ALBANIA - Public Expenditure and Financial Accountability Assessment (PEFA) 2011

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CURRENCY AND EXCHANGE RATES

Currency unit = Lek (ALL)

1 ALL = 0.0097 USD

1 USD = 102.71 ALL

(Mid-market rate September 22, 2011)

Government Fiscal Year (FY): 1 January – 31 December

ACRONYMS AND ABBREVIATIONS

AGAs	Autonomous Government Agencies
ALL	Albanian Lek
AMoFTS	Albania Ministry of Finance Treasury System
BI	Budget Institution
CBA	Central Bank of Albania
CG	Central Government
COFOG	Classification of Functions of Government
COA	Chart of Accounts
DMFAS	Debt Management Financial Analysis System
DSDC	Department of Strategy and Donor Coordination
EU	European Union
FAD	Fiscal Affairs Department
FY	Fiscal Year
GDP	Gross Domestic Product
GDPDM	General Director, Public Debt Management
GFS	Government Financial Statistics
GFMIS	Government Financial Management Information System
GTZ	Deutsche Gesellschaft für Technische Zusammenarbeit
IAASB	International Auditing and Assurance Standards Board
IFAC	International Federation of Accountants
IMF	International Monetary Fund
INTOSAI	International Organization of Supreme Audit Institutions
IPSAS	International Public Sector Accounting Standards

ISPPIA	International Standards for the Professional Practice in Internal Audit
LGU	Local Government Unit
M/Cs	Municipalities and Communes
MDA	Ministries, Department and Agencies
MoE	Ministry of Education
MoF	Ministry of Finance
MoH	Ministry of Health
MoMA	Ministry of Municipal Affaires
MTBP	Medium Term Budget Plan
MTEF	Medium Term Expenditure Framework
MTFF	Medium Term Fiscal Framework
NGOs	Non-Governmental Organizations
OBL	Organic Budget Law
OECD-DAC	Organisation for Economic Co-operation and Development, Development Assistance Committee
PEFA	Public Expenditure and Financial Accountability
PE	Public Enterprises
PER	Public Expenditure Review
PFM	Public Financial Management
ROB	Results-Oriented Budget
SAI	Supreme Audit Institution
SIGMA	Support for Improvement in Governance and Management
SPC	Strategic Planning Committee
TDO	Treasury District Office
TS	Treasury System
TSA	Treasury Single Account
TIN	Taxpayer Identification Number
ToR	Terms of Reference
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Program
WB	World Bank

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Summary Assessment

This report presents the second assessment of the Government of Albania's public financial system performance, using the PEFA Framework. [1] It consists of six PFM dimensions and one donor dimension, comprising 31 indicators. Taken together, they provide a basis for an assessment of the overall performance of the PFM system and an identification of those areas where improvement opportunities arise.

The Government of Albania has made significant progress across a wide range of the performance indicators since the 2006 assessment. For 13 of the 28 indicators that related to the government and Parliament's performance, the assessments yielded a higher score than in 2006. The score for one indicator worsened and ten remain unchanged. One indicator that was rated in 2006 was not been rated this time and three indicators that were not rated in 2006 were rated in this exercise. Of the three indicators relating to donors, one worsened, one remained unchanged, while one is no longer relevant.

The good progress made since 2006 is due to a strong reform commitment by the government and its key ministries. They have embarked on a lengthy journey to fully develop their PFM systems and capacities. Continuation of their commitment to reform should lead to further progress in strengthening their PFM systems over the short- and medium-term.

Integrated Assessment of PFM Performance

This section provides a summary of PFM performance changes in Albania over the period of the first PEFA assessment in 2006 and this study in 2011. It is structured on the six PEFA dimensions identified above. The analysis covers general government as delineated in the GFS manual, i.e. central and local government units at all levels.

Credibility of the budget

The indicators seeking to capture the credibility of the budget present a rather incongruous picture. While the differences between budgeted and actual <u>expenditure</u> during the period 2008 – 2010 were of a nature to yield a score of A, the differences between budgeted and actual <u>revenue</u> were such as to yield a D.

This is because in 2009, which was an election year, the government maintained expenditure at the budgeted level despite the revenue shortfall. From a technical, PEFA perspective, this indicated a "credible" expenditure budget. In 2010, when, again, revenue projections proved overly optimistic, the Government chose another, from a fiscal

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[1] Public Expenditure and Financial Accountability, <u>Public Financial Management Performance Measurement Framework</u>, June 2005, p.1

perspective, more prudent route and made commensurate cuts in expenditure.[2] See Table 1 below.

Table 1 Differences between budgeted and actual revenue and expenditure 2008 - 2010

	2008	2009	2010
Domestic revenue	2,90%	-10,20%	-9,40%
Primary expenditure	3,06%	-0,58%	-11,16%

Source: team calculations

Despite the revenue shortfalls, payment discipline appears to have been good and the larger-than-planned deficits have, at least through 2010, not been managed by accumulating visible arrears. There is, however anecdotal evidence that, when cash is short, invoices are not submitted to Treasury for payment and thus not recorded in the system. The extent of this practice and its fluctuations over time is, however, impossible to assess for lack of hard data, and the indicator is, therefore, not scored.

While the management of aggregate expenditure has shifted over the three years here reviewed – maintaining expenditure at the planned level, or adjusting it to revenues – the composition of expenditure has consistently deviated, and substantially so, from what has been budgeted. Most of the deviations stem from large discrepancies between planned and actual investment expenditure in some major sectors. In 2010, for example, while investment, particularly under the responsibility of the Ministries of Health but also under Ministry of Defence fell short of planned levels, investment in under the Ministry of Public Works, Transport & Telecommunications and investment under Ministry of Education & Science was executed more or less at planned levels, despite the cut in aggregate expenditure. Consequently the composition of expenditure differed substantially from what had been budgeted.

Comprehensiveness and transparency

The classification system implemented in the Albania MoF Treasury System (AMoFTS) is state of the art. It contains all standard dimensions required for execution management and control as well as for international reporting. The chart-of-accounts proper, the economic classification of assets, liabilities, expenditure and revenue, is structured in a way and includes the elements that will allow an eventual transition to accruals. The automated Treasury system (AMoFTS), which went live in March of 2010, has the potential of delivering a wealth of information on the state and composition of Albania's public finances, a potential that can be further exploited by extending the system to key budget institutions

[2] The 2009 episode points to potential – in the this case concrete – conflict between fiscal credibility and fiscal responsibility. Another response to the revenue shortfall in 2009 – cutting expenditure to match the shortfall – would have resulted in an expenditure credibility score of D, in a technical sense penalizing responsible behaviour.

and linking it to other government databases such as for taxes and customs. The planned addition of a data warehouse should stimulate a broader and deeper analysis of Albania's public finances and catalyse a richer dissemination of fiscal statistics.

The budget documentation tabled in Parliament for decision is also made available on the MoF web site. It is comprised of the Annual Budget Law and the Medium Term Budget Plan, (MTBP). The Annual Budget Law is a very terse document, containing only the key decisions points, while the MTBP does provide more background descriptive material on the macroeconomic framework and quite detailed information on all the programs that make up the expenditure budget. Ampler and better-structured information is presented in the Economic and Fiscal Programs, the latest one being for 2011 – 2013. But these documents are only produced in the first quarter of the fiscal year and thus do not inform the Parliament's process of deciding on the budget. They rather serve as information to Albania's external partners. Against the PEFA criteria, the budget documentation scores a B but there is definite room for improvement.

The budget and the accounts cover general government as defined by the GFS statistics manual. The central budget and the budgets of the different Local Government Units (LGUs) are executed through the AMoFTS. There are no general government institutions that are not captured in the budget and the accounts.

Foreign financing in the form of grants and credits is reflected in the budget and in the accounts to an extent that more or less corresponds to what is reported by the donors/creditors to OECD/DAC. The coverage has improved considerably since the earlier PEFA assessment.

