by major types: capital grants and VAT related grants for three years. Information on special and targeted transfer is presented only for 1 year. Estimates together with the underlying assumptions are included in the budget documentation submitted to the subnational council. Score B.

PI-14.2 Fiscal impact of policy proposals

231. This dimension assesses the capacity of the SNG to estimate the fiscal impact of revenue and expenditure policy proposals developed during budget preparation. The assessment of the fiscal implications

of policy changes is critical to ensure that policies are affordable and sustainable. It covers the last budget submitted to the subnational council (in 2021).

232. In 2021, no policy changes have been proposed in Tbilisi municipality that have impacted on budget revenues or expenditures. Score NA.

PI-14.3 Medium-term expenditure and revenue estimates

233. This dimension assesses the extent to which medium-term expenditure estimates are prepared and updated as part of the annual budget process. It covers the last budget submitted to the subnational council (in 2021).

234. As mentioned in dimension PI-14.1, Tbilisi municipality prepares and submits the Priorities Document to the Sakrebulo together with the annual budget. The Priorities Document is the medium-term action plan of the municipality, which includes the next 4-year plan of the municipality in terms of revenues and expenditures. The information on revenues presents the municipality's own revenues (property tax, other incomes, incomes from the sale of property), and grants from the revenues from the distribution of VAT. The information includes other transfers from higher-level government which are only made for 1 year (special and targeted grants) given their justification and objectives. Capital grants may cover projects over their implementation time scale which may be over more than one year. However, in general these are relatively small and are usually implemented within the year. The information does not include other transfers from high-level government (only 1 year is presented, not 4 years). The share of other transfers in total revenues that are not reflected in the document of priorities in 2021 was 18% in Tbilisi although this may be lower given the capital projects that may be implemented over more than one year.

235. The information on expenditures is presented by programs and administrative units implementing the program. Information is also presented according to level 2 of the economic classification. (See PI-4). Essentially this is based on rolling over expenditure based on existing policy and the revenues that are certain and projected.

236. Despite the fact that the Priorities Document is updated only once in the year (during the preparation of the annual budget project), it can be considered as the medium-term expenditure and revenue estimates of Tbilisi municipality.

TABLE 14.3. MEDIUM-TERM EXPENDITURE ESTIMATES

Classification	2022 (Y/N)	2023-2024 (Y/N)
Administrative	Y	Y
Economic	Y	Y
Program/Function	Y	Y

Data source: Priorities Document

237. Medium-term estimates include information on expenditures by economic, administrative, and program classification. Information on revenues by major types is also included, but not on capital, special and targeted transfer which are presented only for 1 year. Based on the analysis and supporting evidence the score for this dimension is B given that the information on revenue is not complete over the medium term. Score B.

PI-14.4: Consistency of budget with previous year estimates

238. This dimension assesses the extent to which the expenditure estimates in the last medium-term budget establish the basis for the current medium-term budget. This will be the case if every variation in expenditure between the corresponding years in each medium-term budget can be fully explained and quantified. It covers the “last medium-term budget” relates to the budget approved by the subnational council for the last completed fiscal year 2021, and “the current medium-term budget” relates to the budget approved by the subnational council for the current fiscal year submitted in 2021 covering 2022.

239. The budget documents do not explain any changes to expenditure estimates between the second year of the last medium-term budget and the first year of the current medium-term budget at the aggregate level.

240. The score for this dimension is D.

Changes since 2018 PEFA

241. While this is a new indicator (amalgamation of previous PI-14 to 16), it has been possible to assess if there have been any changes. In the 2018 PEFA Tbilisi did have a medium-term view of revenues and expenditure but the information on grants is less robust than previously.

PI-17. Budget Preparation Process

242. 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	2022 Score	Brief Justification for Score
PI-17: Budget preparation process	B	B+	
17.1 Budget calendar	C	A	The budget calendar is clear and adhered to. Budgetary units have more than 6 weeks from receipt of the budget circular with ceilings to meaningfully complete their detailed estimates on time.
17.2 Guidance on budget preparation	A	A	The budget circular is comprehensive and covers total expenditure for the fiscal year. The budgetary units' ceilings reflected in the circular are approved before the circular's distribution to budgetary units.
17.3 Budget submission to the legislature	C	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

243. Dimension 17.1 assesses whether a fixed budget calendar exists and the extent to which it is adhered to. It covers the budget submitted in 2021 for 2022 implementation.

244. The Budget Calendar for local authorities is clearly defined by the Budget Code of Georgia.⁴⁷ The Budget Calendar, which follows the conditions set out in the Budget Code, indicates relevant dates for the municipality.

1. Before 1 March a municipality decree sets forth 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.
2. Before 1 July the budgetary 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 15 July the municipality receives from the Ministry of Finance the draft Basic Directions Document which has information on macro/fiscal projections, revenue forecasts, and transfers for the VAT sharing system.
4. By 15 August the municipality approves the ceilings for the next 4 years. The Finance Department sends budget request (circular) forms to budgetary units.
5. By 15 September, budgetary units submit budget circular to the Finance Department. Applications include costs within the ceilings. If necessary, budgetary units submit requests (circular) for additional funding.
6. From 15 September to 30 September review of proposals by task force and discussions with budgetary units on proposals.
7. By 5 October the municipality receives information on its grants and tax revenue from the Ministry of Finance.
8. In case of need and additional financial resources, budgetary units are given renewed ceilings. Budgetary units within the framework of the updated ceilings submit their budget requests to the Finance Department no later than 5 November.
9. By 15 November the municipality Finance Department prepares draft budget.
10. No later than 15 November, the mayor of the municipality submitted the draft budget together with the budget documents defined by the law to the Sakrebulo.

245. The budget calendar is clear, and the dates specified are adhered to. Budgetary units have more than 6 weeks from receipt of the budget circular with ceilings to meaningfully complete their detailed estimates on time. Score A.

17.2. Guidance on Budget Preparation

246. Dimension 17.2 assesses the clarity and comprehensiveness of top-down guidance on the preparation of budget submissions. It covers the budget submitted in 2021 for 2022 implementation.

⁴⁷ <https://matsne.gov.ge/ka/document/view/91006?publication=51> Budget Code of Georgia, part IV, Articles 65 to 80

247. 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 budgetary units.

248. 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. Score A.

17.3. Budget Submission to the Legislature

249. Dimension 17.3 assesses the timeliness of submission of the annual budget proposal for 2020, 2021 and 2022 to the legislature or similarly mandated body so that the legislature has adequate time for its budget review and the budget proposal can be approved before the start of the fiscal year.

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

TABLE 17.3 DATE OF SUBMISSION OF BUDGET TO THE LEGISLATURE

Year	Date of Submission
2020	15 November 2019
2021	13 November 2020
2022	15 November 2021

Source: Tbilisi Finance Department

251. The submission is only 6 weeks before the start of the fiscal year. A higher score requires at least two months. Score C.

Changes since 2018 PEFA

252. There has been an improvement in the budget calendar which has increased the time available to prepare the budget from 2 to more than 6 weeks.

PI-18. Legislative Scrutiny of Budgets

253. 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 (2021) for 18.1, 18.2 and 18.4. For 18.3 last three completed fiscal years (2019, 2020 and 2021). 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	A	
18.1 Scope of budget 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.
18.2 Legislative procedures for budget scrutiny	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.
18.3 Timing of budget approval	A	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	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

254. Dimension 18.1 assesses the scope of legislative scrutiny in 2021.

255. The Sakrebulo analyzes the fiscal policy, medium-term priorities, budget revenues and expenditures in detail. According to the Budget Code (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.

256. The 2022 Tbilisi draft budget 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.

257. The score for this dimension is A.

18.2. Legislative Procedures for Budget Scrutiny

258. Dimension 18.2 assesses the extent to which review procedures are established and adhered to in 2021.

259. 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 10 December) after it comments on the proposals.

260. 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.

261. 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. Score A.

18.3. Timing of Budget Approval

262. Dimension 18.3 assesses the timeliness of the scrutiny process in 2019, 2020 and 2021 in terms of the legislature’s ability to approve the budget before the start of the new fiscal year.

263. 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
2020	27 December 2019
2021	25 December 2020
2022	27 December 2021

Source: Tbilisi Sakrebulo website

264. The score for this dimension is A.

18.4. Rules for Budget Adjustments by the Executive

265. Dimension 18.4 assesses arrangements made to consider in-year budget amendments in 2021 that do not require legislative approval.

266. 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.

267. The score for this dimension is A.

Changes since 2018 PEFA

268. The situation with respect to PI-18 remains unchanged with all dimensions scoring the same in 2018 and 2022.

PILLAR FIVE: Predictability and Control in Budget Execution

269. Predictable and controlled budget execution is necessary to ensure that revenue is collected, and resources are allocated and used as intended by government and approved by the legislature. Effective management of policy and program implementation requires predictability in the availability of resources when they are needed, and control ensures that policies, regulations, and laws are complied with during the process of budget execution.

PI-19. Tax Administration

270. 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.

271. The May 2022 guidance for subnational PEFA assessments indicates that PI-19 is applicable to core taxes if (a) the SNG administers and collects them directly; and/or (b) the SNG administers them, but a HLG or agency collects them and is not applicable if the SNG relies on revenue from noncore taxes, such as:

- Non-tax revenue, such as royalties (unless they are collected by the tax administration itself).
- User charges and fees, revenue from licenses and permits, profits from commercial activities conducted by the subnational entity, or profits from rental income, interest, dividends, or sale of assets.
- Shared taxes, which the HLG collects through its revenue authority and for which it has sharing arrangements with the SNG (for example, if core taxes are administered and collected by a HLG entity on behalf of the SNG, and revenues transferred to the SNG)

272. 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.

273. The Tbilisi municipality does administer and collect local fees and other minor revenue categories which amount to 7.5 percent of its revenues. The administration of revenue collected from sales of assets is addressed in PI-12.3.

Indicator/Dimension	Minimum Requirements (scoring Method M2 AV)		
	2018 Score	2022 Score	Brief Justification for Score
PI-19 Tax administration	NA	NA	GRS administers and collects all taxes
19.1 Rights and obligations for tax measures	NA	NA	
19.2 Property tax register and value assessment	NA	NA	

Indicator/Dimension	Minimum Requirements (scoring Method M2 AV)		
19.3 Tax risk management, audit and investigation	NA	NA	
19.4 Tax arrears monitoring	NA	NA	

PI-20. Accounting for Revenue

274. 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	2022 Score	Brief Justification for Score
PI-20 Accounting for revenue	A	A	
20.1 Information on revenue collections	A	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	NA	All revenues are transferred directly to the Treasury Single Account daily.
20.3 Revenue accounts reconciliation	NA	NA	Entities collecting most municipal revenue undertake complete reconciliation of assessments, collections, arrears and transfers to Treasury Single Account daily.

20.1 Information on Revenue Collections

275. Dimension 20.1 assesses the extent to which a central ministry, i.e., MoE or a body with similar responsibilities, coordinates revenue administration activities and collects, accounts for, and reports timely information on collected revenue covered in PI-19.

276. All revenues are transferred to the Treasury Single Account which is managed and operated by the 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. 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

277. Dimension 20.2 assesses the promptness of transfers to Treasury other designated agencies of revenue collected at the time of the assessment.

278. All revenues are transferred directly to the Treasury Single Account from the Georgia Revenue Services daily. 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

279. Dimension 20.3 assesses the extent to which aggregate amounts related to assessments/charges, collections, arrears and transfers to (and receipts by) Finance or designated other agencies take place regularly and are reconciled in a timely manner at the time of assessment.

280. Georgia Revenue Services administers most of municipal revenues, collects revenues, manages arrears and reconciles data with State Treasury Service on the daily basis. Each transaction data is automatically checked with personal files in Revenue Services database. If the payer has paid but has not declared the purpose, then the amount is kept in the general account until declaration is uploaded. If payer has declared but Treasury data shows no payment on behalf of the taxpayer, then the amount is recorded in arrears at the Georgia Revenue Services taxpayer personal files. Georgia Revenue Services 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.

Changes since 2018 PEFA

281. There has been no change since the 2018 PEFA as GRS collects and administers all taxes in Georgia. A monthly report on revenues is produced in 2022 as was the case in 2018.

PI-21. Predictability of In-Year Resource Allocation

282. 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 21.4 the last completed fiscal year. Coverage is budgetary subnational government.

Indicator/Dimension	Minimum Requirements (Scoring Method M2 AV)		
	2018 Score	2022 Score	Brief Justification for Score
PI-21: Predictability of in-year resource allocation	B+	B+	
21.1 Consolidation of cash balances	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.
21.2 Cash forecasting and monitoring	B	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	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	C	Adjustments to budget allocations were made 9 times in 2021 and amounted to 21% of the original budget. Adjustments were done in a transparent and predictable way.

21.1. Consolidation of Cash Balances

283. Dimension 21.1 assesses the extent to which the municipality can identify and consolidate cash balances as a basis for informing the release of funds at the time of assessment.

284. According to the Budget Code, all revenues of the budget are immediately transferred to the TSA. This includes revenues collected on behalf of the municipality of Tbilisi. The Treasury, on the basis of 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 daily and published on the Treasury website (www.treasury.gov.ge).

285. The revenues of all budgetary organizations of Tbilisi municipality are collected in TSA. All budgetary organizations (LEPLs) have sub-accounts in TSA where their own incomes are collected. The exception is kindergartens that have bank accounts only in commercial banks. Budget organizations (LEPLs) of Tbilisi municipality are also entitled to have accounts in commercial banks. These accounts are used only for making deposits. If the budgetary organization (legal entity) has funds in the TSA sub-account, which does not use for a certain period of time, in order to receive additional income, it has the right to place these

funds in the form of a deposit in a commercial bank. The budgetary organization may not pay expenses from the account in the commercial bank. The expenses are paid only from the TSA (except for kindergardens).

286. The Treasury and the Financial Service of Tbilisi municipality have real-time information on the funds in the treasury accounts, as well as on the deposits placed by budget organizations (LEPLs) of Tbilisi municipality in commercial banks.

287. All of bank and cash balances are consolidated daily. Based on the analysis and supporting evidence, the score for this dimension is A.

21.2. Cash Forecasting and Monitoring

288. Dimension 21.2 assesses the extent to which budgetary unit commitments and cash flows are forecast and monitored by the municipality in 2021.

289. 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.

290. 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)⁴⁸. These changes are implemented through supplementary appropriations Score B.

21.3. Information on Commitment Ceilings

291. Dimension 21.3 assesses the reliability of in-year information available to budgetary units on ceilings for expenditure commitment for specific periods for 2021.

292. 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.

293. 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.

294. In 2021, 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. Score A.

⁴⁸ Annex 4, Table 16 to18

21.4. Significance of In-Year Budget Adjustments

295. Dimension 21.4 assesses the frequency and transparency of adjustments to budget allocations in 2021. Governments may need to make in-year adjustments to allocations in the light of unanticipated events that affect revenues or expenditures.

296. In-year budget adjustments have to comply with article 80 of the Budget Code⁴⁹ which requires that reallocation from a budget unit to another budget unit is to be made through amendments to the annual budget. The 2021 budget was amended nine times by the Tbilisi Sakrebulo and also reflects virement changes. The percentage increase in expenditure resulting from the supplementary votes was 21 percent.

Table 21.4 Supplementary Budgets (GEL million)

	Original Budget	Amended Budget	Difference	
Expenditure	1,034.7	1,255.7	221.0	21 %

Source: Tbilisi Finance Department

297. 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.

298. Although the adjustments to the budget were done in a transparent and predictable way the number of changes is high (9) in 2021. Score C.

Changes since 2018 PEFA

299. The overall score and dimension scores remain the same although there were more supplementary budgets in 2022 (9) compared to 7 in the 2018 PEFA.

⁴⁹ <https://matsne.gov.ge/ka/document/view/91006?publication=51> . article 80 of the Budget Code of Georgia

PI-22. Expenditure Arrears

300. 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 (2019, 2020 and 2021) 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	2022 Score	Brief Justification for Score
PI-22: Expenditure arrears	A	A	
22.1 Stock of expenditure arrears	A	A	The municipality reported that it did not have any expenditure arrears.
22.2 Expenditure arrears monitoring	NA	A	The e- Treasury system allows for the recording and monitoring of arrears in real time.