Some 65 % of the transfers from central to local government are made in the form of unconditional grants. Their allocation is governed by clear and verifiable criteria. The remainder of the transfers is made through so-called Competitive Grants, since 2010 managed within the framework of a Regional Development Fund. A set of criteria exist for the allocation the latter funds, but they are less transparent and verifiable than those for the unconditional grants.

The LGUs know for certain in December of each year what exactly they will receive as unconditional grants in the next year. As the grants to the local level are part of the three-year MTBP process and given the fact that the allocation criteria have remained quite stable over the years they do, however, have an indication earlier in the annual budgeting process of how much, more or less, they are likely to receive for the coming year. With a more disciplined annual budget process in recent years, which has allowed a timely approval of the budget, this indicator has improved since the earlier PEFA assessment. Since 2008, LGUs are allowed to borrow, but the process is very tightly controlled by the central government and the fiscal risk created by this possibility appears to be low.

All general government expenditure is classified by function and sub-function. It is therefore easy to produce statistics on the functional breakdown of total general government expenditure.

The Government has a portfolio of on-lent international credits – some to enterprises and some to municipalities – that is monitored by the Directorate of Public Debt Management in the MoF. Interest repayments and amortization are budgeted but hard to predict. But the impact of deviations between forecasts and actuals is limited because of the relatively small loan volume.

Substantial fiscal information is available on the MoF web site. This includes the MTBP, the Economic and Fiscal Programs, the annual budget law, and in-year execution reports in the form of "fiscal tables". Most documents, with the exception of the Economic and Fiscal Programs, are rather compact documents putting very little explanatory meat on the numerical bones. When Parliament is not sitting, the year-end financial statements do not get made public until it has accepted them. The same applies to the external auditor's report.

Policy-based budgeting

The budget process has in recent years been quite disciplined. A budget circular with a detailed calendar is issued at the beginning of the budget preparation process, and the budget has been approved by Parliament about a month before the beginning of the new fiscal year.

The Government has made considerable efforts to improve and integrate the planning and budgeting processes and to improve the coordination of external assistance. These efforts have, however, largely been undermined by the recent external shocks that have affected the Albanian economy and the Government's less than consistent responses to these shocks.

Predictability and control in budget execution

There has been substantial progress in the revenue collection activities of the government, both in tax revenues and customs and excise duties.

A fundamental revenue strategy of the government has been to expand the formal economy. This requires more people to move from the grey economy into the formal economy, where they will be subject to taxes and social charges. The revised tax laws and new IT systems have reduced the need for direct taxpayer interaction with tax/customs officials for routine activities relating to the corporate tax and customs liabilities and their payments on the tax and customs Internet sites or thorough client service centres. This reduces the opportunity for corruption and encourages growth in the formal economy.

The result has been that the transparency of tax obligations and liabilities has been substantially improved. The revised tax laws and procedures are clearly specified in laws and regulations, readily accessed by taxpayers, with e-filing and payments of an increasing number of tax types and customs/excise duty payments. This is reinforced by an extensive public education program for all changes, using seminars, electronic and printed material, as well as radio/TV media. Appeals mechanisms exist but are not sufficiently independent of the agencies as they report to the agency heads, not the Minister of Finance.

Taxpayer registration systems have improved, but require extension to other groups of taxpayers. Tax penalties are sufficiently high to encourage compliance, although there are opportunities for greater effectiveness if the tax system were to be linked to other government systems. Tax compliance auditees are now partially selected for large taxpayers using a computerised risk-based audit selection process. The remainder are manually selected, perpetuating an opportunity for corruption on the part of tax inspectors.

While the collection of assessed taxes is generally efficient, this is not true for the collection of tax arrears; only a small portion of liabilities outstanding at the end of each year is recuperated during the course of the subsequent year. The financial management of the revenue collected is strong, with daily sweeping of all bank accounts into the TSA. However, accounting details of tax payments are batched and only submitted monthly by the tax agency to the Treasury. This hampers effective cash management by the MoF.

Debt management activities have significantly improved since the implementation of the Debt Management Financial Analysis System (DMFAS). These activities take place within a clear and comprehensive legal framework of laws and regulations. The Debt Management and Accounting System presently covers only international debt, providing complete and accurate data on all transactions. Cash balances are calculated daily, reconciled and deposited in the TSA. Comprehensive, high quality data on debt stocks and transactions and the related reports are produced quarterly and annually and posted on the MoF web site. At present, domestic debt is manually processed, although there are plans to integrate it into the DMFAS system. The Minister of Finance must approve all loan guarantees, using transparent guidelines established by law. Total liabilities – international and domestic borrowing and loan guarantees – are limited to 60 per cent of GDP by law.

New internal controls that follow the EU Public Internal Financial Control system have been passed into law and implementation across government is underway. These controls involve fundamental changes to the previous system, in that it is now managers who are responsible for maintaining effective internal controls, with auditors advising them as to how these controls can be improved. This will require a considerable period of cultural change before the controls are fully understood and implemented. Payroll controls are unchanged from the previous PEFA assessment, with the exception of the Treasury monitoring the budget institutions' utilisation of allocated positions as a routine part of their transaction processing. Controls on non-payroll expenditure are primarily ex-ante voucher checking with very little internal audit functionality at the *ex-post* stage as required by international best practices. Other financial controls follow international practice and are generally complied with.

The procurement process has been fundamentally altered since the 2006 assessment. The government, assisted by donor partners, has created a modern legal, institutional and regulatory framework for public procurement that is transparent and follows international norms. Competition is the dominant method of procurement, supported by standard documentation and the mandatory use of a new electronic procurement system for e-procurement transactions by the 1700 contracting authorities. The Law on Public Procurement, originally passed in 2006 and amended annually until 2010, provides an appropriate legal basis and process that meet international standards for procurement. The Public Procurement Agency (PPA) has been restructured and a Public Procurement Commission (PRC) now monitors all complaints and issues decisions on all complaints received.

Performance has improved significantly. In 2010, 85 per cent of all procurements were conducted using competitive procedures. Transparency in operations is a key attribute. The PPA website reports all procurement opportunities, makes available all standard bidding documents, requires e-filing of all bids and reports on the results of all procurement decisions[3]. These data are posted on a regular basis. An identified deficiency is that some 20 per cent of the annual procurement plans prepared by all contracting authorities (CAs) are not made available to the PPA and hence the broader supplier community. This reduces suppliers' ability to plan fully their bidding activities to match their production schedules.

The PPA also produces an annual report, as does the Procurement Review Commission (PRC). The Albanian e-procurement system has been strongly endorsed by donors as a good practice example. Further improvements are anticipated, including the provision of enhanced security of access to the system and greater safeguards against collusion among suppliers.

The government has actively pursued the development of internal controls and internal audit over the interval since the 2006 PEFA study. In particular, the EU has been a strong supporter of the development of internal controls and audit and their harmonisation with the EU Public Internal Financial Control system. To focus the development of internal audit on the modern audit methodologies and processes, the government has created a small Inspection function within the MoF to take over the investigation of areas suspected of corrupt or fraudulent activities.

Progress has been promising. The MoF has established a Central Harmonisation Unit for Internal Audit (CHU/IA), under a General Director of Audit and a supporting organisation. There are also 130 permanent internal audit units (IAUs), operating in 13 ministries, 54 subordinate entities, 8 independent institutions and 55 local government units. The quality of the output of these IAUs reflects their early stage of professional development. These IAUs are independent in their planning and reporting, and submit their reports directly to the Entity Head. They also provide copies to the MoF CHU/IA and the SAI.

The CHU/IA receives copies of all audit reports conducted by IAUs in all budget institutions and prepares quarterly and annual summaries of major themes and audit development progress. In its 2010 annual report, it reported that the focus is moving toward theme-based and systems audits, with some 1,170 audits being theme-based and 990 systems audits. Some 77 per cent of the related audit recommendations have been accepted and implemented by line management. However, given that this is the initial step towards implementing modern internal audit, such data must be taken as indicative of the direction being pursued, rather than reflective of international standards for audits of this nature. The

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[3] Note that e-procurement does not guarantee that the evaluation of bids is always unaffected by conflicts of interest or other inappropriate influences, which remain a concern in Albania. This concern is reflected in the attention given by the SAI to procurement audits, as high-risk transactions.

CHU annual report also reinforced the view that the standards for modern internal control and audit were poorly understood by auditors and managers alike.

A SIGMA-supported five-year development plan will continue the evolution and enhancement of the audit function across the government. This will make an important contribution to its on-going development and effectiveness.

Accounting, recording and reporting

Treasury reconciles all cash balances on a daily basis. The few donor-financed projects that are financed using unconsolidated foreign currency accounts maintained in the Central Bank are reconciled monthly and reported to the General Directorate Treasury for reporting purposes. Advances for travel and operational imprest accounts are cleared daily as the need for them is extinguished.

Both centralized and decentralized levels of government are responsible for resourcing front line service delivery units. Front line units participate in the budget planning and formulation process by sending their respective requirements to the appropriate entity responsible for their operation. The approved budgets are administered in a similar fashion. Although front line service delivery units are capable of obtaining information on the various components of their operating and capital budgets, not all have access to integrated, comprehensive and regular reporting provided for management and accountability purposes.

The Treasury system prepares high quality, timely data on budget utilisation. It prepares and publishes a monthly Consolidated Fiscal Indicators report and a quarterly Fiscal Statistics of Government report. All data necessary for the production of these reports is contained in the Treasury system database and no direct input is required from the budget institutions for this reporting function. In-year budget execution reports are prepared monthly and sent to the budget institutions by the end of the first week after the end of the month. The actual budget utilisation is presented largely in the same format as the budget, using the Treasury and budgeting classification system[4].

The government is in the process of implementing fully the IPSAS standards, using the cash basis of accounting. There are no concerns about the quality of the data now in the Treasury Financial system.

The consolidated financial statements of the government cover all entities identified as General Government within the GFS-2001 classifications. The data are drawn from the Treasury System when the final accounts are closed and audited. The government prepares a set of GFS-based financial statements that are not fully compliant with IPSAS standards for cash-based reporting systems. Full compliance will be achieved over the next six years.

By law, the final accounts are to be submitted to the SAI by May 30th of the year following the reporting period. While the government has missed the date by one month in two of the

[4] This is not always the case. See the discussion in the analysis of PI-1 and PI-2.

past three years, its performance is well within the six-month limit defined in the sub-indicator for the performance indicator.

External Scrutiny and Audit

The High State Control (a.k.a. the Supreme Audit Institution (SAI)) has a role established in the Constitution and its operations set out in a separate law. In general, it operates largely independently of the government, although the ability of Parliament to remove the chairman without the need to provide a justification, the renewability of the Chairman's mandate and the susceptibility to budget cuts all combine to make the SAI more susceptible to political or other external pressures.

The SAI conducts approximately 150 audits annually. Financial and compliance audits predominate, with about 135 audits in these two areas. Theme-based and performance audits account for the remainder. Audit planning is based on a risk-based rating system, which means that low-risk entities might not be audited at least every three years as recommended by the PEFA standard. The SAI does not maintain data on the percentage of expenditures covered by its annual audit plan. However, it estimates that its 2010 procurement audits (a very high-risk area) covered 8.2 Billion Lek out of a total of 11.4 Billion, or 72% per cent. In the absence of more precise data, this statistic is used in the analysis.

The SAI audits the government's revenues, expenditures, financial assets and liabilities. It does not yet express an overall opinion on a set of consolidated financial statements. It reports to Parliament in September of each year following the fiscal year being reported, although there is no legal time limit for this action. Its annual audit report is required to be submitted to the legislature by March of the following year. This deadline has been met in the past three fiscal years.

The government has a good record of implementing audit recommendations. It has responded positively to an average of 77 per cent of all recommendations of an organisational, administrative/ regulatory and proposed legislative nature.

An essential ingredient of effective government accountability is the legislative review of the proposed annual budget law. The process of review within the legislature includes an examination of the macro-fiscal aspects of the budget, the medium term expenditure framework, and the budgetary allocations. The initial review is largely political in nature and the budget is then examined in the individual functional committees in depth.

The schedule for in-depth committees' review is set by the Chairman of the Economy and Finance Committee. Witnesses may be called from all quarters. The media are present in all the meetings and report on the proceedings widely when the hearings are completed. Average processing time is five weeks, although more time may be allocated if required. The Chairman stated that there was adequate time for the committees and the legislature to perform their functions. The rules for virements are clearly set out in the Budget Systems Law and are respected by all parties to the process.

The SAI audit report covers the general government, public entities that are owned by the government or whose debts are guaranteed by it, and entities in receipt of government grants and foreign-financed projects. The current legislation and existing procedures do not establish any fixed deadlines for the review of audit reports by the legislature. In the period 2008 – 2010, the times for parliamentary examination of the audit reports ranged from one to two months, well within the three-month target range of the PEFA indicator.

The parliamentary review process for the auditor's report is the same as for parliament's review of the annual budget. Unless there is a serious political issue, the Minister responsible for the entity being examined is unlikely to participate in the hearings. The SAI advised that most entities with adverse audit opinions are examined by parliament each year. Implementation follow-up is the responsibility of the SAI. Reports on the government's implementation progress are provided by the SAI in its annual audit report.

Assessment of the impact of PFM Weaknesses

Macro-fiscal management in the three years reviewed in this exercise presents a somewhat contradictory picture. On the one hand GDP and revenue forecasts have been consistently over-optimistic and had the character of targets for growth rates, rather than unbiased, technical projections. On the other hand, the Government, in 2010 and 2011, showed strong resolve in not letting the fiscal situation run out of control – once it became clear that the presumed revenue flows, on which expenditure levels had been predicated, were not going to materialize. While dealing with looming large-scale deficits by mid-year adjustments in expenditure is clearly better than just letting them pass, it is none-the-less very much a second-best solution to prudent – or at least realistic – budgeting from the outset. It is better to under-budget and then over-perform than the opposite.

One of the problems with over-optimistic revenue forecasts and the resulting stop-and-go of expenditure is a loss of efficiency of public expenditure. The effects are most disruptive and costly for capital investment when activities have to be scaled down or stopped in a disorderly fashion. But unplanned cuts will also constrain and disrupt recurrent activities; more so than a budget that is tight from the outset. Another problem is the impact of unplanned cuts on the MTBP-process. If and when Budget Institutions see that the work put into producing long- and medium-terms plans and budgets is repeatedly being nullified by in-year budget cuts, the quality of that process is likely deteriorate.

Rather than risking a deteriorating MTBP-process, efforts should be made to improve it. The large absolute deviations in the composition in expenditure point to a problem in quality of the planning and budgeting process, a problem which is separate from that caused by over-optimistic revenue forecasting and the resulting mid-year cuts in expenditure. There are indications that not sufficient attention is being paid to implementation capacity, or lack thereof, in some sectors; expenditure targets for investment projects keep being set at overly optimistic levels despite past poor performance. In response, the Government reroutes the funds, but there is a risk that the efficiency of such rerouted expenditure is lower than if it had been planned and scheduled from the outset.

Opportunities for PFM development

There are a number of opportunities for PFM development. Additional functionality is being implemented in the treasury system to, *inter alia*, provide selected ministries with direct access to the Treasury system, as, so far, they have been unable to get on-demand budget updates or special-purpose reports. The information made available to the Parliament and to the public, while not being particularly poor compared to other countries, has not improved much since the pre-AMoFTS days. Internal control and internal audit are at a nascent stage in their development, a condition that will require time and patience to improve. Parliamentary scrutiny of the auditor's annual report would benefit from a greater engagement by Parliamentarians in holding the government accountable for remedial actions.

Despite serious efforts by the Government, donor practices have not changed much since the previous PEFA assessment. The effectiveness and efficiency costs of piecemeal assistance poorly aligned with the Government's PFM practices are well known and form the *raison d'être* for the adoption of the Paris Declaration on Aid Effectiveness.