22.1. Stock of Expenditure Arrears

301. Dimension 22.1 assesses the extent to which there is a stock of arrears in 2019, 2020 and 2021.

302. 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.

303. 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 in 2019, 2020 and 2021. Score A.

22.2. Expenditure Arrears Monitoring

304. Dimension 22.2 assesses the extent to which any expenditure arrears are identified and monitored at the time of the assessment.

305. In the e-Treasury System, through the module for recording invoices, it is possible to generate data on the overdue debt (debt volume, types / categories, etc.) of any budgetary units in real time. Invoices are inputted with the date. Reports containing the above information are prepared as needed. Payments that are not processed before the due date specified in the contract are monitored. The e-Treasury system allows for the recording and monitoring of arrears in real time and any arrears would be flagged up. It is the responsibility of individual budgetary units to control their own arrears and if the payment is not made within one month, there is the opportunity for the contractor to go to a Court for enforcement. In this case the Court decision goes to the budgetary unit who is in arrears and to the Treasury as well as the plaintiff for appropriate action.

306. The e- Treasury system allows for the recording and monitoring of arrears in real time and any arrears would be flagged up. Score A.

307. Scoring guideline in this situation (page 158) states that if there are no arrears, an A score would be justified as long as it can be reasonably demonstrated that the commitment and payment control systems are complete and functional, and that reliable and complete information is available to suggest that the amount of arrears is nil. (Indicator PI-25 Internal Controls on Non-salary Expenditure, Indicator PI-27 Financial Data Integrity, and Indicator PI-28 In-year Budget Reports score A, A, and B+, respectively.) The score for dimension 22.2 is A.

Changes since 2018 PEFA

308. The e- Treasury system allows for the recording and monitoring of arrears in real time.

PI-23. Payroll Controls

309. 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 (2019, 2020 and 2021). Coverage is budgetary subnational government.

Indicator/Dimension	Minimum Requirements (Scoring Method M1 (WL))		
	2018 Score		Brief Justification for Score
PI-23: Payroll controls	B+	D+	
23.1 Integration of payroll and personnel records	A	A	The municipality maintains the personnel databases under the E-Treasury (payroll module) system that is managed by the 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	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	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

Indicator/Dimension	Minimum Requirements (Scoring Method M1 (WL))		
	2018 Score		Brief Justification for Score
			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	D	No audit had been conducted to identify payroll control weaknesses and accountability issues for 2019-2021

23.1. Integration of Payroll and Personnel Records

310. Dimension 23.1 assesses at the time of assessment the degree of integration between personnel, payroll, and budget data.

311. The annual budget provides information on the number of employees and the budget for salaries approved by the Sakrebulo. The municipality (9 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 alterations 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. Salary payments are mechanically processed through the "Green Corridor" which is an automated system that does not require human intervention as the parameters are in-built. Transaction processing through the green corridor implies automatic processing of the payment document registered in the treasury information system by the budgetary organization (without the intervention of the treasury operator) and real-time settlement. More specifically, during the payment of wages within one specific program code (organization), a package consisting of individual requests corresponding to a specific article to be transferred to a specific employee is presented to the treasury, which is processed through the green corridor, automatically.

312. The approved staff list, personnel database, and payroll are directly linked to ensure budget control, data consistency, and monthly reconciliation. Score A.

23.2. Management of Payroll Changes

313. Dimension 23.2 assesses the timeliness of changes to personnel and payroll data at the time of assessment.

314. The municipality departments update the records of employees prior to the monthly payroll payments to check staff payroll against workdays 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

315. Dimension 23.3 assesses the controls that are applied to the making of changes to personnel and payroll data at the time of assessment.

316. 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 have conducted payroll audits in the past consider the risk to be low. Score A.

23.4. Payroll Audit

317. Dimension 23.4 assesses the degree of integrity of the payroll. Payroll audits should be undertaken regularly to identify ghost workers, fill data gaps, and identify control weaknesses. A payroll audit should include both a documentation check, to ensure that everyone on the payroll is appropriately documented and authorized to receive a particular amount of pay, and a physical verification that payees exist and are identified before payment.

318. In Tbilisi municipality, the State Audit Office (SAO) conducted a payroll audit in 2021, but it covered only the years 2017-2018. In 2021, the SAO also conducted the 2020 consolidated statement financial audit and the 2019 budget execution audits. These audits did not study the payroll system of Tbilisi municipality. Score D.

Changes since 2018 PEFA

319. The score for this indicator has decreased from B+ to D+ as there has been no payroll audit during the 2022 PEFA assessment period which reduced the dimension 23.4 score from B to D. All other dimensions are the same in 2022 as in 2018.

PI-24. Procurement

320. 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.

321. 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	2022 Score	Brief Justification for Score
PI-24. Procurement	B	A	
24.1 Procurement monitoring	NA	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	A	As per public procurement legislation open competition above GEL 5,000 is the default method. 92% of contracts by value procured in 2021 were conducted through competitive selection.
24.3 Public access to procurement information	A	A	All the key procurement information is made available to the public. These include but are not limited to: (1) legal and regulatory framework for procurement (2) government procurement plans (3) bidding opportunities (4) contract awards (purpose, contractor and value) (5) data on resolution of procurement complaints (6) annual procurement statistics
24.4 Procurement complaints management	D	A	The Council of Dispute Resolution is an impartial and independent body established under the Public Procurement Law, which aims to resolve disputes in a prompt, efficient and fair manner in accordance with the Law on Public Procurement and relevant by-laws, the Law on "Public and Private Cooperation" and relevant by-laws, and the Rules of Procedure of the Board. The Board consists of 5 members selected by an independent commission on an open competition and appointed for a term of 5 years. One and the same person may be appointed as the Board member only twice. The board member is a public servant. The activities of the Board are carried out on the basis of the equality of all persons involved in the dispute under the law and the Board, as well as in accordance with the principles of publicity and the independence of the members of the Board. The principles of the Board are: a) legality; b) objectivity and impartiality;

Indicator/Dimension	Minimum Requirements (Scoring Method M2 AV)		
			c) professionalism; d) protection of confidentiality. The Board is separate from all bodies / persons, is independent in its activities and obeys only the law. It is not allowed to influence the board or a member of the board in order to influence the decision-making process. The Board is guided in its activities by the Constitution of Georgia, international treaties and agreements of Georgia, the Law on Public Procurement, the Law on Public-Private Partnership, the Rules of Procedure of the Board and other normative acts.

24.1. Procurement Monitoring

322. Dimension 24.1 assesses the extent to which prudent monitoring and reporting systems are in place within government for ensuring value for money and for promoting fiduciary integrity.

323. 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.

324. 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

325. Dimension 24.2 analyzes the percentage of the total value of contracts awarded with and without competition.

326. 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 supplier⁵⁰; 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,

⁵⁰ Or a preferred supplier in cases such as defence procurement.

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, 2021

Title	All Contracts	Contracts Procured Through Use of Competitive Methods		Contracts Procured Through Use of Non-Competitive Methods	
		Number	%	Number	%
Number of contracts	5,503	1,773	32%	3,730	68%
Value of contracts (GEL million)	597.9	549.3	92%	48.6	8%

Source: State Procurement Agency

327. In 2017, 92% of all contracts procured through the GPA system by the various Tbilisi municipality procuring bodies. Score A.

24.3. Public Access to Procurement Information

328. Dimension 24.3 reviews the level of public access to complete, reliable and timely procurement information.

329. All information related to procurement in the municipality 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.⁵¹. 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.

⁵¹ 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.

330. With respect to the PEFA scoring requirements, the status of following elements relating to the municipality is:

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

Source: State Procurement Agency

331. The score for this dimension is A.

24.4. Procurement Complaints Management

332. Dimension 24.4 assesses the existence and effectiveness of an independent, administrative complaint resolution mechanism.

333. A number of significant amendments were made to the legislative acts regulating the Public Procurement Related Dispute Resolution Council and its regulations. The Law of Georgia №6730-RS on Amendments to the Law of Georgia on State Procurement was adopted by the Parliament of Georgia on 2 July 2020. Under the Law, a new Institutionally Independent Council of Dispute Resolution was established and new regulations for appealing a number of public procurement decisions were defined, as a result of which there was a need to develop a regulatory act for the Council, which was also prepared by the Agency. At the same time, draft amendments were prepared, which were reflected in the relevant by-laws of the Chairman of the State Procurement Agency. According to the amendment, the Court or the Council established for this purpose has the right to review public procurement disputes. The Procuring Entity (administratively) itself is no longer considered as one of the dispute resolution bodies under the Law.

334. As a result of the implemented changes, the Council is composed of five members. Qualification requirements established for board membership are identical of those established for judges of common courts, with only minor differences. In addition, the list of disputes to be challenged in the Council has been amended, in particular, decisions on entering into a simplified procurement contract may also be appealed to the Council if the estimated value of the goods, services or works to be procured is equal or exceeds the monetary thresholds set by EU directives in the field of public procurement. The amendment allowed the

Council to extend the decision-making period by maximum 10 working days, due to several factors, including the fact that the issues subject to appeal have increased and the Council has become a specialized body whose members can no longer perform other remunerative activities. The mentioned amendments came into force on 1 January 2021.

335. Data on complaints demonstrates that the process and procedures are robust and are applied given that all possible outcomes have been realized with respect to Tbilisi procurement. These are shown in Table 24.4.1:

Table 24.4.1 Tbilisi Procurement: Complains and Resolution

Total amount of received complaints	of which fully satisfied by Dispute Resolution Board	was not satisfied	Partially satisfied by Dispute Resolution Board	was considered inadmissible	complaint was dismissed
139	24 (17%)	37 (27%)	54 (39%)	19 (14%)	5 (4%)

Source: State Procurement Agency

336. 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	Achieved	Proof / Comment
(1) Is not involved in procurement transactions or decision-making processes.	Yes	The Law of Georgia №6730-RS on Amendments to the Law of Georgia on State Procurement was adopted by the Parliament of Georgia on 2 July 2020. Under the Law, a new Institutionally Independent Council of Dispute Resolution was established and new regulations for appealing a number of public procurement decisions were defined. According to the amendment, the Court or the Council established for this purpose has the right to review public procurement disputes. The Procuring Entity (administratively) itself is no longer considered as one of the dispute resolution bodies under the Law. As a result of the implemented changes, the Council is composed of five members. Qualification requirements established for board membership are identical of those established for judges of common courts, with only minor differences.
(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 27 February 2015, of the Chairman of the State Procurement Agency.

Procurement Related Complaint Criteria	Achieved	Proof / Comment
(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 27 February 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 Operations of the Procurement Related Dispute Review approved by the Decree №1 of 27 February 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 27 February 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 27 February 2015 of the Chairman of the State Procurement Agency. Article 23, paragraph 14 of the Law of Georgia on State Procurement.

337. The score of this dimension is A.

Changes since 2018 PEFA

338. The most significant change since 2018 has been the creation of an independent complaints review body which has changed dimension 24.4 from D to A. There has been also an increase in competitive tendering from 73% to 92% which increased the dimension 24.2 score to A from B. The other dimensions are the same as 2018 with the overall indicator score increasing from B to A.

PI-25. Internal controls on Non-salary Expenditure

339. 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	2022 Score	Brief Justification for Score
PI-25: Internal controls on non-salary expenditures	A	A	
25.1 Segregation of duties	A	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 6 July 2012 on the approval instructions for the State Treasury Electronic Service System.
25.2 Effectiveness of expenditure commitment controls	A	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	A	Compliance with payment rules and procedures is very high.

340. 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 31 December 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 municipal governments.

25.1. Segregation of Duties

341. Dimension 25.1 assesses the existence of the segregation of duties, which is a fundamental element of internal control to prevent an employee or group of employees from being in a position both to perpetrate and to conceal errors or fraud in the normal course of their duties.

342. 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 6 July 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.

343. 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).

344. 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

345. Dimension 25.2 assesses the effectiveness of expenditure commitment controls.

346. 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 31 December 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)⁵². 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.

347. The municipality operates under the centralized system that covers all central and municipality expenditures that is managed by the State Treasury. It does not have any autonomy in managing or controlling the system except to input its own relevant information. 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

348. Dimension 25.3 assesses the extent of compliance with the payment control rules and procedures based on available evidence.

349. As part of the reform implemented on 1 January 2019, the modules of contracts and commitments by the municipality have been integrated into the e-treasury. This is to ensure that all payments are compliant with regular payment procedures and exceptions, if any, are properly authorized in advance and justified. Exceptions to these procedures apply to grants and credits received from international donor organizations where there is a special agreement between the two parties involved. Such agreements usually include specific rules for spending

⁵²<https://matsne.gov.ge/ka/document/view/2665096>

the received funds that are outside of normal procedures. The city of Tbilisi did not have the kind of grant/credit that would warrant such exceptions during the assessment period.

350. In order for the municipality to make payments through the Treasury Electronic System, first of all, the commitment document is registered, which includes information / data on the signed contract. Then the initial documents and invoices are created / confirmed, and finally the payment is made (in case of standard non-advance payment). There is a three-level mechanism of authorization in the system, which consists of the following stages:

- Creation of the document;
- Document verification / validation; and
- Submission of the document to the Treasury.

The system also provides a safe mechanism for authentication and signature confirmation, which prevents unauthorized access to the database. Low risk payments that meet certain parameters are also automatically processed through a “Green Corridor”. These include utility bills and travel expenditures.

351. Compliance with payment rules and procedures is very high and is designed to eliminate exceptions. Score A.

Changes since 2018 PEFA

352. The A scores assessed in 2018 have been maintained in 2022.

PI-26. Internal Audit

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

Indicator/Dimension	Minimum Requirements (Scoring Method M1 WL)		
	2018 Score	2022 Score	Brief Justification for Score
PI-26: Internal Audit	B+	A	
26.1 Coverage of internal audit	A	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	A	Internal audit activities are focused on high risk areas. The municipality carried out system, performance, compliance and financial audits as well as one IT audit. 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.

Indicator/Dimension	Minimum Requirements (Scoring Method M1 WL)		
	2018 Score	2022 Score	Brief Justification for Score
26.3 Implementation of internal audits and reporting	A	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 2021 were completed and their reports distributed to appropriate parties.
26.4 Response to internal audits	A	A	Data supplied by Management show that all of internal audit recommendations are implemented in a timely manner.

26.1. Coverage of Internal Audit

354. Dimension 26.1 assesses the extent to which government entities are subject to internal audit at the time of assessment.

355. Under Article 4 of the Georgian law on State Internal Financial Control (Law of Georgia #5447 dated 9 December 2011), internal auditing for central government was established. In March 2012 the law and associated regulations and procedures on Internal Financial Control was extended to Local Government and the General Inspection Units were converted to Internal Audit Units. Procedures include and the existence of audit work programs, audit documentation, reporting, and follow-up activities leading to the achievement of the internal audit objectives, as described in international standards and documented in subsequent dimensions.

356. The Tbilisi municipality Internal Audit Unit has 27 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

357. Dimension 26.2 assesses the nature of audits performed and the extent of adherence to professional standards at the time of assessment.

358. Article 22 of the Georgian law on State Internal Financial Control defines 5 types of internal audit engagements that include: financial audit, compliance audit, system audit, performance audit and information technology audit. However as noted, only compliance audits, inspection audits and effectiveness audits on a regular basis with system audits and IT audits less are carried out in Tbilisi at the time of the assessment. 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. This law is applied in Tbilisi.

359. 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.

360. 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. A manual for IT audit exists. 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. The IPPF has been fully adopted. Code of ethics is adopted in accordance with Decree of Government of Georgia #1836 dated 18 September 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.

361. 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 had been supported with technical assistance from GIZ, particularly by providing trainings on application of international standards. This Technical Assistance project ended in 2019. There is an ongoing training program supported by CHU and the municipality. In the past one of the major challenges was the high turnover of staff but this is no longer an issue.

362. Internal audit activities are focused on high risk areas. The municipality carried out system, performance, compliance and financial audits as well as one IT audit. Internal audit activities at the time of assessment 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. Score A.

26.3. Implementation of Internal Audits and Reporting

363. Dimension 26.3 assesses specific evidence of an effective internal audit (or systems monitoring) function as shown by the preparation of annual audit programs and their actual implementation including the availability of internal audit reports in 2021.

364. 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.

365. The municipality Internal Audit Unit has both a three-year strategic plan and an annual plan. In 2021 the annual plan, broken down by month, provided for 14 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 management.

366. The PEFA Assessment team examined the 2021 Internal Audit Annual Report, the 2021 Report of LLEP "Animal Monitoring Agency" compliance audit as well as those of the LLEP "Tbilisi Zoological Park" and the LLEP "Tbilisi Development Fund". This examination shows that the audit reports meet all the required standards, 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.

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

26.4. Response to Internal Audits

368. Dimension 26.4 assesses the extent to which action is taken by management on internal audit findings from audits reports issued in 2019, 2020 and 2021.

369. 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.

370. 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 timeline 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 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.

371. Data supplied by the Internal Audit Unit on implementation of recommendations relating to the planned⁵³ audits are as follows:

Table 26.4 Tbilisi Municipality Internal Audit Information

	2019	2020	2021	Sum	
				Number	%
Number of Audits Carried out	15	13	14	42	
Number of Recommendations	27	22	25	74	
Number implemented completely	25	21	21	67	91%
Number implemented but ongoing	2	1	4	7	9%
Number ignored	0	0	0	0	0%

Source: Tbilisi Internal Audit Unit

372. Over the period covered, 91% of recommendations were implemented and 9% partially implemented. Data supplied by Management show that all of internal audit recommendations are implemented in a timely manner. Score A.

Changes since 2018 PEFA

⁵³ Recommendations relating to ad hoc audits are specific to the issue being addressed.

373. The indicator B+ score assessed in 2018 has increased to A as there has been an increase in the nature of audits performed with more systems audits being carried out since 2018.

PILLAR SIX: Accounting and Reporting

374. Timely, relevant and reliable financial information is required to support fiscal and budget management and decision-making processes.

PI-27. Financial Data Integrity

375. 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	2022 Score	Brief Justification for Score
PI-27: Financial data integrity	A	A	
27.1 Bank account reconciliation	A	A	The Finance Department of the municipality reconciles daily all its balances with the TSA sub-accounts and other bank accounts in the National Bank of Georgia.
27.2 Suspense accounts	NA	NA	There are no expenditure suspense accounts operated by the municipality.
27.3 Advance accounts	A	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	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

376. Dimension 27.1 assesses the regularity of bank reconciliation at the time of assessment covering 2021.

377. The municipality Finance Department is able to access daily 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), and this allows aggregated and detail levels of analysis for reconciliation. The RTGS is fully automated. It works in online regime and data transfers are instant. Score A.

27.2 Suspense Accounts

378. Dimension 27.2 assesses the extent to which suspense accounts, including sundry deposits/liabilities, are reconciled on a regular basis and cleared in a timely way at the time of assessment covering 2021.

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

27.3. Advance Accounts

380. Dimension 27.3 assesses the extent to which advance accounts are reconciled and cleared at the time of assessment covering 2021.

381. 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 31 December 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.

382. 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.

383. 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 and reconciled monthly. Score A.

27.4. Financial Data Integrity Processes

384. Dimension 27.4 assesses the extent to which processes support the delivery of financial information and focuses on data integrity defined as accuracy and completeness of data (ISO/IEC, International Standard, 2014) at the time of assessment.

385. 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.

386. 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 daily 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.

Changes since 2018 PEFA

387. The A scores assessed in 2018 have been maintained in 2022.

PI-28. In-Year Budget Reports

388. 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	2022 Score	Brief Justification for Score
PI-28: In-year budget reports	B+	B+	
28.1 Coverage and comparability of reports	A	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	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	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

389. Dimension 28.1 assesses the extent to which information is presented in in-year reports and in a form that is easily comparable to the original budget.

390. The classification in the e-Budget system is based on GFSM 2014. The e-Budget system has since 1 January 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, and comparison with the initial budget. There are no deconcentrated units in Tbilisi.

391. 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

392. Dimension 28.2 assesses whether this information is submitted in a timely manner and accompanied by an analysis and commentary on budget execution.

393. Budget execution reports have been prepared monthly in 2021 within 10 days after the end of the month even though the regulations allow for a longer time of up to 14 days. 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 website⁵⁴. Score A.

28.3. Accuracy of In-Year Budget Reports

394. Dimension 28.3 assesses the accuracy of the information submitted, including whether expenditure for both the commitment and the payment stage is provided.

395. 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.

Changes since 2018 PEFA

396. The dimension scores of the 2018 PEFA have been maintained in 2022.

⁵⁴ <http://tbilisi.gov.ge>

PI-29. Annual Financial Reports

397. 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	2022 Score	Brief Justification for Score
PI-29: Annual financial reports	D+	D+	
29.1 Completeness of annual financial reports	C	A	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. There is a reconciled cash flow statement.
29.2 Submission of reports for external audit	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. The municipality financial statements are published by 31 March. These however are not submitted to the SAO.
29.3 Accounting standards	C	B	Municipalities are required to prepare financial statements that comply with the standards established by the Ministry of Finance which are based on international standards.

29.1. Completeness of Annual Financial Reports

398. Dimension 29.1 assesses the completeness of the 2021 annual financial reports in terms of their coverage.

399. 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 24 December 2007, and by the Order #364 of the Minister of Finance of Georgia issued on 16 April 2008 approving Financial Reporting Templates for Budgetary Organizations and by Articles 86 and 87 of the Budget Code of Georgia.

400. 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.

401. Financial statements of the municipality are prepared annually by the Finance Department. 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. There is a reconciled cash flow statement. Standards are disclosed in the published financial statements. The Financial Statements are consolidated for all of the operations of the municipality. Score A.

29.2 Submission of Reports for External Audit

402. Dimension 29.2 assesses the timeliness of submission of the **last** reconciled year-end financial reports for external audit as a key indicator of the effectiveness of the accounting and financial reporting system.

403. 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"⁵⁵. 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. The municipality submitted its 2021 Financial Statement to the State Treasury on 31 March 2022 which is then posted on the Treasury website. At the same time the municipality posted the Financial Statements on its own website. By dint of these postings, the Financial Statements were made available to the State Audit Office should it have selected the municipality for audit.

404. The Financial Statements are not sent directly to the SAO even though they are completed within 3 months. Score D.

⁵⁵ Article 88.2

29.3. Accounting Standards

405. Dimension 29.3 assesses the extent to which annual financial reports for 2019, 2020 and 2021 are understandable to the intended users and contribute to accountability and transparency.

406. Organizations funded by the budgets of the Central and Local Governments are guided by the following instructions approved by the orders of the Minister of Finance of Georgia:

- Instruction approved by the Order №108 of the Minister of Finance of Georgia of 5 May 2020 "Financial Accounting by Budgetary Units on the basis of International Public Sector Accounting Standards (IPSASs)";
- Instruction approved by the Order N17 of the Minister of Finance of Georgia of January 15, 2020 "Chart of Accounts of Budgetary Units and its Use";
- Instruction approved by the Order N289 of the Minister of Finance of Georgia of 2 December 2020 "Accounting for Depreciation/Amortization by Budgetary Units and Reflection in the Financial Statements";
- Instruction approved by the Order N24 of the Minister of Finance of Georgia of 4 February 2021 "Rules for Preparation and Submission of Financial Statements by Budgetary Units";
- Instruction Approved by the order N364 of the Minister of Finance of Georgia of 31 December 2021 "Inventorization of Assets and Liabilities by Budgetary Units and Accounting and Reporting of Inventorization Results Based on International Public Sector Accounting Standards (IPSASs).

407. These instructions set out the rules and principles on an accrual basis for accounting and reporting of financial assets, non-financial assets, liabilities, equity, revenues and expenditures. These instructions are in line with the GFSM 2014 methodology and the Budget Classification of Georgia, as well as with the requirements of the accrual based IPSASs. They also include the requirements that IPSAS standards based on the accrual method to be disclosed in the notes to the Financial Statements. These requirements are met and the applied standards are disclosed in the notes. There are 39 IPSAS standards in total (there were 44, but 5 were canceled/replaced) and currently 3 new ones are to be added in the future. Out of the current 36 standards, 3 are not relevant to Georgia. Currently 24 are applied representing 73% of all valid relevant standards. Score B.

Changes since 2018 PEFA

408. There have been significant improvements since 2018 even though all may not meet PEFA scoring requirements. The annual financial statements are now complete and consolidated for the municipality. They are produced and published within 3 months of the end of the financial year although not submitted to the SAO which downgrades a potential A score to a D which was the 2018 score. Accounting standards have gone from a C score to a B score reflecting the increase in IPSAS standards.

PILLAR SEVEN: External Scrutiny and Audit

409. Effective external audit and scrutiny by the legislature are enabling factors for holding the government's executive branch to account for its fiscal and expenditure policies and their implementation.

PI-30. External Audit

410. PI-30 examines the characteristics of external audit.

Indicator/Dimension	Minimum Requirements (Scoring Method M1 WL)		
	2018 Score	2022 Score	Brief Justification for Score
PI-30: External audit	D+	B+	
30.1 Audit coverage and standards	C	A	Financial reports that covered the entire municipality's activities (PI.29.1) have been audited twice in the last three fiscal years following International Standards of Supreme Audit Institutions. The audits have highlighted any relevant material issues and systemic and control risks which reflect the audit processes and standards developed and implemented by the SAO.
30.2 Submission of audit reports to the legislature	D	B	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. 2020 and 2019 Tbilisi financial statements were audited within 6-month period.
30.3 External audit follow-up	NA	A	There is an effective system for monitoring and follow up of recommendations. According to the Organic Law on the State Audit Office, within 30 calendar days after the approval of the audit report, the auditee submits to the State Audit Office an action plan on the measures already taken and / or to be taken for implementation of recommendation (relevant activities, deadlines and responsible persons). Continuous monitoring of the implementation of the recommendations is carried out through the State Audit Office's electronic system. Information on the status of implementation of the recommendations is provided through the annual reports on the activities of the SAO and the implementation of the recommendations.

Indicator/Dimension	Minimum Requirements (Scoring Method M1 WL)		
30.4 Supreme Audit Institution independence	A	A	The State Audit Office is independent from the executive with respect to procedures for appointment and removal of the Auditor General, the planning of audit engagements, arrangements for publicizing reports, and the approval and execution of the SAO's budget. The SAO has unrestricted and timely access to records, documentation and information from auditees (budgetary units). The independence of the SAO is assured by the Constitution of Georgia and the Law of Georgia on State Audit Office.

30.1. Audit Coverage and Standards

411. Dimension 30.1 assesses key elements of external audit in terms of the scope and coverage of audit, as well as adherence to auditing standards in 2019, 2020, 2021.

412. The State Audit Office (SAO) is guided in its auditing activities in accordance with the International Standards of Supreme Audit Institutions (ISSAI)⁵⁶ and Financial (ISSAI 2000-2899), Compliance (ISSAI 4000-4899) and Performance (ISSAI 3000-3899). The audit methodologies have been created by the SAO based on them and these are applied in the conduct of audits by the SAO. In the process of selecting audit topics, the State Audit Office uses a risk-based approach to identify areas of importance to the public financial management system and to concentrate on increased risks in selected audits.

413. The State Audit Office also has a Quality Assurance Department that has been functioning since 2011. The quality control and quality assurance systems implemented in the SAO are the basis of its high-quality auditing activities. The Quality Assurance Department examines the audit planning and processes / procedures, summarizes best practices and identifies areas that need improvement. The SAO has introduced an Audit Management System in 2018, which fully integrates all types of audit methodology. Audit quality control procedures are built into the processes that at each stage of the audit procedure, the audit team receives feedback from quality reviewers.

414. 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. An audit for Tbilisi's municipality was carried out for 2019 financial statements and for 2020 financial statements in the assessment period.

415. Financial reports that covered the entire municipality's activities (PI-29.1) have been audited twice in the last three fiscal years following International Standards of Supreme Audit Institutions. The audits have highlighted any relevant material issues and systemic and control risks which reflect the audit processes and standards developed and implemented by the SAO. Audits have been carried out in two of the last three relevant years. Score A.

⁵⁶ Article 5 of the Organic Law of Georgia on the State Audit Office.

30.2. Submission of Audit Reports to the Legislature

416. Dimension 30.2 assesses the timeliness of submission of the audit reports in 2019, 2020 and 2021 on budget execution to the legislature, or those charged with governance of the audited entity, as a key element in ensuring timely accountability of the executive to the legislature and the public.

417. In accordance with Article 24 of the Organic Law on State Audit, audit reports are submitted to both the audit object and its supervisory body, including municipal bodies. In addition, all audit reports are submitted to the Parliament of Georgia. Parliament used to review all central government and selected municipal audit reports. The requirement that municipality audits were to be scrutinized by Parliament was discontinued in 2020. Since parliamentary oversight does not extend to self-governments, Parliament sends audit reports of municipal bodies to municipal councils for further review and response. Accordingly, the audit reports of municipalities are not discussed in the Parliament.

418. The SAO sends municipal audit report to the Mayor and the Mayor is the supervisor body of an audited entity. Sending audit reports by SAO directly to Sakrebulo is not mandatory (it is optional). Parliament reviews only central government audit reports (all of them) and sends municipal reports to municipality (normally both to Sakrebulo and Mayor).

419. In the case of Tbilisi, the SAO has received 2020 financial statements in August 2021 and completed its audit on 11 January 2022, and submitted it to the municipality Sakrebulo on 10 February 2022. Financial statements of 2019 were received in August 2020 and audit was completed on 11 February 2021 and was submitted to the municipality Sakrebulo on 22 March 2021. Each audit was finished within 6-month period. These have been submitted to the municipality Sakrebulo within 2 months of their completion. Score B.

30.3. External Audit Follow-Up

420. Dimension 30.3 assesses the extent to which effective and timely follow-up on external audit recommendations or observations is undertaken by the executive or audited entity for 2019, 2020 and 2021.

421. The main function of the State Audit Office, as of the Supreme Audit Institution, is to improve the management of public finances and create value for the citizens. To perform this function, the State Audit Office conducts Financial, Compliance and Performance audits and issues recommendations to the auditee, which may also be submitted to a superior body of the auditee or to the State body, Autonomous Republic or Local Self-Government to which the auditee is accountable.

422. In the process of developing recommendations and monitoring their implementation, the State Audit Office is guided by the International Standards on Supreme Audit Institutions (ISSAIs),⁵⁷ international best practices and experiences. According to the Organic Law on the State Audit Office,⁵⁸ within 30 calendar days after the approval of the audit report, the auditee shall submit to the State Audit Office an action plan on the measures already taken and / or to be taken for implementation of recommendation (relevant activities, deadlines and responsible persons).

⁵⁷ INTOSAI-P - 10 – Mexico City Declaration; INTOSAI-P - 12 – The Value and Benefits of Supreme Audit Institutions; ISSAI 100-129 – Fundamental Principles of Audit; ISSAI 200; ISSAI 300; ISSAI 400.

⁵⁸ Article 24 of the Organic Law of Georgia on the State Audit Office.

423. The State Audit Office provides constant monitoring of the implementation of the recommendations issued within the audit. In 2018, the Service developed the "Guidelines for Development of Recommendations and Implementation Monitoring", which was further updated in 2020. The manual defines the procedure and criteria for developing the recommendation, as well as the procedures for monitoring the implementation process and assigning status to the recommendation. Through the manual, the service ensures high quality of recommendations, uniformity of the process and procedural fluency, transparency of monitoring the implementation of recommendations.