Comparison of 2006 and 2011 scores

As pointed out above, Albania's PFM has markedly improved between the 2006 and present assessment. The improvements are most noticeable in the technical aspects of PFM, and related to the implementation of the treasury system. Good progress has also been achieved in the PFM dimensions related to *Predictability and Control in Budget Execution*.

Covering all of general government, the budget and the accounts are very comprehensive and the implementation of the AMoFTS, including its new classification system, has created the potential for making available to the body politic and the public very good information on the public finances – *ex ante* and *ex post*. This potential is not yet exploited, however, and there is a good deal of room for improvement. An improved set of standard reports could be channelled to Parliament and made available on the MoF web site. And, once a data warehouse is in place, an easy-to-use query tool would make it possible for users with specific needs to run queries and produce ad hoc reports tailored to their needs.[5]

Less progress has been made in the planning and budgeting phases of the budget cycle. The problems lie not so much in the processes as such as in the outcome of these processes: the fiscal framework defined in the interaction between politics and the administration.

While the multiyear planning and budgeting framework has all the trappings of a best-practice process, there is a real disconnect between that process and the annual budget

[5] All reports should be made available / generated in a format that allows further processing. The fact that most tables on the MoF web site are in PDF-format made the data gathering for this exercise, for example, unnecessarily cumbersome.

process, which in the view of the IMF as well as the EC[6], in the recent past has been unreliable and overly political. This has led to stop-and-go fiscal policies that negatively impact on public investment and private sector confidence and thus on growth.

Donor practices have not improved at all, using the very concrete terms measured by the PEFA methodology. This is despite the general ambitions agreed on in the Paris Declaration on Aid Effectiveness and the extensive consultations between the donor community present in Albania and the Government.

Table 2 Summary of 2006 and 2011 scores

Indicator	Description	2006	2011
	A. PFM OUT-TURNS: Credibility of the budget		
PI-1	Aggregate expenditure out-turn compared to original approved budget	B	**A**
PI-2	Composition of expenditure out-turn compared to original approved budget	D	**D+**
PI-3	Aggregate revenue out-turn compared to original approved budget	B	**D**
PI-4	Stock and monitoring of expenditure payment arrears	D	**NR**
	B. KEY CROSS-CUTTING ISSUES: Comprehensiveness and Transparency		
PI-5	Classification of the budget	A	**A**
PI-6	Comprehensiveness of information included in budget documentation	C	**B**
PI-7	Extent of unreported government operations	D+	**A**
PI-8	Transparency of Inter-Governmental Fiscal Relations	C+	**B+**
PI-9	Oversight of aggregate fiscal risk from other public sector entities	C+	**C+**
PI-10	Public Access to key fiscal information	B	**B**
	C. BUDGET CYCLE		
	i) Policy-based budgeting		
PI-11	Orderliness and participation in the annual budget process	A	**A**
PI-12	Multi-year perspective in fiscal planning, expenditure policy and budgeting	C	**C+**
	ii) Predictability and Control in Budget Execution		
PI-13	Transparency of taxpayer obligations and liabilities	NR	**A**
PI-14	Effectiveness of measures for taxpayer registration and tax assessment	NR	**B**
PI-15	Effectiveness in collection of tax payments	NR	**D+**
PI-16	Predictability in the availability of funds for commitment of expenditures	C+	**B+**
PI-17	Recording and management of cash balances, debt and guarantees	B	**B+**
PI-18	Effectiveness of payroll controls	B+	**B+**
PI-19	Competition, value for money and controls in procurement	D+	**B+**

[6] Cf. Albania: 2011 Article IV Consultation—Staff Report; Public Information Notice on the Executive Board Discussion; and Statement by the Executive Director for Albania; and Commission Staff Working Paper Albania 2011 Progress Report Accompanying the document Communication From The Commission To The European Parliament And The Council Enlargement Strategy And Main Challenges 2011-2012 {Com(2011) 666}

PI-20	Effectiveness of internal controls for non-salary expenditures	C+	**C+**
PI-21	Effectiveness of internal audit	C+	**C+**
	iii) Accounting, Recording and Reporting		
PI-22	Timeliness and regularity of accounts reconciliation	B	**A**
PI-23	Availability of information on resources received by service delivery units	D	**C**
PI-24	Quality and timeliness of in-year budget reports	C+	**C+**
PI-25	Quality and timeliness of annual financial statements	B+	**A**
	iv) External Scrutiny and Audit		
PI-26	Scope, nature and follow-up of external audit	C+	**C+**
PI-27	Legislative scrutiny of the annual budget law	B+	**B+**
PI-28	Legislative scrutiny of external audit reports	C+	**A**
	D. DONOR PRACTICES		
D-1	Predictability of Direct Budget Support	D	**NA**
D-2	Financial information provided by donors for budgeting and reporting on project and program aid	C	**D+**
D-3	Proportion of aid that is managed by use of national procedures	D	**D**

Prospects for Reform Planning and Implementation

The government has been strongly committed to implementing substantive PFM reform for at least five years. This has in part been engendered by Albania's efforts to harmonise its PFM and other government functions with the EU's *Acquis Communautaire*. The *acquis* requirements have resulted in significant improvements to all components of the Albanian PFM system. These are described in a subsequent chapter of this report.

The PFM reform process continues. The government is developing improved forecasting mechanisms to address the recent incidence of over-estimation of revenues, which have necessitated mid-year budget reductions. The multi-year budgeting initiative and the continued evolution of results-based budgeting will be continued. A 2009 Council of Ministers' decision[7] endorsed the implementation of the public Internal Financial Control (PIFC) system across government over the five years to 2014. The outstanding internal control issues identified in this report can be readily accommodated in the context of this five-year internal control implementation plan. The National Plan for the Implementation of the Stabilisation and Association Agreement (2007 – 2012) provides a partial reform context for anti-corruption, taxation, procurement and PFM reforms. The continuation of the tax reforms involving registration of personal income taxpayers in the tax database and

[7] COMCoM Decision No. 640/2009 , *On The Approval Of The Policy Paper And Action Plan For The Public Internal Financial Control For 2009 – 2014.*

extensions of e-filing to corporate taxpayers beyond the VIP (large taxpayer) category will proceed according to approved and funded implementation plans.

Donor assistance to the external auditor will enable it to proceed with its next phase of planned reforms: revisions to the State Supreme Audit Institution audit law to comply with international standards, improved audit performance to audit EU funds, preparation of an audit opinion on the government's summary financial statements and to harmonise external audit with the new PIFC control system now being implemented. The SAI wishes to increase the percentage of financial audits to 50% of total annual audits performed in the medium term.

Introduction

Objective of PFM-PR

This is the second Public Financial Management assessment conducted with the Government of Albania. The first was carried out in 2006. Both are based on the PEFA methodology in effect at the time of the study. It is worth noting that the 2011 PEFA methodology had evolved somewhat since the original 2005 version. As a result, some indicators may be no longer directly comparable, although they both assess the same attribute. Specific differences are identified in each of the appropriate discussions of the changed performance indicators.

The terms of reference for this study[8] set its objectives:

(i) To obtain an up-to-date picture of the quality of the PFM system in Albania and to monitor the results achieved through PFM reforms undertaken since the first PEFA assessment was carried out in 2006 by conducting a repeat PEFA assessment;

(ii) To support the Government of Albania in designing a new program of PFM reforms by identifying reform priorities based on the findings of the PEFA assessment; and

(iii) To strengthen Government capacity and ownership of PFM reform by ensuring maximum involvement of a Government working group in the PEFA assessment and linking it organically with the preparation of a follow-up program of PFM reform.

As identified above, the PEFA repeat assessment is designed to inform the Government on the progress made in PFM reforms since 2006, build capacity through government working group interactions, and provide recommendations for further reform priorities.