424. The monitoring process is carried out through the electronic system⁵⁹. This monitors the implementation of recommendations in accordance with the procedures defined by the State Audit Office's "Guidelines for the development and implementation of recommendations". The electronic system for monitoring the implementation of recommendations - ARIS⁶⁰ was developed by the State Audit Service. The system was created in 2019 and it fully transfers the monitoring process to the electronic space, provides proactive communication with audit objects, processes automation and implementation of an effective monitoring mechanism. In particular, the system defines the person responsible for the implementation of each recommendation issued within the scope of the audit (from both the audit object and the audit service). Using the functionality built into the system, the audit facility prepares an action plan for the implementation of the recommendation. The action plan indicates the measures/activities to be carried out by the budget organization with the respective specific target dates. The action plan prepared by the audit object is confirmed by the audit service if it meets all the criteria established by the system. The reporting of information related to the implementation of the recommendation (maximum once in 6 months), with the presentation of relevant supporting documentation, is done through the system. The highest level of management of the auditee ensures effective communication and timely receipt of information on the implementation of recommendations.

425. Based on the evaluation of the information/documentation submitted by the audit object, the State Audit Service recommends the appropriate status⁶¹. Monitoring is carried out on all recommendations issued by the service. After assessing the status of performance, based on professional judgment, it is possible to plan a follow-up audit.

426. The manual and the introduction of the ARIS system significantly increased the quality of the issued recommendations and improved the monitoring process. The audit service carries out in-depth procedures on the information provided by the audited entity about the implementation of the recommendation and, if necessary, requests additional documentation. Accordingly, the system ensures a realistic assessment of the current situation and assigning the most accurate status for the recommendation.

427. With respect to Tbilisi the number of recommendations and their response are summarised in Table 30.3. The table includes information on audits conducted in 2019-2021 that covers the 2018-2020 period. The 2021 period audits normally are conducted and finished (after all review and approval procedures and stages are passed) in late 2022. Some audits could be finished even in 2023. Therefore, it is too early to detail the implementation of recommendations for the 2021 period. Accordingly, recommendation implementation status table for 2021 period cannot be presented.

⁵⁹ <https://aris.sao.ge/>

⁶⁰ <https://aris.sao.ge/>

⁶¹ Completed, partially completed, ongoing, incomplete.

Table 30.3 2018-2020 recommendation implementation status

Status	Number
Implemented	1
Partially implemented	5
Current, in the process	14
overdue, not implemented	4
Total Recommendations	24

Source: SAO

428. The SAO has a robust and systematic set of processes and procedures for monitoring and following up of recommendations. Out of 24 recommendations made 16.7% have not been addressed in terms of being over due or not implemented. Score A.

30.4. Supreme Audit Institution Independence

429. Dimension 30.4 assesses at the time of assessment the independence of the SAI from the executive. Independence is essential for an effective and credible system of financial accountability and should be laid down in the constitution or comparable legal framework.

430. 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 appointed⁶² 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.⁶³

431. The Law of Georgia on the SAO ensures that it operates independently from the executive with respect to the planning of audit engagements⁶⁴; arrangements for publicizing reports⁶⁵; and the approval and execution of the SAO's budget⁶⁶. The SAO also has unrestricted and timely access to records, documentation and information⁶⁷. Score A.

Changes since 2018 PEFA

432. There have been considerable changes since the previous PEFA. The number of qualifying audits for scoring purposes has been reduced from 3 in 2018 to 1 in 2022 methodology which has increased the score for dimension 30.1 from C to A. In addition within Georgia audit reports are now submitted to a Sakrebulo rather to Parliament which has given dimension 30.2 automatically a D score and dimension 30.3 NA as there is no follow up within the municipality itself. Dimensions 30.2 and 30.3 now score B and A, respectively,

⁶² Article 9 paragraph 1 of the Law of Georgia on State Audit Office, Auditor General.

⁶³ Article 10 paragraph d of the Law of Georgia on State Audit Office, Authority of the Auditor General.

⁶⁴ Article 17 paragraph 3 of the Law of Georgia on State Audit Office, Audit Authority of the State Audit Office.

⁶⁵ Article 25 of the Law of Georgia on State Audit Office, International Standards on Auditing.

⁶⁶ Article 34 of the Law of Georgia on State Audit Office, Funding of the State Audit Office

⁶⁷ Article 23 paragraph 2 and 3 of the Law of Georgia on State Audit Office, Rights and responsibilities of an auditee.

given the involvement of the Sakrebulo with the overall indicator score increasing from D+ to B+ as dimension 30.4 has remained an A score.

PI-31. Legislative Scrutiny of Audit Reports

433. 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. Coverage is subnational government.

Indicator/Dimension	Minimum Requirements (Scoring Method M2 A V)		
	2018 Score	2022 Score	Brief Justification for Score
PI-31: Legislative scrutiny of audit reports	D	C	
31.1 Timing of audit report scrutiny	D	A	The Audit Commission meets monthly and tables an audit report for the month following its receipt/
31.2 Hearing of audit findings	D	D	There is an established process for reviewing audit reports. All members receive the Audit Report. The Audit Commission carries out a review of the reports and conducts hearings with the heads of entities present. A report is not presented to the full Sakrebulo. SAO representatives do not take part in the review process
31.3 Recommendations on audit by the subnational council	D	NA	The Audit Commission supports the SAO recommendations but it does not issue its own recommendations.
31.4 Transparency of legislative scrutiny of audit reports	D	D	Hearings are conducted only at the Sakrebulo Audit Commission and conducted in public. Reports are not published on its official website.

434. In accordance with Article 24 of the Organic Law on State Audit, audit reports are submitted to both the audit object and its supervisory body, including municipal bodies. In addition, all audit reports are submitted to the Parliament of Georgia. Parliament used to review all central government and selected municipal audit reports. The requirement that municipality audits were to be scrutinized by Parliament was discontinued in 2020. Since parliamentary oversight does not extend to self-governments, Parliament sends audit reports of municipal bodies to municipal councils for further review and response. Accordingly, the audit reports of municipalities are not discussed in the Parliament.

435. However, the application of this change is not fully consistent with the desire for audit reports to be scrutinized by the Sakrebulo. The SAO sends municipal audit report to the Mayor (not to the Sakrebulo) as the Mayor is the supervisor body of an audited entity. Sending audit reports by SAO directly to Sakrebulo is not mandatory (it is optional). Parliament reviews only central government audit reports (all of them) and sends municipal reports to municipality (normally both to Sakrebulo and Mayor). There is no guarantee that a Sakrebulo may actually receive an audit report.

31.1. Timing of Audit Report Scrutiny

436. Dimension 31.1 assesses the timeliness of the subnational government council’s scrutiny, which is a key factor in the effectiveness of the accountability function. The time period is last three completed fiscal years,

437. The Audit Commission of the Sakrebulo convenes every month. Once an audit report is received, it is tabled to be reviewed at the next available monthly meeting.

Table 31.1 Timing of Audit Report Scrutiny		
Audit report	Sakrebulo submission date	Audit Commission review date
Audit reports on Execution of 2017 budget (financial statements); Street light program operations 2015-2016; and Municipal inspection operations 2016	January 24, 2019	February 20, 2019
Audit report on Tbilisi Transport Company operations in 2017-2018	January 17, 2020	February 2, 2020
Audit report on execution 2019 budget (financial statements)	March 22, 2021	May 18, 2021
Initial audit report of municipal organizations operations	May 19, 2021	June 15, 2021
Audit reports on: Tbilisi City Hall operations; and Kindergartens operations in 2017-2018	June 7, 2021	June 15, 2021
Audit report on municipal organizations operations	December 24, 2021	February 15, 2022
SAO 2020 Financial Audit report	February 10 2022	At the time of assessment this report had not been tabled for review

Source: Tbilisi Sakrebulo Audit Commission

438. The Audit Commission hearings have been conducted within 2 month after the receipt of audit reports in all cases other than the 2020 Financial Audit submitted on 10 February 2022. This however falls outside of the timescale of the PEFA. Score A.

31.2. Hearing on Audit Findings

439. Dimension 31.2 measures the extent to which the subnational council conducts hearings on the findings of subnational audit reports. It assesses the level of legislative scrutiny of audits performed by a SAI or local audit office. The time period is last three completed fiscal years,

440. There is an established process for reviewing audit reports. All members receive the Audit Report. The Audit Commission carries out a review of the reports and conducts hearings with the heads of entities present. A report is not presented to the full Sakrebulo.

441. Hearings on key findings of external audit reports can only be considered ‘in-depth’ if they include representatives from the public audit institution in charge of SNGs to explain the observations and findings as well as from the audited agency to clarify and provide an action plan to remedy the situation. This does not take place.

442. Given that in-depth hearings do not take place the score for this dimension is D although hearings with the heads of entities present are conducted. Score D.

31.3. Recommendations on Audit by the subnational council

443. Dimension 31.3 measures the extent to which the subnational council issues recommendations and follows up on their implementation. The time period is last three completed fiscal years,

444. The Audit Commission supports the SAO recommendations but it may, if it feels necessary, add its own recommendations. However, the SAO’s recommendations have not been added to. The follow up on recommendations is carried out by the SAO as described in PI-30.3.

445. The Audit Commission has not issued its own recommendations but endorses the SAO’s recommendations. Score NA.

31.4. Transparency of Legislative Scrutiny of Audit Reports

446. This dimension assesses the transparency of the scrutiny functions in terms of public access. The coverage is the last completed fiscal year.

447. Hearings at the Sakrebulo Commission are conducted in public. Hearings are not conducted in the full chamber of Sakrebulo. Although the website is developed and functional, Audit Commission reports on hearings are not published on it⁶⁸. Score D.

Changes since 2018 PEFA

448. There have been considerable changes since the previous PEFA. At the time of the 2018 PEFA there was no involvement of the Sakrebulo in audit reports as it did not receive them. The scoring methodology was that all dimensions automatically scored D. In the 2022 PEFA the Sakrebulo received the audit reports and therefore are scored applying the guidance..

⁶⁸ http://tbsakrebulo.gov.ge/index.php?m=380&service1_id=276&member=476&service1=

4. Conclusions of the Analysis of PFM Systems

4.1 Integrated assessment Across the Performance Indicators

Budget Reliability

449. 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 B in terms of outturn relative to budgeted grants and scored A with respect to their timely distribution but with weakness on targeted grants (Score D), a small portion of the grants total. The challenges in producing accurate municipality own revenue projections have not been met in recent years in total and composition (both scored D). While the aggregate expenditure side of the budget scored B, the expenditure composition both by administrative type and by economic type scored D. These results have been affected by the uncertainties that resulted from COVID-19 but also the impact of targeted grants and the expenditure that they support often not being in the original budget. Nevertheless, the strengths in virement (Score A) and the existence of supplementary budgets (Score C) have ensured that due process was followed. The process of controlling budget allocations to match the availability of cash was 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

450. Georgia has an impressive array of information regarding the finances of the budgetary central government and this is replicated in the municipality. The Chart of Accounts, which underpins budget preparation, execution, and reporting, is comprehensive and consistent with GFS standards (Score A). Information is included in the budget on a timely basis. 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) which reflects the budget preparation process covered in the pillar relating to the budget process. 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+).

451. Public access to fiscal information is good (Score B) with most of required elements made available but lacking a citizen's (summary) budget reflecting the accounting and reporting pillar.

Management of Assets and Liabilities

452. A comprehensive and inclusive process is lacking in managing the public investment program. Economic analysis is conducted for some of the municipality's own financed projects with the selection process lacking standard criteria (both Score C). However, project costing and subsequent recurrent costs are included in the budget documentation (Score B). Monitoring of investment implementation also scores B with costs and physical work reported. Reporting of risks associated with public corporations scores C as the overall consolidated overview is not published but unaudited financial statements are timely before the end of the following financial year. There are good records on financial (Score B) and nonfinancial assets (Score C)

and disposable procedures are transparent (Score A). Debt management is commensurate with need (Score C), but a debt management strategy (Score D) is delegated to the individual lender.

Policy-Based Fiscal Strategy and Budgeting

453. Good progress has been made towards a comprehensive medium-term expenditure framework based on a program budgeting for results approach which is reflected also in the pillar relating to transparency of public finances. There is a detailed budget calendar (Score A) with at least 6 weeks for budget preparation based on information on ceilings. The legislature has adequate time to carry out its scrutiny function. A medium-term approach is taken to expenditure budgeting. 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). The multi-year information on grants from the distribution of VAT assists in this process but is offset by information on other grants for the budget year only. However, there is no explanation of any changes from previous expenditure estimates (Score D).

Predictability and Control in Budget Execution

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

455. The municipality works in conjunction with the Georgian Treasury. Based on its cash inflows and outflows forecasts, it deposits a part of its cash in commercial banks through daily auctions. The consolidation of cash balances in TSA and commercial banks is made daily 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). These strengths are reflected in the accounting and reporting pillar.

456. The combined elements of the payroll system score D+. The budgetary units maintain their respective personnel databases under the E-Treasury (payroll module) system that is managed by the Treasury (Score A). Personnel and payroll records are reconciled at least monthly, before salaries are paid to staff bank accounts (Score A). Reconciliation between payroll records in E-Treasury and the personnel records takes place once an employee is appointed and registered in the system of 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 (Score A). Payroll audits are conducted by the State Audit Office as part of the compliance audits, and this exposes any control weaknesses and accountability issues. These are not carried out annually (Score D).

457. 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. Ninety-two per cent of the value of contracts is procured through competitive procurement

methods (Score A). All the key procurement information relating to the municipality is made available to the public (Score A). The appeals process is independent of the State Procurement Agency (Score A).

458. 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 which reflects the accounting and reporting system. The internal audit function is strong (Score A). Internal audit activities are focused on evaluations of the adequacy and effectiveness of internal controls, and they focus on high risk areas and have been extended to systems audits (Score A). 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 2019 to 2022 (Score A).

Accounting and Reporting

459. The strengths in the predictability and control in budget execution pillar feeds into accounting and reporting. Accounts reconciliation and financial data integrity are areas of strengths. The bank reconciliation for all active central government bank accounts takes place daily 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.

460. 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).

461. The situation with respect to the annual financial reports is positive (overall score of B+). The consolidated budget execution report for the municipality budgetary units are prepared annually and are comparable with the approved budget. There is also detailed analysis of performance. The financial statements contain full information on revenue, expenditure, financial and tangible assets, liabilities, guarantees and long-term obligations and are consolidated with other spending units that operate under the municipality (Score A). The annual budget execution reports and financial statements are published on the municipality and State Treasury websites which makes them available for external audit if selected by the SAO for audit (Score A). The municipality applies the current national accounting standards for its financial statements (Score B).

External Scrutiny and Audit

462. While accounts are prepared annually, they are not audited on a regular basis. 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 and is dependent on risk analysis and the State Audit Office's work program given its resources. There have been 2 financial audits in the assessment period (Score A) and have been completed within 6 months (Score B). The audits highlighted relevant material issues and systemic and control risks and there have been recommendations that are followed up (Score A). The independence of the SAO is assured by the Constitution of Georgia and the Law of Georgia on State Audit Office (Score A).

463. The Sakrebulo now conducts its own legislative scrutiny of audit reports. In the past this aspect of external scrutiny was left to Parliament. The Audit Commission scrutinises reports in a timely manner (Score A) but hearings (Score D) and the publishing of scrutiny reports (Score D) are limited even though they are public.

4.2 Effectiveness of the Internal Control Framework

464. 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.

465. The effectiveness of the internal control framework in the municipality is scrutinized by the Ministry of Finance and State Audit Office. The Central Harmonization Unit in the Ministry of Finance annually collects, consolidates and analyzes the information based on the annual reports. Under financial and compliance audits, the State Audit Office identifies/tests and evaluates the existence/functionality of the internal controls applied for the public expenditures, including salary and non-salary expenses. In order to understand the process and to have assurance that the entity has strong internal controls aimed to eliminate the risks of fraud, error or corruption, the State Audit Office evaluates the managerial internal control system, performs tests on the types of expenditures and tests if the key controls are in place. Also, the State Audit Office evaluates the clear delimitation and segregation of duties existent in the spending units. This assessment guides the application of substantive testing. While the State Audit Office does not carry out an audit of the municipality each and every year, audits were conducted in 2019 and 2020.

466. The internal control environment, as set out in annex 2, is generally sound with respect to 1 Control Environment, 2 Risk Assessment, 3 Control Activities, 4 Information and Communication and 5 Monitoring. The PEFA scores in related indicators and dimensions relating to these 5 components 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. 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 State Audit Office conducts financial, compliance and performance audits, and makes recommendations on service delivery performance.

467. 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 strong follow-up embedded in the system. Internal and external auditors have made considerable contributions to assessment of the internal control systems at the central level through their individual engagement and annual reporting. The management response to the internal audit recommendations in the assessed period shows good performance. Parliamentary scrutiny of external audit reports provides support for the monitoring process.

4.3 Strengths and Weaknesses of PFM

468. An overriding feature of PFM during the assessment period covering the years 2019 to 2021 has been the maintenance and development of processes in Georgia in budget preparation, budget execution (accounts, commitment control, and cash management), personnel and payroll, revenue services, and procurement. This has been at both the central government and subnational levels where applicable. This has been achieved with the impact of the COVID-19 pandemic on the country. This achievement has continued the application of the IT that 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 continued integration and roll out of IT, internet and personnel enhanced skills through training, has resulted in PFM's positive effectiveness and efficiency.

Aggregate Fiscal Discipline

469. Aggregate fiscal discipline has been impacted by the pandemic. This has impacted the municipality's main source of income- grant revenue from the distribution of VAT based on population characteristics. However, the inbuilt procedures for other grants from the center have exacerbated fiscal discipline as they are often outside the budget preparatory process. Nevertheless, control of spending during budget execution was maintained. Strong revenue administration ensured that revenues were efficiently collected. Given the need of flexibility in budget execution and that both virement and supplementary budgets were used, the rules and procedures relating to these processes were not circumvented. Treasury operations and cash management enabled expenditures to be managed within the available resources. Control of contractual commitments was effective and limited expenditure arrears. The strong internal and external audit function enhanced fiscal discipline.

470. The Georgian public financial management system includes clear rules and procedures for budget modification and flexibility in execution to meet national needs, and these proved their worth during the COVID pandemic and economic downturn. The municipality used its formal processes to amend the budget and used formal virement processes to adjust spending to address the pandemic and economic priorities while maintaining fiscal control. Policy officials had in-year data to manage spending, and the municipality management had the necessary instruments to assure fiscal discipline within government-approved spending parameters.

Strategic Allocation of Resources

471. 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. The Priorities Document, the medium-term action plan of the municipality guides the allocation of resources over the next 4-years in terms of revenues and expenditures. The management of investment that has been implemented has impacted on the strategic allocation of resources. Recurrent cost implication of investment is factored into the budget process and investments are based on strategic objectives. Monitoring of the implementation of projects has ensured that what has been planned is being delivered.

472. Overall, Georgia, including both the central and local governments, has developed the key tools for strategic allocation of resources by elected officials (fiscal strategy, functional and programmatic budget

classification, regular in-year reports on expenditure according to policy priorities, regularized budget amendments and virement procedures), covering both tools for planning and tools for monitoring implementation and controlling to plan. Budget performance has been in alignment with plans, even considering the disruption of COVID. The past three years have been a challenge to fiscal management which tested the Georgian PFM system and the system performed as intended.

Efficient Use of Resources for Service Delivery

473. The previous weaknesses in competitive bidding in the procurement system with respect to the appeals and dispute process has been addressed which has positive implications for efficiency in service delivery. The level of competitive bidding by the municipality is very high at 92% of total. The strengths in the accountability mechanisms make internal and external audits effective as counter checks on inefficient use of resources. The development of and timely consolidated annual financial statements for the municipality enhances the impact of external audits. While these are not conducted annually which in turn limits the effectiveness of oversight; however, audits have been carried out in two of the three assessment years. Publishing of performance targets and outcomes also supports the efficient use of resources in municipal service delivery units.

4.4 Performance Changes since Previous Assessment

474. Both the 2018 and the current PEFA have been carried out using the 2016 methodology. However there have been a few changes to the application of the 2016 methodology with respect to its application in the subnational context. Annex 1 provides a summary of both sets of scores as well as changes in scores using the May 2022 SN Guidelines adjusting the 2018 scores where possible. Across the 87 individual SN related dimensions compared, there has been an improvement in 12 dimensions, deterioration in 6 and no change in the score in 69 dimensions. This overall improvement in scoring has been from a relatively high baseline achieved in 2018.

475. The comparison of the assessments indicates that between the two PEFA's that the following dimensions have improved deteriorated in relation to fiscal and budgetary outcomes.

Improvements

Strategic Allocation of Resources

- Improved use of economic analysis in investment PI-11.1
- Improved budget calendar PI -17.1
- Improved system for monitoring arrears PI-22.2
- Improved use of competitive bidding PI-24.2
- Improved procurement complaints procedures PI-24.4
- Improved nature of internal audits PI-26.2
- Improved coverage of financial reports PIs-29.1 and 29.3.
- Improved process relating to audit of financial statements PIs 30.1, 30.2 and 30.3.
- Improved scrutiny of audit reports PI-31.1.
- Deterioration
 - Fiscal Discipline
 - Deterioration in aggregate and composition of expenditure PI-1, Pis-2.1 and 2.2 due to the impact of COVID

- Deterioration in aggregate and composition of revenue Pis-3.1 and 3.2 due to the impact of COVID

Strategic Allocation of Resources

- Deterioration in payroll audits PI-23.4 as no relevant audits were conducted in the assessment period.

476. In addition, there is a likely deterioration in medium-term expenditure and revenue estimates as targeted grants were not planned in the medium term. This was in relation to PI-14.3 but there is no comparable indicator in the previous PEFA methodology.

477. These improvements as well as the continuation of the status quo can be attributed to continued strong management of the PFM reform program in Georgia which the Government has undertaken and plans to update on.

5. Government PFM Reform Process

5.1 Approach to PFM Reforms

478. PFM reform initiatives have been implemented in Georgia since 2004. The first set of reforms was contained in the “MOF strategy 2005-2009 and donor assistance priorities” and the successive ‘MOF strategy 2007-2011 and priorities for cooperation with development partners. These strategies covered the budget process, macroeconomic forecasting, debt management, Treasury, accounting standards, tax, and customs administration.

479. The first PEFA assessment, published in 2008, showed that the strategy had resulted in some improvements (revenue collection, budget process, Treasury Single Account) but also identified weaknesses in terms of transparency, policy-based budgeting, budget execution, internal audit, accounting and reporting, and external scrutiny and audit. In consequence, the MoF adopted a new strategy, “PFM Reform policy vision 2009-2013,” which covered these areas. The strategy was detailed in annual action plans, which were also used for monitoring of progress in implementation. In parallel, in order to strengthen the process, a decree established a PFM Coordinated Council consisting of MoF, State Audit Office, State Procurement Agency, Parliament, civil society, and international organizations.

480. The second PEFA assessment, published in 2013, showed significant improvements in the PFM situation of the country. Again, the PEFA report was used as a basis for the next generation of reforms, the PFM Reform Strategy 2014-2017. The third PEFA assessment in 2018, along with three subnational assessments, was used to draft the Public Financial Management Reform Strategy to 2018 – 2021. This reform strategy targeted:

- The improvement of revenue forecasting and implementation of advanced methodology of macroeconomic and fiscal forecasting.
- The integration of public schools, kindergartens and other pre-school institutions into the Treasury Single Account System in relation to the adaptation of the GFDM to reflect these unit’s own revenue,
- The revision of the calculation of transfers from central government to local governments
- The creation of a Fiscal Risk Management Unit in the MoF
- The introduction of IPSAS 32 (Service concession arrangements: Grantor) at the central government level in 2019 in order to reflect the information on PPP in the consolidated financial statements,
- The gradual introduction of IPSAS standards at the local level
- The publication of the Government’s unified, audited, consolidated financial statements by 2020
- The gradual introduction of the guidelines and detailed methodology for the management of approved investment projects is ongoing in order to develop a single cycle of capital / investment projects
- The approval of “Georgia’s Debt Management Strategy, 2016-2019”
- The review of existing fiscal rules and the introduction of additional regulations for both, state and local budgets, if necessary
- The work on further improvement of program based budgeting and medium-term action plans
Increase of involvement of citizens in the budget performance monitoring.

481. In terms of decentralization, a number of reforms and initiatives were implemented over time:

- The 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. 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 specifying that:
 - Each local self-government body has its own independent budget.
 - The 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.
- According to the Budget Code, own-revenues of the budgets of SNGs include local taxes and duties, and other revenues as provided by the legislation of Georgia to the local self-government bodies.
- The Budget Code of 2009 also specifies the budget calendar, system, and budget process for SNG units. The calendar, system and process for SNGs 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 applied by SNGs: the first stage is the preparation of the Municipal Priority Document (the pre-Budget statement, like the central government BDD) and the second stage is the preparation of the SNG budget.
- Program budgeting for SNGs was formalized in 2011 by the amendment of Budget Code and was fully implemented starting from 2013. In 2018, the methodology of program budget preparation was approved by the Minister of Finance. The rules for preparation, execution and reporting of the program budget are presented in detail in the methodology. The methodology regulates issues related to program budgeting for both central and local government.

482. 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. This also included budget planning at the local level which is done through the eBudget.

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

484. The formula for calculation of the equalization transfers had been defined in detail by the Order of the Minister of Finance #904, dated 30 December 2009. The formula calculates equalization 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. In 2019, the equalization transfer system in use was replaced by one based on a value-added tax distribution system. This system directs at least 19% of the value-added tax mobilized in the state budget to the municipal budgets. This revenue becomes municipalities' own revenue, which a municipality uses at its discretion to exercise its powers. Value added tax is distributed in accordance with Article 71 of the Budget Code of

Georgia to municipalities according to population characteristics registered in the municipality. The Ministry of Finance reflects the percentage of the share of each municipality in the value added tax determined for the municipalities in the budget proposal. Special transfers, targeted transfers and capital transfers continued to be implemented. These transfers are described in HLG-1.

485. The requirement that municipality audits were to be scrutinized by Parliament was discontinued in 2020. This responsibility was transferred to the Sakrebulo of the municipality that had been audited. In accordance with Article 24 of the Organic Law on State Audit, audit reports are submitted to both the audit object and its supervisory body, including municipal bodies. In addition, all audit reports are submitted to the Parliament. Since parliamentary oversight does not extend to self-governments, the audit reports of municipal bodies are also sent to municipal councils for further review and response. Accordingly, the audit reports of municipalities are not discussed in the Parliament.

5.2 Recent and On-Going Reform Actions

486. The third PEFA assessment of 2018 showed huge improvements in scores in PFM reflecting the achievements at the time of the assessment. Along with the accompanying SN PEFAs, it was used to draft the Public Financial Management Reform Strategy to 2018 – 2021. An overriding feature identified in the 2018 assessment was the development and good use of information technology (IT) in budget preparation, budget execution (accounts, commitment control, and cash management), personnel and payroll, revenue services and procurement. However, despite these positive features there were still areas for improvement.

487. The Public Sector Financial Management Reform Action Plan 2018 to 2021 sets out a costed plan with targeted results. It also reflects the continued nature of the reform agenda building upon achievements from previous reform activities across the broad spectrum of the PFM agenda. The areas where continued reforms were planned all had a timeline, performance indicators and a costed implementation plan.

488. Nevertheless, due to the COVID-19 pandemic, a number of planned reforms were delayed, or cancelled. Due to the state of emergency active in the country from 21 March 2020 to 22 May 2020, a number of economic activities have been limited, as priority was placed on the expenditures for healthcare and business support. However, there are a number of reform initiatives that did make progress. As an example, as a result of the 2018 PEFA findings, the reform achievements in Public Procurement have been significant. Although the reform in this sector had been evolving steadily, the law on State Procurement recently was modified considerably and made compatible with EU legislation and international good practice. Significant changes have been made with respect to the procurement complaints procedures since the 2018 PEFA highlighted a weakness. Other areas include increased finance management support for some municipalities; development of a primary dealers, pilot program regulation framework, SOE fiscal risk analysis and database; and the creation of a register of private and public partnerships.

489. These overall PFM reform achievements have also been recognized in the results of the Open Budget Survey 2021⁶⁹ published by the International Budget Partnership, Georgia ranked first among 120 countries in the world. In the previous two evaluations in 2017 and 2019, Georgia took 5th place among 117 countries in the group of completely transparent countries. The past and ongoing public finance management reform in Georgia has been stated as the catalyst for this achievement. The results of the measures enacted and carried

⁶⁹ <https://internationalbudget.org/open-budget-survey/rankings>

out have been central to this achievement with the results of 2021 emanating from the measures taken within the framework of the public finance management reform. The OBI report specifies the improvement of medium-term planning, the introduction of a program budget, increasing the comprehensiveness of reporting, the introduction and improvement of electronic systems of public finance management, the publication and publicity of budget documentation, the preparation of citizen's guides and development of citizen engagement mechanisms, *inter alia*.

490. 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. The 2022 PEFA is to be used as the basis of an updated PFM Action Plan for the near future.

5.3 Institutional considerations

491. The PFM reform program has been implemented by successive Governments and its institutions. The Ministry of Finance and its many implementing departments – budget, treasury, accounts, debt, internal audit and revenue has been the driving and coordinating force behind overall reform showing considerable leadership irrespective of which political party is leading the Government of Georgia. State Audit, the Procurement Agency as well as the Parliament have also actively participated in the reform process.

492. The overall aim of the reforms has been the desire to meet international best practice in each of subject areas with the aim of meeting international obligations and treaties. The building block of electronic processes (e-government) has ensured that there are linkages between all the different actors to provide information and control. The reform process is transparent fulfilling a desire for Georgia to be modern and viable State and its longevity has ensured its sustainability. This sustainability has been evidenced by the improvements in PEFA scores over time and the use of PEFA assessments as the building block for reform which provides a measurable benchmark for improvement.

Annex 1: Performance Indicator Summary

Indicator/Dimension	2018 Score	Explanation	2022 Score	Explanation	Reason for difference
HLG-1: Transfers from a higher level of government	D+		C+		The 2018 aggregation was M1 which changed to M2 in 2022 with the addition of HLG-1.4
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%.	C	Actual transfers were between 92% and 116% of the original budget estimate in two of the last three years. In 2019 the deviation of actual grants from the original budgeted grants was 123.7%, in 2020, it was 93.4% and in 2021, it was 107.8%	The impact of COVID influenced the predictability of transfers. The scoring criteria changed from 2018 which would have been C using 2022 scoring.
HLG-1.2. Transfers composition outturn	D	Difference between the original budget estimate and actual earmarked grants was greater than 10 percent in two of the last three years.	D	Difference between the original budget estimate and actual earmarked grants was greater than 15 percent in two of the last three years. The rate of deviation in grants by type of grants was 15.4% in 2019, 30.5% in 2020, and 12.0% in 2022.	No change in score. The scoring criteria changed from 2018.
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	A	There are established procedures for the municipality to receive transfers from high-level governments on time.	No change in score

Indicator/Dimension	2018 Score	Explanation	2022 Score	Explanation	Reason for difference
		three years.			
HLG-1.4 Predictability of transfers			C	Tbilisi municipality receives information on the amount of distribution of VAT transfers for the budget year and the two years following. Changes are not explained	This is a new dimension for 2022
PI-1 Aggregate expenditure outturn	A		B		
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%.	B	Actual aggregate expenditure deviates from the original budget were between 90% and 110% in two of the last three years: In 2019 – 108.8%, in 2020 – 106.1%, and in 2021 – 116.7%.	The impact of COVID influenced the predictability of aggregate expenditures
PI-2 Expenditure composition outturn	B+		D+		
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%.	D	The deviation actual and budgeted expenditures by function for all three years was more than 15%: 17.4% in 2019, 29.1% in 2020, and 22.8% in 2021.	The impact of COVID influenced the predictability of expenditures by function
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%)	D	The deviation actual and budgeted expenditures by economic classification	The impact of COVID influenced the predictability of expenditures by

Indicator/Dimension	2018 Score	Explanation	2022 Score	Explanation	Reason for difference
		and in the third year (2015) it was 33.0%.		for in 2 out of the 3 years was more than 15%: 4.9% in 2019, 22.1% in 2020, and 18.1% in 2021.	economic categories
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.	A	According to the average of the three considered years, the actual expenditures of the reserve fund amounted to 0.8% of the total budget expenditures	No change in score but contingency as % of budget increased.
PI-3 Revenue outturn	C+		D		
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%).	D	Deviation between budgeted revenue and actual revenues collected in all three considered years was more than between 92% and 116%: in 2019 – 120.4%, in 2020 – 81.0%, and in 2021 – 121.2%.	The impact of COVID influenced the predictability of aggregate revenues
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.	D	Variance in revenue collection was more than 15% in two of the three year: 2019, 11.2%, 24.5% in 2020, and in 2021 to 21.0%.	The impact of COVID influenced the predictability of revenues by type
PI-4 Budget classification	A		A		

Indicator/Dimension	2018 Score	Explanation	2022 Score	Explanation	Reason for difference
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.	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.	No change
PI-5 Budget documentation	A		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.	A	Budget documentation fulfills seven out of the nine applicable elements, including the four basic elements and three additional elements.	The scoring criteria has been modified with respect to non-applicable elements
PI-6 Subnational government operations outside financial reports	A		A		
6.1 Expenditure outside financial reports	A	All expenditures are included in financial reports.	A	All expenditures are included in financial reports.	No change
6.2 Revenue outside financial reports	A	All revenues are included in financial reports.	A	All revenues are included in financial reports.	No change
6.3 Financial reports of	NA		NA		No change

Indicator/Dimension	2018 Score	Explanation	2022 Score	Explanation	Reason for difference
extrabudgetary units					
PI-7 Transfers to subnational governments	NA		NA		No change
7.1 Systems for allocating transfers	NA		NA		No change
7.2 Timeliness of information on transfers	NA		NA		No change
PI-8 Performance information for service delivery	B+		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.	B	Information is annually prepared and published according to program objectives of the municipality in the budget documentation. 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.	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.	