Process of Preparing the PFM-PR

This PEFA study was a collaborative process that involved the Minister of Finance and his staff, staff from other ministries and agencies in the Government of Albania, as well as independent institutions, notably the High State Control (SAI). It was funded by the World Bank (through the EC PFM Trust Fund for IPA countries), which also provided coordination and leadership to the consultants' work and support during its missions to Tirana. The full PEFA process involved: World Bank staff who assessed the feasibility of conducting a PEFA

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[8] World Bank, *Terms of Reference for a Repeat PEFA assessment and support to the preparation of PFM reform action plan for Albania*, April, 2011.

repeat assessment at this time; following a decision by the Government and the Bank that the project would add value to the PFM reform process, consultants were engaged and conducted a PEFA introductory workshop in Tirana for all affected staff from units within the Ministry of Finance and from other affected entities. This staffs were those most directly involved in the data collection process to support the main mission. The project team then conducted the main mission to gather information on the current state of the PFM system, perform the necessary analysis according to the PEFA methodology, and prepare the draft report. The draft report was made available to the Government for comments and follow-up meetings based on the draft report where held with the major government stakeholders. Before its finalisation, the report was subject to a peer review and quality control by the PEFA secretariat.

Team members included: Ms Evis Sulko (team leader) and Allan Gustafsson, Andy Macdonald and Antonin Braho, consultants. They conducted meetings with staff members in all key parts of the Ministry of Finance, as well as the staffs from the State Supreme Audit Institution (SAI), the ministries of Education, Health, Local Government and the Health Insurance Institute as well as regional and local government representatives from Vlora. Meetings were also held with representatives of some of Albania's donors present in Tirana.

The Methodology of the Preparation of the Report

This assessment was carried out using the standard PEFA methodology. Using a set of 31 performance indicators, its application to a country permits an assessment of its overall PFM performance from all aspects of the framework's systems, processes and the organizations that apply them. It employs a multi-variate scoring system for each performance indicator to yield a single rank reflecting the aggregate score of the various sub-indicators. There are a number of differences in the PEFA methodology employed in the 2006 and the 2011 studies. These changes are indicated in the individual performance indicator sections of the report.

The 2011 PEFA assessment began with a review of the 2006 PEFA report and its analyses. The team also examined relevant PFM reports from a variety of other donor sources – the IMF Article IV reports, EU reports on SAA progress, SIGMA assessments of individual components of the PFM process, other donor studies, published financial data from the MOF, Tax Agency and Customs Agency websites and special analyses performed by staff at the request of the team. The team also conducted interviews with management and key staff from the entities responsible for the performance the different aspects of public financial management captured by of the individual PEFA performance indicators, as well as regional and local government officials for complementary information on the country's governance and public finances.

The Scope of the Assessment provided by the PFM-PR

The PEFA assessment assesses the PFM system and processes related to the General Government. The general government definition complies with the GFS 2001 definition, including central government (ministries, their related departments and agencies), LGUs (regional and local governments), and special funds (Health insurance, pensions). Public

Enterprises are excluded from this analysis, except where sovereign debt liabilities may be involved.

Table 3 2010 Budget Summary by Level of Government ALL million

Budget	Central Government		Local Governments		Independent Funds		General Government
	Amount	%	Amount	%	Amount	%	
Revenue	278 262	77.1	20 948	5.8	61 745	17.1	360 995
Expenditures	262 230	63.8	38 223	9.3	110 268	26.8	410 721

Source: MOF Totals may not correspond due to rounding

The central budget of ministries, departments and budget agencies accounts for 77 per cent of revenues generated and 63.8 per cent of expenditures. Local government revenues were 5.8 per cent of total revenues and 9.3 per cent of total expenditures. The independent funds (health insurance Institute, pension funds) accounted for 17.1 per cent of revenues and 26.8 per cent of expenditures.[9]

[9] Plus minor amounts for contingencies and expenditure for owners' in value-compensation

Country Background Information

Country Economic Situation

In 1991, Albania was one of the least developed post-communist economies in Europe. Its GDP dropped by over 30 per cent in the first two years of independence (1991-1992); growth then recovered strongly in the period up to 2009 (with the exception of a sharp drop in 1997). By that time Albania had graduated from IDA to IBRD borrowing terms and had completed its EU membership application. The 2010 per capita GDP was US $3,836. At the same time as this strong economic growth, the poverty rate was more than halved, from 25.4 per cent in 2002 to 12.4 per cent by 2008, due to the strong economic growth and healthy wage increases in both the private and public sectors[10].

The IMF noted "Albania has weathered the global crisis better than most other regional and European economies, and is leading the recovery in the region. Generally prudent macroeconomic policies, low external debt, a sound banking system, and adequate foreign exchange reserve buffers allowed the authorities to use the available policy space accumulated in the boom years to mitigate the impact of the crisis. As a result, Albania escaped a recession, and growth continued at above 3 per cent in both 2009 and 2010."11

The IMF forecasts that the GDP growth will gradually increase from an estimated 2.5 per cent in 2011 to 3.5 to 4.2 over the medium term[12]. Inflation is forecast to stay within the fiscal targets previously agreed. As well, the overall account deficit will continue to decline to approximately 3.7 per cent in the medium term over the planning period. It noted that poor tax collection averaging 23.2 per cent of GDP, persistently optimistic revenue forecasts and weak expenditure controls, have contributed to the persistence of the deficit. It has identified a number of risks to this fiscal forecast. These include continuing challenges to the Euro zone and in particular with Greece and Italy, both large trading partners and the overall fragility in the international financial sector, from which no country is immune.

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[10] World Bank, Country Assistance Strategy, 2011-2014

[11] IMF, Statement by Arrigo Sadun, Executive Director for Albania and Francesco Spadafora, Senior Advisor to Executive Director, September 7, 2011

[12] IMF, Article IV 2011 Report, October 2011 report. The present PEFA report was based on financial data provided by MoF during the period June/July of 2011. Much of these data are significantly more disaggregated than the IMF estimates that were released in mid-October 2011. Given that both sets of data are estimates, that the differences between the two aggregate datasets are not material and that the report is in its final week of completion, a decision was made to utilise the macro IMF Article IV data in Table 4 below, and to use the original data in the rest of the report.

Table 4 Selected Macroeconomic Statistics, % GDP

Item	2008	2009	2010 est.	2011 fcst.
Real GDP Growth (%)	7.7%	3.3%	3.5%	2.5%
REVENUES				
Tax	24.2	23.5	23.3	25.6
Non-tax	2.1	2.1	2.1	1.9
Grants	0.4	0.4	0.4	0.4
TOTAL REVENUES	26.7	26.0	25.8	25.6
EXPENDITURES				
Current	23.2	24.6	24.2	24.5
Capital Expenditure	8.6	8.8	5.8	4.8
Other[13]	0.5	0.0	-0.5	0.0
TOTAL EXPENDITURES	32.3	33.4	29.6	29.4
Overall balance	-5.6	-7.4	-3.7	-3.0
Current Balance (incl grants)	3.5	1.4	1.6	1.1
Primary balance	-2.7	-4.3	0.1	-1.1
GDP (Billion Lek)	1089	1151	1238	1423

Source: IMF, MoF

The government has failed to meet its revenue targets over the past several years. This has affected its deficit targets as well, and has necessitated mid-year spending cuts to restore the fiscal balance projected in the budget. Weaker economic activity and optimistic revenue forecasts have been identified as the key areas for increased attention by the macro-forecasting unit within MoF. As well, tightening controls on expenditures could avoid the necessity for disruptive and inefficient mid-year spending cuts. These cuts have the potential to delay payments, potentially build up arrears and adversely affect the private sector operators, who have the greatest potential to contribute to job creation and increased economic growth.

Future Economic Challenges

Albania is positioned to continue its positive economic performance in the medium term. It nonetheless faces many challenges. For the purposes of this PEFA study, the relevant challenges for Public Expenditure Management include continuation of improvements in public administration governance, strengthening managerial integrity within public institutions and maintaining the stable macroeconomic framework by continuing fiscal discipline, improving public investment management, and achieving better utilization of new and existing revenue sources.