Indicator/Dimension	2018 Score	Explanation	2022 Score	Explanation	Reason for difference
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.	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.	B	Assessment of efficiency and effectiveness for the majority of service delivery units 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.	
PI-9A Public access to fiscal information	B		C		
9A.1 Public access to fiscal information	B	The municipality provides access to 6 elements, including the 4 applicable basic elements of listed information.	C	Out of 6 applicable elements 4 of basic elements are available to the public but no additional ones.	There has been a change in coverage from the previous PEFA.
PI-9B Public consultation	This is a new indicator for 2022		D+		
9B.1: Public consultation in budget preparation			C	Consultation in budget preparation is conducted prior to approval of the	

Indicator/Dimension	2018 Score	Explanation	2022 Score	Explanation	Reason for difference
				budget by Sakrebulo	
9B.2: Public consultation in the design of service delivery programs			D	Public consultation for service delivery programs was not conducted	
9B.3: Public consultation in investment planning			D	Public consultation for some major investment projects was not conducted	
PI-10 Fiscal risk reporting	C		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.	C	Of the 13 active municipality owned enterprises, 9 submitted financial statements (representing most by turnover). 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		NA		

Indicator/Dimension	2018 Score	Explanation	2022 Score	Explanation	Reason for difference
10.3 Contingent liabilities and other fiscal risks	NA		NA		
PI-11 Public investment management	C+		C+		C+
11.1 Economic analysis of investment proposals	D	Economic analyses have not been conducted to assess investment projects.	C	Economic analyses are conducted to assess some major investment projects.	C
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.	C	Prior to their inclusion in the budget, the major investment projects are prioritized but not on the basis of standard criteria.	C
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.	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.	B
11.4 Investment project monitoring	B	The monitoring of cost and physical progress of investment projects are outsourced and adequately	B	The monitoring of cost and physical progress of investment projects are outsourced and monitored	B

Indicator/Dimension	2018 Score	Explanation	2022 Score	Explanation	Reason for difference
		monitored by the implementing unit. Information on implementation of projects is prepared quarterly and annually and reported to the Sakrebulo.		by the Supervisory Unit. Information on implementation of projects is prepared quarterly and annually and reported to the Sakrebulo.	
PI-12 Public asset management	B		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.	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.	
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.	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	A	Procedures and rules for the transfer or disposal of financial and nonfinancial assets are established. The Municipality Property Agency provides detailed	

Indicator/Dimension	2018 Score	Explanation	2022 Score	Explanation	Reason for difference
		Agency provides detailed information on every transaction. Detailed report each disposed asset is available to the public.		information on every transaction. Detailed report each disposed asset is available to the public.	
PI-13 Debt management	C+		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.	C	Debt records are complete, accurate, and updated when payments have been made or loans undertaken. 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	NA	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	

Indicator/Dimension	2018 Score	Explanation	2022 Score	Explanation	Reason for difference
		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.		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. The municipality does not have debt management strategy.	D	The assessment of the municipality's capacity to undertake and service debt is carried out by the lending agencies. The municipality does not have a debt management strategy.	
PI-14. Medium-term budget strategy	B		C+		As this indicator is an amalgamation of PIs 14 to 16 in the previous PEFA the 2018 Scores are based on the evidence presented in the 2018 assessment report using the current scoring criteria
14.1: Underlying forecasts for medium-term budget	B	Estimates of revenue and expenditure for the budget year are based on information on transfers, revenue, and expenditure assignments and on key	B	Estimates of revenue and expenditure for the budget year are based on information on transfers, revenue, and expenditure assignments and on key	

Indicator/Dimension	2018 Score	Explanation	2022 Score	Explanation	Reason for difference
		demographic and macroeconomic indicators. Estimates together with the underlying assumptions are included in the budget documentation submitted to the subnational council.		demographic and macroeconomic indicators. Estimates together with the underlying assumptions are included in the budget documentation submitted to the subnational council.	
14.2: Fiscal impact of policy proposals	NA	No proposals in Tbilisi municipality have impacted budget revenues or expenditures.	NA	In 2021, no proposals in Tbilisi municipality have impacted budget revenues or expenditures.	
14.3: Medium-term expenditure and revenue estimates	A	Medium-term estimates include information on expenditures by economic, administrative, and program classification. As well as revenues by major types	B	Medium-term estimates include information on expenditures by economic, administrative, and program classification. Information on revenues by major types of VAT related grants are for three years and capital grants for the implementation period, but not special and targeted transfers which are presented only for 1 year.	The significance of capital, special and targeted transfers is higher in 2022 which has lowered the score.
14.4: Consistency of budget with previous year estimates	D	The budget documents do not explain any changes to expenditure estimates between the second year of the last medium-term budget and the first year of the current medium-	D	The budget documents do not explain any changes to expenditure estimates between the second year of the last medium-term budget and the first year of the current medium-	

Indicator/Dimension	2018 Score	Explanation	2022 Score	Explanation	Reason for difference
		term budget at the aggregate level		term budget at the aggregate level	
PI-17 Budget preparation process	B		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.	A	The budget calendar is clear and adhered to. Budgetary units have more than 6 weeks from receipt of the budget circular with ceilings to meaningfully complete their detailed estimates on time.	Improvement from two to six weeks for units to prepare the budget
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.	A	The budget circular is comprehensive and covers total expenditure for the fiscal year. The budgetary 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.	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		A		
18.1 Scope of budget scrutiny	A	The Sakrebulo's review	A	The Sakrebulo's review covers fiscal policies,	

Indicator/Dimension	2018 Score	Explanation	2022 Score	Explanation	Reason for difference
		covers fiscal policies, medium-term fiscal forecasts, and medium-term priorities as well as details of expenditure and revenue.		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.	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.	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	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.	

Indicator/Dimension	2018 Score	Explanation	2022 Score	Explanation	Reason for difference
		and are adhered to.			
PI-19 Tax 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.	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 tax measures	NA		NA		
19.2 Property tax register and value assessment	NA		NA		
19.3 Tax risk management, audit and investigations	NA		NA		
19.4 Tax arrears Monitoring	NA		NA		
PI-20 Accounting for revenue	A		A		
.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	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	

Indicator/Dimension	2018 Score	Explanation	2022 Score	Explanation	Reason for difference
		consolidated into a report.		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.	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 daily.	NA	Entities collecting most municipal revenue undertake complete reconciliation of assessments, collections, arrears and transfers to Treasury Single Account daily.	
PI-21 Predictability of in-year resource allocation	B+		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.	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.	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	2018 Score	Explanation	2022 Score	Explanation	Reason for difference
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.	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.	C	Adjustments to budget allocations were made 9 times in 2021 and amounted to 21% of the original budget. These were done in a transparent and predictable way.	
PI-22 Expenditure arrears	A		A		
22.1 Stock of expenditure arrears	A	The municipality reported that it did not have any expenditure arrears.	A	The municipality reported that it did not have any expenditure arrears.	No change
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	A	The e- Treasury system allows for the recording and monitoring of arrears in real time.	The e-Treasury system in place allows for real time monitoring automatically whereas previously the system would need to be queried.

Indicator/Dimension	2018 Score	Explanation	2022 Score	Explanation	Reason for difference
		be produced if required.			
PI-23 Payroll controls	B+		D+		
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.	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.	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	A	Changes to the payroll	

Indicator/Dimension	2018 Score	Explanation	2022 Score	Explanation	Reason for difference
		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.		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.	D	No audit had been conducted to identify payroll control weaknesses and accountability issues for 2019-2021	No audits related to payroll such as a compliance audit were carried out
PI-24 Procurement	B		A		

Indicator/Dimension	2018 Score	Explanation	2022 Score	Explanation	Reason for difference
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.	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.	No change
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.	A	As per public procurement legislation open competition above GEL 5,000 is the default method. 92% of contracts by value procured in 2021 were conducted through competitive selection.	There is an increase of use of competitive method from 73% to 92%,
24.3 Public access to procurement information	A	All the key procurement information is made available to the public. These include but are not limited to: (1) legal and regulatory framework for procurement (2) government procurement plans	A	All the key procurement information is made available to the public. These include but are not limited to: (1) legal and regulatory framework for procurement (2) government procurement plans (3) bidding opportunities	

Indicator/Dimension	2018 Score	Explanation	2022 Score	Explanation	Reason for difference
		(3) bidding opportunities (4) contract awards (purpose, contractor and value) (5) data on resolution of procurement complaints (6) annual procurement statistics		(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 27 February 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	A	The Council of Dispute Resolution is an impartial and independent body established under the Public Procurement Law, which aims to resolve disputes in a prompt, efficient and fair manner in accordance with the Law on Public Procurement and relevant by-laws, the Law on "Public and Private Cooperation" and relevant by-laws, and the Rules of Procedure of the Board. The Board consists of 5 members selected by an independent commission on an open competition and appointed for a term of 5 years. One and the same person may be appointed as the Board member only	An independent complaints resolution body has been established since the previous PEFA.

Indicator/Dimension	2018 Score	Explanation	2022 Score	Explanation	Reason for difference
		<p>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>		<p>twice. The board member is a public servant. The activities of the Board are carried out on the basis of the equality of all persons involved in the dispute under the law and the Board, as well as in accordance with the principles of publicity and the independence of the members of the Board. The principles of the Board are:</p> <ul style="list-style-type: none"> a) legality; b) objectivity and impartiality; c) professionalism; d) protection of confidentiality. <p>The Board is separate from all bodies / persons, is independent in its activities and obeys only the law. It is not allowed to influence the board or a member of the board in order to influence the decision-making process. The Board is guided in its activities by the Constitution of Georgia,</p>	

Indicator/Dimension	2018 Score	Explanation	2022 Score	Explanation	Reason for difference
				international treaties and agreements of Georgia, the Law on Public Procurement, the Law on Public-Private Partnership, the Rules of Procedure of the Board and other normative acts.	
PI-25 Internal controls on non-salary expenditure	A		A		
25.1 Segregation of duties	A	Segregation of duties is prescribed throughout the expenditure process with responsibilities clearly laid out at at different levels in the PFMIS, in accordance with Order of the Minister of Finance of 6 July 2012 on the approval instructions for the State Treasury Electronic Service System.	A	Segregation of duties is prescribed throughout the expenditure process with responsibilities clearly laid out at at different levels in the PFMIS, in accordance with Order of the Minister of Finance of 6 July 2012 on the approval instructions for the State Treasury Electronic Service System.	No Change
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	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	No Change

Indicator/Dimension	2018 Score	Explanation	2022 Score	Explanation	Reason for difference
		resources.		resources.	
25.3 Compliance with payment rules and procedures	A	Compliance with payment rules and procedures is very high.	A	Compliance with payment rules and procedures is very high.	No Change
PI-26 Internal audit	B+		A		
26.1 Coverage of internal audit	A	There is an Internal Audit Unit that covers the whole of the activities of Tbilisi municipality.	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.	A	Internal audit activities are focused on high risk areas. The municipality carried out system, performance, compliance and financial audits as well as one IT audit. 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	A	Annual audit programs exist, and they are monitored by the Center for Harmonization Unit at the Ministry of Finance. All of	

Indicator/Dimension	2018 Score	Explanation	2022 Score	Explanation	Reason for difference
		the programmed audits in 2017 were completed and their reports distributed to appropriate parties.		the programmed audits in 2021 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.	A	Data supplied by Management show that all of internal audit recommendations are implemented in a timely manner.	
PI-27 Financial data integrity	A		A		
27.1 Bank account reconciliation	A	The Finance Department of the municipality reconciles daily all its balances with the TSA sub-accounts and other bank accounts in the National Bank of Georgia.	A	The Finance Department of the municipality reconciles daily all its balances with the TSA sub-accounts and other bank accounts in the National Bank of Georgia.	No change
27.2 Suspense accounts	NA	There are no expenditure suspense accounts operated by the municipality.	NA	There are no expenditure suspense accounts operated by the municipality.	No change
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.	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.	No change

Indicator/Dimension	2018 Score	Explanation	2022 Score	Explanation	Reason for difference
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.	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.	No change
PI-28 In-year budget reports	B+		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.	A	Coverage and classification of data allows direct comparison to the original budget. Information includes all municipality expenditure and revenues.	No change
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.	A	Consolidated budget execution reports are prepared monthly. Quarterly reports are issued to the Sakrebulo and are published.	No change
28.3 Accuracy of in-year budget reports	B	There are no material concerns regarding data	B	There are no material concerns regarding data	No change

Indicator/Dimension	2018 Score	Explanation	2022 Score	Explanation	Reason for difference
		accuracy Information on expenditure is covered at the payment stage in the e-Treasury system.		accuracy. Information on expenditure is covered at the payment stage in the e-Treasury system.	
PI-29 Annual financial reports	D+		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.	A	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. There is a reconciled cash flow statement.	Consolidated financial reports are now produced.
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	D	Auditing by the State Audit Office is not mandatory on an annual basis. Audit of reports is carried out on a periodic basis by the SAO based on its annual work program determined by risk assessment criteria and coverage. The municipality financial statements are published by 31 March.	The publication of the financial statements now makes them accessible to the SAO should it wish to audit them. They are not submitted to the SAO.

Indicator/Dimension	2018 Score	Explanation	2022 Score	Explanation	Reason for difference
		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.	B	Municipalities are required to prepare financial statements that comply with the standards established by the Ministry of Finance which are based on international standards,	There has been an increase in the number of IPSAS standards applied
PI-30 External audit	D+		B+		
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.	A	Financial reports that covered the entire municipality's activities (PI.29.1) have been audited twice in the last three fiscal years following International Standards of Supreme Audit Institutions. The audits have highlighted any relevant material issues and systemic and control risks.	The coverage of the audit is now comprehensive.
30.2 Submission of audit reports to the legislature	D	There is no mandatory requirement by law for the financial statements or the	B	There is no mandatory requirement by law for the financial statements or the	Audits are now submitted to the Sakrebulo.

Indicator/Dimension	2018 Score	Explanation	2022 Score	Explanation	Reason for difference
		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.		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. 2020 and 2019 Tbilisi financial statements were audited within 6-month period.	
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.	A	There is an effective system for monitoring and follow up of recommendations. According to the Organic Law on the State Audit Office, within 30 calendar days after the approval of the audit report, the auditee submits to the State Audit Office an action plan on the measures already taken and / or to be taken for implementation of recommendation (relevant activities, deadlines and responsible persons). Continuous monitoring of the implementation of the	There have been recommendations that are followed up.