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[13] Other includes Net Lending and Grants

Budgetary Outcomes

Table 5 below summarizes Albania's public finances – budgeted and actual – for the last three years. The trend of very strong growth and actual revenue collections outperforming forecasts was broken in 2009 as a result of the global financial crises. The hope of the economy rapidly rebounding in 2010 was quashed and revenue collections came in seriously short of expectations. No adjustments of planned expenditure were made, however, and the fiscal stance became very expansionary.

Table 5 Summary table of budgets and outcomes for the period 2008 – 2010, ALL million

Nr.	I T E M S	Budget 2008	Actual 2008	Budget 2009	Actual 2009	Budget 2010	Actual 2010
	TOTAL REVENUE	**283 686**	**291 238**	**334 823**	**299 502**	**360 955**	**324 721**
I.	**Grants**	**4 733**	**4 228**	**6 313**	**4 430**	**7 776**	**4 606**
II.	**Tax Revenue**	**262 352**	**264 421**	**305 988**	**270 830**	**328 729**	**288 564**
II.1	**From tax offices and customs**	**195 711**	**205 292**	**230 168**	**208 870**	**246 036**	**223 019**
1	V.A.T	99 903	107 094	117 491	110 062	126 889	113 998
2	Profit Tax	14 420	18 108	20 813	17 149	19 375	17 606
3	Excise Tax	38 493	32 510	44 363	33 504	41 669	38 788
4	Personal Income Tax	16 272	24 498	26 065	26 820	33 862	27 058
5	National Taxes and others	17 212	14 423	15 312	13 405	16 520	18 295
6	Customs Duties	9 411	8 660	6 124	7 929	7 721	7 274
II.2	**Local government revenue**	**15 582**	**11 307**	**18 412**	**12 149**	**20 948**	**11 898**
1	Local Taxes	9 487	7 135	11 114	8 154	12 452	7 684
2	Property Tax	3 136	1 586	3 734	1 509	4 383	1 896
3	Small Business Tax	2 959	2 584	3 564	2 486	4 113	2 318
II.3	**Revenues from Special Funds**	**51 059**	**47 822**	**57 408**	**49 812**	**61 745**	**53 647**
1	Social Insurance	45 836	42 775	51 029	44 344	53 757	45 041
2	Health insurance	5 223	5 047	6 379	5 467	6 588	6 432
3	Revenues for owners' in value-compensation					1 400	2 174
III.	**Nontax Revenue**	**16 601**	**22 588**	**22 522**	**24 241**	**24 450**	**31 552**
1	Profit transfer from BOA	5 500	5 700	5 700	6 241	6 000	4 936
2	Income of budgetary institutions	10 000	8 919	11 857	9 859	14 350	13 994
3	Dividends	101	6 402	165	374	100	735
4	Services Fees			3 800	4 183	3 000	2 977
5	Others	1 000	1 567	1 000	3 584	1 000	8 910
	TOTAL EXPENDITURE	**369 034**	**351 492**	**384 834**	**379 863**	**410 721**	**362 762**
I.	**Recurrent Expenditures**	**253 050**	**250 299**	**283 698**	**283 896**	**319 430**	**300 879**
1	**Personnel expenditures**	**67 959**	**66 621**	**59 651**	**62 359**	**67 655**	**65 762**
	Wages	57 097	55 983	51 563	53 272	56 217	56 951
	Social insurance contributions	10 861	10 637	8 088	9 087	8 417	8 811
	Contingency for new policies					3 020	
2	**Interest**	**33 280**	**31 307**	**36 040**	**36 301**	**43 535**	**41 604**

	Domestic	29 000	28 386	31 420	31 408	35 796	35 583
	Foreign	4 280	2 921	4 620	4 893	7 740	6 021
3	**Operations & Maintenance**	**28 024**	**28 788**	**35 813**	**32 058**	**37 272**	**34 318**
4	**Subsidies**	**2 276**	**2 555**	**2 022**	**2 004**	**1 935**	**3 536**
5	**Social insurance outlays**	**76 003**	**76 199**	**95 866**	**96 724**	**110 268**	**106 207**
	Social insurance	64 913	65 823	71 655	73 744	79 519	79 316
	Contingency for new policies					2 700	
	Health insurance	11 090	10 376	24 211	22 980	25 949	25 141
	Expenditure for owners' in value-compensation					2 100	1 750
6	**Local Budget expenditure**	**29 566**	**27 079**	**36 835**	**33 582**	**38 223**	**30 764**
7	**Other expenditures**	**15 442**	**17 750**	**16 871**	**19 129**	**20 542**	**18 688**
	Unemployment insurance benefits	1 000	825	1 000	868	900	982
	Social assistance	12 042	15 925	13 871	16 061	16 642	16 706
	Compensation for ex political prisoners	1 000	1 000	2 000	2 200	2 000	1 000
	Compensation for electricity	1 400				1 000	
8	**Property compensation**	**500**		**600**	**1 739**		
9	**Compensation for Gerdec**		**2 390**				
II.	**Reserve fund, Contingency**	**10 400**		**15 700**		**5 230**	
III	**Capital expenditures**	**105 585**	**93 783**	**90 436**	**95 881**	**86 062**	**67 492**
	Capital transfers to OST		150				
	Domestic financing	38 848	50 046	68 661	75 600	59 471	46 643
	Foreign financing	66 737	43 587	21 775	20 281	26 591	20 850
	Net lending		5 020	**-5 000**	**85**	**0**	**-5 618**
	Cash Balance	**-85 348**	**-60 254**	**-50 011**	**-80 361**	**-49 766**	**-38 031**
	Financing	**85 348**	**60 254**	**50 011**	**80 361**	**49 766**	**38 031**
	Domestic	29 419	24 417	41 699	70 180	39 612	27 819
	Foreign	55 929	35 837	8 312	10 182	10 155	10 212

Table 6 below provides a functional breakdown of general government expenditure during the period 2006 – 2010. It should be noted, however, that some 20 – 23 per cent of expenditure is un-classified.

Table 6 Functional composition of expenditure

Function | Year	2007	2008	2009	2010
General Public Services	6%	6%	6%	6%
Defence	4%	4%	4%	4%
Public Order and Safety	6%	5%	5%	5%
Other Economic Affairs & Services	13%	20%	17%	13%
Environmental Protection	0%	0%	0%	0%

Housing and Community Amenities	4%	3%	3%	4%
Health	9%	8%	9%	9%
Recreation, Culture and Religion	1%	1%	1%	1%
Education	11%	10%	11%	11%
Social Protection	25%	23%	24%	25%
Other Unclassified Expenditure	20%	20%	22%	23%
Total	**100%**	**100%**	**100%**	**100%**

Legal and Institutional Framework for Public Financial Management

BOX A. LEGISLATION WITH A BEARING ON PFM

1) General
   a) Constitution of Albania October 1998
2) Budget Preparation and Execution
   a) Budgetary Systems Law (9936-2008)
   b) Organisation of Treasury (183/1993)
   c) Treasury Procedures (3486/2005)
   d) Albania 2011 Annual Budget Law (10355/2010) and prior years' annual budget laws
   e) Law on Budget Systems Management (9936/2008)
   f) MOU on Electronic Communications (2411/ 2010)
3) Tax & Customs Administration
   a) Law on Tax Procedures (9920-2008)
   b) Customs Code (8449/1999)
   c) COM Taxpayers Advocate (648/2010)
   d) Law on Fiscal Amnesty (0418/2011)
   e) Minister of Finance Order- Tax Procedures (24-2008)
   f) Minister of Finance Instruction (24/2008)
4) Debt Management
   a) Law on Local Government Loans (9869/2008)
   b) Law on State Borrowing (9665/2006)
   c) Law on State Foreign Financing (775/2010)
5) Procurement
   a) COM Public Procurement Rules (1/2007)
   b) COM Decision on Electronic Procurement (659/ 2007)
   c) COM Decision on Mandatory Electronic Procurement (45/2009)
   d) Law on Public Procurement no. 9800/2006,updated by (10309/2010)

The Albanian PFM legal framework is quite comprehensive. As an aspiring EU accession candidate, Albania has focused on harmonization with the EU's *Acquis Communautaire* and internal standards of best practices, consistent with international good practices. Box A below summarises the major legislative changes that have been implemented since the 2006 PEFA report, along with the 1998 Constitution Act.