Indicator/Dimension	2018 Score	Explanation	2022 Score	Explanation	Reason for difference
				<p>recommendations is carried out through the State Audit Office's electronic system. Information on the status of implementation of the recommendations is provided through the annual reports on the activities of the SAO and the implementation of the recommendations.</p>	
30.4 Supreme Audit Institution (SAI) independence	A	<p>The State Audit Office is independent from the executive with respect to procedures for appointment and removal of the Auditor General, the planning of audit engagements, arrangements for publicizing reports, and the approval and execution of the SAO's budget. The SAO has unrestricted and timely access to records, documentation and information from auditees (budgetary units). The independence of the SAO is assured by the Constitution of Georgia and the Law of Georgia on State Audit</p>	A	<p>The State Audit Office is independent from the executive with respect to procedures for appointment and removal of the Auditor General, the planning of audit engagements, arrangements for publicizing reports, and the approval and execution of the SAO's budget. The SAO has unrestricted and timely access to records, documentation and information from auditees (budgetary units). The independence of the SAO is assured by the Constitution of Georgia and the Law of Georgia on State Audit Office.</p>	

Indicator/Dimension	2018 Score	Explanation	2022 Score	Explanation	Reason for difference
		Office.			
PI-31 Legislative scrutiny of audit reports	D		C		
31.1 Timing of audit report scrutiny	D	The Sakrebulo has not undertaken the scrutiny of audit reports.	A	The Audit Commission meets monthly and tables an audit report for the month following its receipt/	Audit reports now go to the Sakrebulo which are scrutinized by the Audit Commission.
31.2 Hearings on audit findings	D	The Sakrebulo has not undertaken the scrutiny of audit reports.	D	There is an established process for reviewing audit reports. All members receive the Audit Report. The Audit Commission carries out a review of the reports and conducts hearings with the heads of entities present. A report is not presented to the full Sakrebulo. SAO representatives do not take part in the review process	
31.3 Recommendations on audit by the legislature	D	The Sakrebulo has not undertaken the scrutiny of audit reports.	NA	The Audit Commission supports the SAO recommendations, but it does not issue its own recommendations.	Given that the Audit Commission has not issued its own recommendations but endorses the SAO's recommendations this dimension is considered to be Not Applicable.
31.4 Transparency of legislative scrutiny of audit reports	D	The Sakrebulo has not undertaken the scrutiny of audit reports.	D	Hearings are conducted only at the Sakrebulo Audit Commission and	

Indicator/Dimension	2018 Score	Explanation	2022 Score	Explanation	Reason for difference
				conducted in public. Reports are not published on its official website.	

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 positive 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. This is continuously strengthened by ensuring that there is greater response to recommendations. The oversight and scrutiny of Sakrebulo with respect to Audit Reports also provides a strong leadership tone.

Internal Control Components and Elements	Summary of Observations
1.4 Organizational structure	<p>The roles of the various parties involved in the financial management control system are established in the Law on Public Internal Financial Control. The Ministry of Finance of Georgia is an authorized body which, through the Central Harmonization Unit promotes the establishment and development of public internal financial control systems and carries out coordination and harmonization policies and procedures.</p> <p>The government is taking practical steps towards the development of the management accountability and delegation of tasks in accordance with the Law. Full implementation of the requirements of this legislation and alignment with international good practices will take time. Public sector units must establish an organizational structure that enables the achievement of the objectives and compliance with the functions assigned by legislation. It must be presented in documentary form, stating clearly the rules for determining and segregating tasks, duties, and responsibilities, as well as hierarchy and appropriate reporting lines.</p>
1.5. Human resource policies and practices	A cadre of professional in internal audit and financial control is in place and follows standard public sector policies and practices.
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 C in 11.1 – Economic analyses are conducted to assess some major investment projects.</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</p>

Internal Control Components and Elements	Summary of Observations
	<p>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	<p>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). The scope of Internal Audit Activities is comprehensive. (Nature of internal audits and standards applied – 26.2 rated A).</p>
2.4 Risk appetite assessment	<p>The development and implementation of identification and assessment of risk indicates a positive risk appetite across expenditure and revenue aspects of public financial management. This is evidenced by the selection process for Internal Audit and External Audit covering both revenue and expenditure.</p>
2.5 Responses to risk (transfer, tolerance, treatment, or termination)	<p>Standard public sector HR policies are in place throughout the areas of control.</p>
3 Control Activities	
3.1 Authorization and approval procedures	<p>Financial data integrity processes are rated A in 27.4. Access and changes to records is restricted and recorded, and results in audit trail.</p> <p>Recording and reporting of debt and guarantees are rated C in 13.1. Domestic and foreign debt and 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 is rated NA in 13.2 as it is carried out at the Central Government level where it is scored 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.</p> <p>Effectiveness of expenditure commitment controls is</p>

Internal Control Components and Elements	Summary of Observations
	<p>rated A in 25.2. Commitment control applies to all payments made from the Treasury Single Account. Actual expenditures incurred are in line with approved budget allocations and does not exceed committed amounts and projected available cash resources.</p> <p>Integration of payroll and personal records is rated A in 23.1. The budgetary units maintain their respective personnel databases under the E-Treasury (payroll module) system that is managed by State Treasury. Personnel and payroll records are reconciled at least monthly, before salaries are paid to staff bank accounts. Reconciliation between payroll records in E-Treasury (Payroll module) and Civil Registry database records (managed by the Ministry of Justice), takes place once an employee is appointed and registered in the system. There is a validation mechanism built into the payroll module that automatically blocks salary payments of any person that is not reflected in the personnel database of the E-Treasury System.</p> <p>Management of payroll changes is rated A in 23.2. Personal records are updated monthly in time for the month's payments. Updates are real-time and reflected in the payroll module of the E-Treasury system. In addition, retroactive changes to the existing data in the system are not allowed.</p> <p>Compliance with payroll payment rules and procedures is rated A in 23.3. Changes to the payroll records, are restricted to only authorized persons in the budgetary units in accordance with the Labor legislation. The changes are certified by an authorized person and approved by the head of the unit. In addition, for remuneration changes, these must be approved by the State Treasury. There is an audit trail of payroll changes as supporting documentation are kept, and there are access controls for authorized persons to get into the E-Treasury system that require password and token numbers to be used. Internal and external auditors assess payroll risk as low hence integrity of payroll data is high.</p>
3.2 Segregation of duties (authorizing, processing, recording, reviewing)	<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 6 July 2012, on the approval instructions for the State Treasury Electronic Service System.</p>
3.3 Controls over the access to resources and records	<p>Compliance with payment rules and procedures is rated A in 25.3. Compliance with payment rules and procedures is very high.</p>

Internal Control Components and Elements	Summary of Observations
	Financial data integrity processes are rated A in 27.4. Access and changes to records is restricted and recorded, and results in audit trail.
3.4 Verifications	Accuracy of in-year budget reports is rated B in 28.3. There are no material concerns regarding data accuracy Information on expenditure is covered at the payment stage in the e-Treasury system.
3.5 Reconciliations	Banks account reconciliations is rated A in 27.1. Bank reconciliations for all active subnational government bank accounts take place at least on monthly basis, at aggregate and detailed levels and usually within one week from the end of the month. Suspense account reconciliations is rated NA in 27.2. There are no suspense accounts.
3.6 Reviews of operating performance	Revenue audit and investigations are rated A in 19.3 in the central government PEFA and are not applicable for municipalities Entities collecting most revenue undertake audits and fraud investigations managed and reported on according to a documented compliance improvement plan and complete all planned audits and investigations.
3.7 Reviews of operations, processes and activities	Procurement monitoring is rated A in 24.1 in the central government PEFA but is considered not applicable for municipalities. Databases or records are maintained for all contracts including data on what has been procured, value of procurement, and who has been awarded contracts. The data are accurate and complete for all procurement methods for goods, services and works. All government contracts are procured through Georgian E-Government Procurement System (Ge-GP).
3.8 Supervision (assigning, reviewing, and approving, guidance and training)	The audit trail in place indicates a supervisory focus. Personnel development through mentoring and training is in place.
4. Information and Communication	
4.1. Information and Communication	The management information systems for financial and non-financial information are across central government organizations and are fully functioning and comprehensive. All organisations are included in the Single Treasury Account. There is a monthly budget execution report that is published. The procurement information system is centralised and covers all government entities.
5. Monitoring	
5.1 Ongoing monitoring	The Assessment highlighted a number of areas related to ongoing monitoring activities:

Internal Control Components and Elements	Summary of Observations
	<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. The audited annual financial statements for the two largest public corporations are published within 12 months of the end of the fiscal year. All public corporations produce an annual financial statement. The consolidated report on the financial performance of the public corporation sector is not published.</p> <p>Contingent liabilities and other fiscal risks are 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 plans have been implemented. Internal auditor submits their reports to the Mayor and the head of the public entity audited.</p>
5.2 Evaluations	<p>Performance evaluation for service delivery is rated 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 A in 30.3. Formal responses are made by the audited entities on audits for which follow up was expected during the last 3 completed years.</p>

Annex 3: Sources of information by Indicator

Annex 3A: List of Related Surveys and Analytical Work

No	Institution	Document Title	Date	
1	MOF	Georgia 2022 Central Government PEFA Assessment	October 2022	
2	City of Tbilisi	Georgia 2018 City of Tbilisi PEFA Assessment	October 2018	

Annex 3B: List of People Consulted

Irakli Khmaladze	Vice Mayor
Andro Basilaia	Deputy Mayor
Gaioz Talakvadze	Head of Finance and budget department
Levan Mikava	Deputy Head of Finance and budget department
Maya Grdzeldze	Head of Budget division
Levan Naroushvili	Head of Infrastructure Department
George Papava	Head of Public procurement Department
Tamar Melikishvili	Deputy Head of Property management Department
Badri Giorgidze	Head of Internal audit department
Otar Grigolia	Chair of Sakrebulo Audit and Budget commission
Levan Arveladze	Chair of Sakrebulo Economic Policy commission
Levan Zhorzholiani	Chair of Sakrebulo Legal commission
Natia Gulua	Director of Budget Department MOF
Nata Mokverashvili	Head of Division, Budget Department MOF
Giorgi Kakauridze	Deputy Minister MOF

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	https://tbilisi.gov.ge/page/43 https://mof.ge/images/File/2022-biujeti/13-10-2022/danartebi/10.2023%20BD%20Tables%20sen%2009_1_BDD_LEPL.pdf
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 http://tbilisi.gov.ge/page/43 ;
9A. Public access to fiscal information	http://tbsakrebulo.gov.ge/index.php?m=501&service2_id=430&service2=%E1%83%A1%E1%83%90%E1%83%9B%E1%83%90%E1%83%A0%E1%83%97%E1%83%9A%E1%83%94%E1%83%91%E1%83%A0%E1%83%98%E1%83%95%E1%83%98%20%E1%83%90%E1%83%A5%E1%83%A2%E1%83%94%E1%83%91%E1%83%98%E1%83%A1%20%E1%83%9E%E1%83%A0%E1%83%9D%E1%83%94%E1%83%A5%E1%83%A2%E1%83%94%E1%83%91%E1%83%98 http://tbilisi.gov.ge/page/43 ; https://sao.ge/ka/%E1%83%A5-%E1%83%97%E1%83%91%E1%83%98%E1%83%9A%E1%83%98%E1%83%A1%E1%83%98%E1%83%A1-%E1%83%9B%E1%83%A3%E1%83%9C%E1%83%98%E1%83%AA%E1%83%98%E1%83%9E%E1%83%90%E1%83%9A%E1%83%98%E1%83%A2%E1%83%94%E1%83%A2%E1%83%98%E1%83%A1-%E1%83%99%E1%83%9D%E1%83%9C2022021102506167ka.html https://mof.ge/5439 https://sao.ge/ka/%E1%83%90%E1%83%9C%E1%83%92%E1%83%90%E1%83%A0%E1%83%98%E1%83%A8%E1%83%94%E1%83%91%E

	<u>1%83%98</u>
9B Public Consultation	Discussion with Tbilisi Department of Finance
10. Fiscal risk reporting	Discussion with the municipality Property Management Agency https://reportal.ge/ka/Reports/Report?q=202886788 https://reportal.ge/ka/Reports/Report?q=206267494 https://fof.ge/5477
11. Public investment management	Discussion with and information from the municipality Infrastructure Department
12. Public asset management	Discussion with and information from the municipality Property Management Agency
13. Debt management	Data from Tbilisi Department of Finance Budget Code of Georgia
14. Medium-term budget strategy	Data from Tbilisi Department of Finance Annual Budget Document Tbilisi Priorities Document
17. Budget preparation process	https://matsne.gov.ge/ka/document/view/91006?publication=51 Budget Code of Georgia, part IV, Articles 65 to 80 Discussions with Tbilisi Department of Finance Tbilisi Priorities Document
18. Legislative scrutiny of budgets	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
21. Predictability of in-year resource allocation	Discussion with Tbilisi Department of Finance Data from Tbilisi Department of Finance Analysis of TSA Analysis of IFMIS modules Supplementary Budgets
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 2021 Internal Audit Annual Report 2021 Report of LLEP "Animal Monitoring Agency" compliance audit LLEP "Tbilisi Zoological Park" compliance audit LLEP "Tbilisi Development Fund" compliance audit
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	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	Information from Tbilisi Sakrebulo Budget and Finance Committee) Discussion and data from State Audit Office of Georgia

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

Table 1 - Results Matrix

year	for PI-1	for PI-2.1	for PI-2.2	for PI-2.3
	total exp. deviation	composition variance by FC	composition variance by EC	contingency share
2019	108.8%	17.4%	4.9%	0.8%
2020	106.1%	29.1%	24.2%	
2021	116.7%	22.8%	18.1%	