6) Internal Control and Audit

   a) COM Decision on PIFC Policy & Implementation Plan (640/2009)

   b) Law on Financial Management and Control (10296/2010)

   c) Law on Internal Audit (9720/2007)

   d) Law of Financial Inspection (10294/2010)

   e) Law on Financial Audit Methodology (806/2006)

   f) COM Decision on Establishment of Internal Auditors (886/ 2007)

   g) COM Internal Auditing Codes and Ethics (345/2004)

   h) PIFC Policy Paper COM (640/ 2009)

   i) Financial Control By-law (3 /2011) and Instructions for Financial Affairs (12011)

7) External Control

   a) State Supreme Audit Law (1286/2005)

The Organic Budget Law is the 2008 Law on Budget Systems Management. It provides a comprehensive framework for the preparation, execution, monitoring and reporting on the annual budget. It describes all of the constituent elements of the State and Local budget, the role of the National Assembly, the Council of Ministers, the minister of Finance and ministries, departments and agencies within the General Government. It specifies the internal budgetary controls and the roles of the Principal Authorizing Officer, authorizing and executing officers. The preparation process for the budget cycle, budget implementation, budget accounting and reporting, borrowing and guarantees, the internal control system in place to monitor and control budget execution and the roles of the various players involved are covered in this law. Annual budgets are covered by annual budget laws detailing the budget proposals approved by the National Assembly. Separate laws cover the roles and operations of the MoF Treasury system and related procedures.

Legislation reforming the taxation system was initiated with the Law on Taxation in 2008. The revised tax system was simplified, in that it is based on a single flat rate income and VAT tax (10 %). The law supports extensive changes to the tax system, including electronic access to all tax documents, e-filing of corporate taxes and social charges, VAT payments and (in 2012) for personal income taxes. The Customs law is unchanged, although significant systems improvements have been implemented. Separate legislation has established the tax advocate to assist taxpayers in resolving disputes with the tax agency, and a New Law on Fiscal Amnesty is designed to permit the government to clean its books of large amounts of uncollectable debts. Both the tax and customs laws and regulations define the scope, applications, rules and rates for all taxes, duties and other charges in force and the methods of payment. Both the Customs and the Tax agencies have provided extensive information on all aspects of the laws and regulation for their clients on their Internet sites.

The government has passed a set of laws designed to reform their debt management activities. The core legislation is the 2006 Law On State Borrowing, State Debt and

Guarantees that covers all aspects of borrowing activities. It provides clear criteria for borrowing and the process for State guarantees. Under this legislation, the government now prepares an annual debt strategy for approval by CoM. The state borrowing law is complemented by a law covering municipal borrowing; only a few municipalities have incurred debt14. The 2010 Law on State Foreign Financing fully integrated the government's foreign borrowing activities into the budget process under the responsibility of the Minister of Finance.

The procurement system has been completely revised since the previous PEFA. The Law on Public Procurement, passed in 2006, was updated in 2010. The 2006 law introduced a new set of procurement rules, which changed the basis from UNCITRAL standards to align more closely to EU legislation. A Public Procurement Commission was created to remove the complaints function from the Public Procurement Agency and provide greater independence and focus on complaints. It also provided a standard process for the processing of all supplier complaints. Two CoM Decisions were made on electronic procurement, which became mandatory in 2009. Subsequent amendments in 2009 and 2010 continued the approximation of the public procurement legislation with EC Directives[15]. Subsequent amendments have addressed utilities procurements, bringing the law into closer compliance with the EU requirements.

Legal and institutional arrangements for Internal Control and Internal Audit now reflect the EC's Public Internal Financial Control model in use by EU member states. Two Central Harmonisation Units have been established in MoF for Financial Management and Internal Control. They are responsible for the development and implementation of the financial management and internal control systems within the government. Internal audit units have been established in budget institutions as per the provisions of the 2007 Law on Internal Audit. The 2010 Law on Financial Inspection authorized the creation of a small Financial Inspection unit within MoF. It is designed to provide a greater focus on the identification of fraudulent and criminal activities through the use of a small, dedicated unit of inspectors operating from the ministry. Audit and Internal control manuals have been issued by Ministerial order and are now in implementation across government.

The Albanian Constitution recognizes two levels of government: central and municipal. It also creates three different branches of government with clearly separated powers: the Executive, the Legislative and the Judiciary. There is a unicameral parliament, consisting of a single House, the National Assembly, or "Assembly". The Assembly has 140 elected deputies who serve a four-year term.

[14] See PI-9 for examples.

[15] Directive 2004/18/EC

The Council of Ministers consists of the Prime Minister (who is the President) and an unspecified number of Ministers[16]. It is responsible of administering all internal and external affairs of the State.

The Constitutional Court is the highest court in Albania. It makes final interpretations of the Constitution and is independent of the government and the legislature. The Constitutional Court is composed of 9 members, who are appointed by the President of the Republic with the consent of the Assembly. Other judicial powers are exercised by the High Court, courts of appeal and courts of first instance, which are established by law. The President of the Republic appoints the members of the High Court to a nine-year term, with the consent of the Assembly. All other judges are appointed by the President of the Republic upon the proposal of the High Council of Justice.

The Ministry of Finance (MoF) is responsible for all Public Financial Management in Albania. This includes formulating and monitoring fiscal policy, preparation and implementation of the budget, all public internal financial control, managing the internal and external public debt, integrating fiscal and monetary policies in the national economy in cooperation and coordination with the Central Bank and related institutions. The Ministry consists of a number of General Departments – Treasury, Budget, Public Debt, Fiscal Policy, and Central Harmonisation Units for Public Financial Management and Control and for Internal Audit. Associated institutions under MoF include the General Directors of Taxation, Customs, Money Laundering and the Institute of social insurance.

The principal revenue generating institution is the Tax agency. It is responsible for individual and corporate income tax, VAT, social insurance levies and other federal taxes (gaming taxes, etc). The Customs Agency administers the customs duties and most excise duties. The excise duties presently collected by the Tax agency are being transferred to Customs.

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

The High State Auditor (High State Control) is Albania’s Supreme Audit Institution (SAI). The relevant law is unchanged from 2005, although SAI operations are evolving to embrace risk-based audit planning and international audit standards for the planning, execution, monitoring and reporting of external audit results and recommendations. It also audits the government financial statements, but does not, at present, provide an audit opinion on them. An annual audit report presents the findings from the annual audit program, with identified areas of financial risk and remedial measures to be taken.

Local governments constitute the second level of government. They consist of communes, municipalities and regions. Communes and municipalities are the basic units of local

[16] Ibid, Part Five.

government, performing financial management and all other duties of self-government not otherwise assigned in accordance with national government laws and regulations. They prepare budgets, execute the approved budgets, enter into contracts, and conduct procurements and all other aspects of government administration. Borrowing by local governments is permitted subject to the approval of the Minister of Finance. Local government councils are elected for a three-year term, as is their chairperson. Where there are several local governments with common interests, traditions and economic ties, they may be represented by a regional government, administered by an elected regional council. All local governments’ revenues and expenditures are consolidated into the General Government financial statements at year-end.

Assessment of the PFM systems, processes and institutions

Credibility of the Budget

PI-1 Aggregate Expenditure Out-Turn compared to Original Approved Budget

This indicator assesses the difference between the actual and the originally budgeted primary expenditure for the budgetary Central Government, for the last three fiscal years (2008-2010).

Dimension (i): The difference between actual primary expenditure and the originally budgeted primary expenditure

Budgeted and actual current and capital expenditure for the years 2008 – 2010 is listed in Table 7. All figures refer to general government, i.e. they include central and local government plus the autonomous funds. The coverage in the budget and the accounts used for the 2006 assessment was the same.