Table 2

thousand GEL

2019						
Functional classification	budget	actual	adjusted budget	deviation	absolute deviation	percent
701 General public service	74,578.2	72,136.6	81,019.0	-8,882.3	8,882.3	11.0%
702 Defense			0.0	0.0	0.0	
703 Public order and safety	2,450.5	468.2	2,662.1	-2,193.9	2,193.9	82.4%
704 Economic activity	101,016.6	193,813.1	109,740.6	84,072.5	84,072.5	76.6%
705 Environmental protection	85,666.5	86,402.1	93,064.8	-6,662.7	6,662.7	7.2%
706 Housing and utility services	227,414.9	232,676.5	247,054.9	-14,378.4	14,378.4	5.8%
707 Healthcare	48,377.6	54,368.0	52,555.6	1,812.4	1,812.4	3.4%
708 Recreation, culture and religion	52,557.5	50,871.8	57,096.5	-6,224.7	6,224.7	10.9%
709 Education	173,070.4	149,713.3	188,017.1	-38,303.9	38,303.9	20.4%
710 Social protection	143,127.0	146,248.8	155,487.8	-9,238.9	9,238.9	5.9%
Sum	908,259.2	986,698.5	986,698.5	0.0	171,769.8	
Interest	1,461.8	1,559.7				
Reserve funds	2,500.0	4,602.3				
Total expenditures	912,221.0	992,860.5				

total expenditures deviation for indicator PI-1 108.8%

composition variance for indicator PI-2.1 17.4%

contingency share for indicator PI-2.3 0.5%

Table 3

thousand GEL

2020						
Functional classification	budget	actual	adjusted budget	deviation	absolute deviation	percent
701 General public service	80,423.0	65,634.0	85,000.9	-19,366.9	19,366.9	22.8%
702 Defense			0.0	0.0	0.0	
703 Public order and safety	4,943.2	523.2	5,224.6	-4,701.3	4,701.3	90.0%
704 Economic activity	125,713.6	282,655.9	132,869.5	149,786.4	149,786.4	112.7%
705 Environmental protection	108,556.1	112,620.0	114,735.4	-2,115.4	2,115.4	1.8%
706 Housing and utility services	302,848.1	256,756.8	320,086.9	-63,330.1	63,330.1	19.8%
707 Healthcare	16,722.0	21,557.9	17,673.9	3,884.0	3,884.0	22.0%
708 Recreation, culture and religion	65,353.4	46,132.0	69,073.4	-22,941.4	22,941.4	33.2%
709 Education	160,743.3	148,383.3	169,893.2	-21,509.9	21,509.9	12.7%
710 Social protection	133,923.8	121,841.7	141,547.0	-19,705.3	19,705.3	13.9%
Sum	999,226.5	1,056,104.7	1,056,104.7	(0.0)	307,340.9	
Interest	1,850.5	2,195.4				
Reserve funds	2,500.0	6,205.8				
Total expenditures	1,003,577.0	1,064,506.0				

total expenditures deviation for indicator PI-1 106.1%

composition variance for indicator PI-2.1 29.1%

contingency share for indicator PI-2.3 0.6%

Table 4

thousand GEL

2021						
Functional classification	budget	actual	adjusted budget	deviation	absolute deviation	percent
701 General public service	80,389.7	72,495.8	93,382.7	-20,886.9	20,886.9	22.4%
702 Defense			0.0	0.0	0.0	
703 Public order and safety	2,817.1	911.2	3,272.4	-2,361.2	2,361.2	72.2%
704 Economic activity	177,428.2	340,524.9	206,105.3	134,419.7	134,419.7	65.2%
705 Environmental protection	143,652.0	161,440.1	166,869.9	-5,429.8	5,429.8	3.3%
706 Housing and utility services	227,933.5	242,136.2	264,773.5	-22,637.3	22,637.3	8.5%
707 Healthcare	20,019.3	24,604.0	23,254.9	1,349.1	1,349.1	5.8%
708 Recreation, culture and religion	72,000.6	51,702.3	83,637.8	-31,935.5	31,935.5	38.2%
709 Education	167,241.3	168,647.2	194,271.9	-25,624.7	25,624.7	13.2%
710 Social protection	133,062.2	127,675.3	154,568.6	-26,893.3	26,893.3	17.4%
Sum	1,024,543.8	1,190,137.0	1,190,137.0	(0.0)	271,537.6	
Interest	7,651.2	4,366.5				
Reserve funds	2,500.0	13,390.8				
Total expenditures	1,034,695.0	1,207,894.2				

total expenditures deviation for indicator PI-1 116.7%

composition variance for indicator PI-2.1 22.8%

contingency share for indicator PI-2.3 1.3%

Table 5

thousand GEL

2019						
Economic head	budget	actual	adjusted budget	deviation	absolute deviation	percent
Labor remuneration	85,244.0	86,163.0	92,782.3	-6,619.3	6,619.3	7.1%
Goods and services	135,180.8	137,144.3	147,135.1	-9,990.8	9,990.8	6.8%
Interest	1,461.5	1,559.7	1,590.7	-31.1	31.1	2.0%
Subsidies	162,223.0	181,518.1	176,568.7	4,949.4	4,949.4	2.8%
Grants	920.3	990.0	1,001.7	-11.7	11.7	1.2%
Social security	158,795.1	167,429.5	172,837.7	-5,408.2	5,408.2	3.1%
Other expenses	126,310.3	135,264.6	137,480.1	-2,215.5	2,215.5	1.6%
Increase in non-financial assets	242,086.0	282,821.3	263,494.1	19,327.2	19,327.2	7.3%
Total expenditures	912,221.0	992,890.5	992,890.5	0.0	48,553.0	

composition variance for indicator PI-2.2 4.9%

Table 6

thousand GEL

2020						
Economic head	budget	actual	adjusted budget	deviation	absolute deviation	percent
Labor remuneration	67,237.8	59,682.2	71,319.9	-11,637.7	11,637.7	16.3%
Goods and services	149,692.7	123,138.4	158,780.8	-35,642.4	35,642.4	22.4%
Interest	1,850.2	2,369.7	1,962.5	407.2	407.2	20.7%
Subsidies	191,071.4	290,416.7	202,671.7	87,745.0	87,745.0	43.3%
Grants	449.5	986.3	476.7	509.6	509.6	106.9%
Social security	150,273.9	143,110.8	159,397.2	-16,286.5	16,286.5	10.2%
Other expenses	166,590.1	205,501.0	176,704.1	28,797.0	28,797.0	16.3%
Increase in non-financial assets	276,411.5	239,300.8	293,192.9	-53,892.1	53,892.1	18.4%
Total expenditures	1,003,577.0	1,064,506.0	1,064,506.0	0.0	234,917.5	

composition variance for indicator PI-2.2 22.1%

Table 7

thousand GEL

2021						
Economic head	budget	actual	adjusted budget	deviation	absolute deviation	percent
Labor remuneration	72,784.2	69,145.2	84,967.7	-15,822.5	15,822.5	18.6%
Goods and services	131,892.2	141,247.6	153,969.8	-12,722.2	12,722.2	8.3%
Interest	7,651.1	4,366.5	8,931.8	-4,565.3	4,565.3	51.1%
Subsidies	275,604.6	409,111.2	321,738.5	87,372.7	87,372.7	27.2%
Grants	506.9	1,250.5	591.8	658.7	658.7	111.3%
Social security	149,499.4	153,327.6	174,524.3	-21,196.7	21,196.7	12.1%
Other expenses	144,528.1	189,884.3	168,720.9	21,163.3	21,163.3	12.5%
Increase in non-financial assets	252,228.5	239,561.2	294,449.4	-54,888.1	54,888.1	18.6%
Total expenditures	1,034,695.0	1,207,894.2	1,207,894.2	0.0	218,389.7	

composition variance for indicator PI-2.2 18.1%

The difference between Table 2.2.1 and Annex tables 5, 6 and 7 is actual expenditures do not include ``Net increase in liabilities.

Table 8 Results Matrix

year	for PI-3.1	for PI-3.2
	total revenue deviation	composition variance
2019	120.4%	11.2%
2020	81.0%	24.5%
2021	121.2%	21.0%

Table 9

thousand GEL

Data for year 2019						
classification head	budget	actual	adjusted budget	deviation	absolute deviation	percent
Tax revenues	185,000.0	211,185.8	222,668.4			
Taxes on property	185,000.0	211,185.8	222,668.4	-11,482.6	11,482.6	5.2%
Taxes on goods and services			0.0	0.0	0.0	
Other revenues	190,774.8	241,101.6	229,619.0			
Property income	8,650.0	18,459.9	10,411.3	8,048.7	8,048.7	77.3%
Sales of goods and services	138,575.0	153,057.7	166,790.7	-13,733.0	13,733.0	8.2%
Fines, penalties and forfeits	38,000.0	59,281.9	45,737.3	13,544.6	13,544.6	29.6%
Transfers not elsewhere classified	5,549.8	10,302.1	6,679.8	3,622.3	3,622.3	54.2%
Total revenue	375,774.8	452,287.4	452,287.4	-	50,431.1	

overall variance for indicator PI-3.1 120.4%
composition variance for indicator PI-3.2 11.2%

Table 10

thousand GEL

Data for year 2020						
classification head	budget	actual	adjusted budget	deviation	absolute deviation	percent
Tax revenues	205,000.0	187,920.3	165,973.5			
Taxes on property	205,000.0	187,920.3	165,973.5	21,946.9	21,946.9	13.2%
Taxes on goods and services			0.0	0.0	0.0	
Other revenues	202,997.4	142,405.2	164,352.1			
Property income	8,600.0	23,450.8	6,962.8	16,488.0	16,488.0	236.8%
Sales of goods and services	136,305.0	70,604.7	110,356.2	-39,751.5	39,751.5	36.0%
Fines, penalties and forfeits	51,000.0	43,322.7	41,291.0	2,031.7	2,031.7	4.9%
Transfers not elsewhere classified	7,092.4	5,027.0	5,742.2	-715.1	715.1	12.5%
Total revenue	407,997.4	330,325.6	330,325.6	0.0	80,933.2	

overall variance for indicator PI-3.1 81.0%
composition variance for indicator PI-3.2 24.5%

Table 11

thousand GEL

Data for year 2021						
classification head	Budget	actual	adjusted budget	deviation	absolute deviation	percent
Tax revenues	195,000.0	216,906.5	236,420.4			
Taxes on property	195,000.0	216,906.5	236,420.4	-19,513.9	19,513.9	8.3%
Taxes on goods and services			0.0	0.0	0.0	
Other revenues	156,867.4	209,701.8	190,187.9			
Property income	8,600.0	15,794.9	10,426.7	5,368.2	5,368.2	51.5%
Sales of goods and services	86,805.0	96,667.1	105,243.4	-8,576.3	8,576.3	8.1%
Fines, penalties and forfeits	55,000.0	49,965.9	66,682.7	-16,716.7	16,716.7	25.1%
Transfers not elsewhere classified	6,462.4	47,273.8	7,835.1	39,438.7	39,438.7	503.4%
Total revenue	351,867.4	426,608.3	426,608.3	-	89,613.9	

overall variance for indicator PI-3.1 121.2%
composition variance for indicator PI-3.2 21.0%

Table 12 Results Matrix

Year	for HLG-1.1	for HLG-1.2
	total exp. deviation	composition variance by FC
2019	123.7%	15.4%
2020	93.4%	30.5%
2021	107.8%	12.0%

Table 13

thousand GEL

2019						
Functional classification	budget	actual	adjusted budget	deviation	absolute deviation	percent
701 General public service			0.0	0.0	0.0	0!
702 Defense			0.0	0.0	0.0	0
703 Public order and safety			0.0	0.0	0.0	0
704 Economic activity		34,761.6	0.0	34,761.6	34,761.6	0
705 Environmental protection		11,618.8	0.0	11,618.8	11,618.8	0
706 Housing and utility services	50,000.0	52,401.2	61,872.2	-9,471.0	9,471.0	15.3%
707 Healthcare	460.0	460.0	569.2	-109.2	109.2	19.2%
708 Recreation, culture and religion			0.0	0.0	0.0	0
709 Education		3,467.5	0.0	3,467.5	3,467.5	0
710 Social protection			0.0	0.0	0.0	0
non earmarked transfers	473,415.2	545,557.4	585,825.0	-40,267.6	40,267.6	6.9%
Sum of transfers	523,875.2	648,266.5	648,266.5	-	99,695.7	

total expenditures deviation for indicator HLG-1.1 123.7%
composition variance for indicator HLG-1.2 15.4%

Table 14

thousand GEL

2020						
Functional classification	budget	actual	adjusted budget	deviation	absolute deviation	percent
701 General public service			0.0	0.0	0.0	0
702 Defense			0.0	0.0	0.0	0
703 Public order and safety			0.0	0.0	0.0	0
704 Economic activity	12,600.0	93,338.5	11,772.0	81,566.5	81,566.5	692.9%
705 Environmental protection	11,000.0	3,000.0	10,277.2	-7,277.2	7,277.2	70.8%
706 Housing and utility services	66,400.0	26,412.4	62,036.7	-35,624.3	35,624.3	57.4%
707 Healthcare	460.0	460.0	429.8	30.2	30.2	7.0%
708 Recreation, culture and religion			0.0	0.0	0.0	0
709 Education			0.0	0.0	0.0	0
710 Social protection			0.0	0.0	0.0	0
non earmarked transfers	482,009.5	411,640.6	450,335.8	-38,695.2	38,695.2	8.6%
Sum of transfers	572,469.5	534,851.5	534,851.5	-	163,193.5	

total expenditures deviation for indicator HLG-1.1 93.4%

composition variance for indicator HLG-1.2 30.5%

Table 15

thousand GEL

2021						
Functional classification	budget	actual	adjusted budget	deviation	absolute deviation	percent
701 General public service			0.0	0.0	0.0	0
702 Defense			0.0	0.0	0.0	0
703 Public order and safety			0.0	0.0	0.0	0
704 Economic activity	58,674.0	72,566.2	63,268.2	9,298.0	9,298.0	14.7%
705 Environmental protection	46,773.2	36,172.7	50,435.6	-14,262.9	14,262.9	28.3%
706 Housing and utility services	70,349.6	67,328.8	75,858.0	-8,529.2	8,529.2	11.2%
707 Healthcare	460.0	460.0	496.0	-36.0	36.0	7.3%
708 Recreation, culture and religion	16,381.3	5,053.7	17,664.0	-12,610.3	12,610.3	71.4%
709 Education	12,821.9	6,012.0	13,825.9	-7,813.8	7,813.8	56.5%
710 Social protection			0.0	0.0	0.0	0!
non earmarked transfers	462,355.8	532,512.6	498,558.4	33,954.2	33,954.2	6.8%
Sum of transfers	667,815.8	720,106.0	720,106.0	(0.0)	86,504.4	

total expenditures deviation for indicator HLG-1.1 105.8%

composition variance for indicator HLG-1.2 11.4%

Table 16

thousand GEL

Data for year 2019										
Transfer	Budget	actual	QI budget	QI actual	QII budget	QII actual	QIII budget	QIII actual	QIV budget	QIV actual
Sum of transfers	523,875.2	648,266.5	128,468.8	108,049.5	123,468.8	123,349.7	128,468.8	151,278.8	143,468.8	265,588.5
Target transfer for delegated competence	460.0	460.0	115.0	114.9	115.0	114.9	115.0	151.4	115.0	78.8
Special transfer	50,000.0	150,000.0	10,000.0	4,127.7	5,000.0	9,595.7	10,000.0	5,974.6	25,000.0	130,302.0
Non earmarked transfers (VAT sharing)	473,415.2	497,806.5	118,353.8	103,806.9	118,353.8	113,639.1	118,353.8	145,152.8	118,353.8	135,207.7
Total performance %		124%		84%		100%		118%		185%
Target transfer for delegated competence performance %		100%		100%		100%		132%		68%
Special transfer performance %		300%		41%		192%		60%		521%
Non earmarked transfers performance %		105%		88%		96%		123%		114%

Table 17

thousand GEL

Data for year 2020										
Transfer	Budget	actual	QI budget	QI actual	QII budget	QII actual	QIII budget	QIII actual	QIV budget	QIV actual
Sum of transfers	572,469.5	534,851.5	151,217.4	117,361.4	129,617.4	80,572.1	138,392.4	154,074.6	153,242.3	182,843.4
Target transfer for delegated competence	460.0	460.0	115.0	114.9	115.0	45.7	115.0	117.5	115.0	181.9
Special transfer	90,000.0	105,000.0	20,600.0	9,265.1	14,000.0	1,513.2	20,275.0	34,495.1	35,125.0	59,726.6
Non earmarked transfers (VAT sharing)	482,009.5	429,391.5	130,502.4	107,981.4	115,502.4	79,013.2	118,002.4	119,462.0	118,002.3	122,934.9
Total performance %		93%		78%		62%		111%		119%
Target transfer for delegated competence performance %		100%		100%		40%		102%		158%
Special transfer performance %		117%		45%		11%		170%		170%
Non earmarked transfers performance %		89%		83%		68%		101%		104%

Table 18

thousand GEL

Data for year 2021										
Transfer	Budget	actual	QI budget	QI actual	QII budget	QII actual	QIII budget	QIII actual	QIV budget	QIV actual
Sum of transfers	667,815.8	720,106.0	168,194.0	126,765.8	164,468.3	163,264.3	166,319.5	187,663.2	168,834.2	242,412.7
Target transfer for delegated competence	460.0	460.0	115.0	114.9	115.0	114.9	115.0	114.9	115.0	115.3
Special transfer	205,000.0	200,471.9	52,490.0	19,651.3	48,764.3	31,681.0	50,615.5	40,952.1	53,130.2	108,187.5
Non earmarked transfers (VAT sharing)	462,355.8	519,174.1	115,589.0	106,999.6	115,589.0	131,468.4	115,589.0	146,596.2	115,589.0	134,109.9
Total performance %		108%		75%		99%		113%		144%
Target transfer for delegated competence performance %		100%		100%		100%		100%		100%
Special transfer performance %		98%		37%		65%		81%		204%
Non earmarked transfers performance %		112%		93%		114%		127%		116%