Table 7 Deviation in Primary Expenditures ALL million

Budget	2008	2009	2010
Total expenditure	369 034	384 834	410 721
Interest on domestic and foreign debt	33 280	36 040	43 535
Grant financed project expenditure	4 733	6 313	7 776
Loan financed project expenditure	66 737	21 775	26 591
Primary expenditure	264 284	320 706	332 819
Actual			
Total expenditure	351 492	379 863	362 752
Interest on domestic and foreign debt	31 307	36 301	41 604
Grant financed project expenditure	4 228	4 430	4 605
Loan financed project expenditure	43 587	20 281	20 850
Primary expenditure	272 370	318 851	295 693
Deviation	**3,06%**	**-0,58%**	**-11,16%**

Source: MoF, Fiscal indicators regarding consolidated budgets and actuals of 2008, 2009, and 2010

Table 8 shows to what degree primary expenditure has adjusted to variations in domestic revenue. In 2008, higher-than-expected revenue inflows were accompanied by even higher expenditure and the total budget deficit reached 5.5 %. The sharp downturn in revenue flows in 2009 was not met by a commensurate reduction in expenditure, resulting in a total budget deficit reaching 7 % of GDP. In 2010, revenues again came in at a much lower level than forecasted. This time, however, the Government acted more forcefully and cut expenditure drastically in the mid-year supplementary budget reducing the looming, very large deficit to 3.1 % of GDP.

Table 8 Deviations in domestic revenue and primary expenditure 2008 - 2010

	2008	2009	2010
Domestic revenue	2,90%	-10,20%	-9,40%
Primary expenditure	3,06%	-0,58%	-11,16%

Performance change and other factors since 2006 PEFA assessment

The 2006 PEFA covered the years 2002 – 2004. During these three years, the difference between actual and budgeted primary expenditure was: -7.38 %, -6.08 %, and -1.27 % respectively.

Table 8 and the respective scores of PI-1 and PI-3 point to a somewhat paradoxical outcome of the PEFA scoring methodology: the scores suggest that the budgeting of expenditure is more “credible” that the budgeting of revenue; the score for PI-1 is an A while for PI-3 is a D. This A scores for PI-1 stems from the fact that the Government did not adjust expenditure in 2009 despite the serious shortfall in revenue. While this, in strict technical PEFA terms may make expenditure budgeting more “credible”, it is clearly a less responsible choice than the Government’s decision, in 2010, to balance the revenue shortfall with cuts in expenditure.

PERFORMANCE INDICATOR

Indicator / Dimension	Score 2006	Score 2011	Justification for 2011 Score	Performance Change Other factors
			Scoring method M1	
PI-1	B	A		
(i)	B	A	In no more than one out of the last three years has the actual expenditure deviated from budgeted expenditure by an amount equivalent to more than 5% of budgeted expenditure.	In the 2006 PEFA, which covered the years 2002 - 2004, actual expenditure were approx. 7.4 and 6.0 % lower than budgeted expenditure in the first two of the three years

PI-2 Composition of Expenditure Out-Turn compared to Original Approved Budget

This indicator compares primary expenditure, budgeted and actual, at a sub-aggregate level across the main administrative headings. Similar to indicator PI-1, the assessment focuses on the budgetary Central Government for the last three fiscal years (2008-2010).

Modification in PEFA methodology

In January 2011, the PEFA methodology was modified by the PEFA Secretariat in order to present more clearly the issue of contingency votes in the calculations. The revision has resulted in a modified first dimension for PI-2 and a second new dimension. The first dimension measures the extent to which reallocations between budget heads during execution have contributed to variance in expenditure composition. This dimension is calculated without taking the contingency vote into consideration. The use of a contingency vote, which is considered to be harmful to budget credibility if it exceeds certain thresholds and is reported directly against the contingency vote, is the subject of the second dimension.

Dimension (i): Extent of the variance in expenditure composition during the last three years, excluding contingency items

Calculating the variance in expenditure composition proved a major undertaking. One hurdle was, and is, that the institutional classification used in the budget documents and the one used in the published accounts do not match completely. A number of line items in the budget have no corresponding entry in the budget execution reports and vice versa. At the most detailed level in the database of the Treasury System there is a match, but not at the report level.

A second hurdle was, and is, that Contributions for Social and Health Security schemes are shown as a below-the-line item in the budget but are merged in the execution reports with expenditure financed from the central government revenue in the institutions involved in managing and executing these schemes. Table 9 below shows the execution of two schemes, by institution.

Table 9 The allocation of health and social security contributions by ministry ALL million

	2008		2009		2010	
	ISKSH Health Security	ISSH Social Security	ISKSH Health Security	ISSH Social Security	ISKSH Health Security	ISSH Social Security
Ministry of Finance		1 429		1 664		1 615
Ministry of Health	10 376		22 980		25 141	
Ministry of Defence		1 923		1 886		2 920
Ministry of Labour and Social Affairs		65 823		73 744		79 316
Total	**10 376**	**69 175**	**22 980**	**77 294**	**25 141**	**83 851**

The aggregate absolute deviations, net of the above transfers, as calculated per the PEFA methodology are shown in Table 10 below. The detailed calculations per administrative heading are included in Annex 4 – Deviations expenditure composition.

Table 10 Composition of primary expenditure out-turn compared to original approved budget

Year	Variance Composition
2008	23.5 %
2009	33.2 %
2010	34.5 %

Source: Calculations made from data provided by the MoF

Performance change and other factors since 2006 PEFA assessment

While the management of aggregate expenditure has shifted over the three years here reviewed – maintaining expenditure at the planned level, or adjusting it to revenues – the composition of expenditure has consistently deviated, and substantially so, from what has been budgeted. Most of the deviations stem from large discrepancies between planned and actual investment expenditure in some major sectors. In 2010, for example, while investment, particularly under the responsibility of the Ministries of Health but also under Ministry of Defence fell short of planned levels, investment under the Ministry of Public Works, Transport & Telecommunications and investment under the Ministry of Education and Science was executed more or less at planned levels, despite the cut in aggregate expenditure. Consequently the composition of expenditure differed substantially from what had been budgeted.

Dimension (ii): The average amount of expenditure actually charged to the contingency vote over the last three years

In 2008, 2009, and 2010, the reserve and contingency funds amounted to 4.2, 6.4, and 4.3 per cent respectively of total allocated expenditure. The degree to which these funds have subsequently been allocated to different budget heads varied over the three years. No expenditure was charged directly to the different reserve and contingency funds.

Table 11 Budgeted contingencies and reserves and allocations ALL million

	2008		2009		2010	
	Contingency	Reserve	Contingency	Reserve	Contingency	Reserve
Budget	8 600 000	12 200 000	13 700 000	2 000 000	5 429 600	5 520 400
Allocated	2 031 249	1 114 146	12 509 827	2 475 150	5 809 860	2 162 007

Source: Calculations made from data provided by MoF

Performance change and other factors since 2007 PEFA assessment

This dimension was added to the PEFA methodology in January 2011 and thus a comparison with the previous assessment is not possible.

PERFORMANCE INDICATOR

Indicator / Dimension	Score 2006	Score 2011	Justification for 2011 Score	Performance Change Other factors
PI-2	D	D+	Scoring method M1 (weakest link)	**2006 and 2011 are non-comparable scores**. This indicator has been modified by the revision of the PEFA Framework.
(i)	D	D	Variance exceeded 15 per cent in all three years (23.5%, 33.2 %, and 34.5 %)	
(ii)	N/A	A	No expenditure was charged directly to the contingency and reserve funds.	**2006 and 2011 are non-comparable scores**. This dimension has been newly introduced by the revision of the PEFA Framework

PI-3 Aggregate Revenue Out-Turn compared to Original Approved Budget

This indicator compares actual total domestic revenue to the originally budgeted domestic revenue for the past three fiscal years (2008-2010).

Dimension (i): Actual domestic revenue compared to domestic revenue in the originally approved budget

The data for the indicator had to be pieced together from two sources. A table on "Fiscal Indicators" with estimates of revenue and expenditure is produced by Ministry of Finance as part of the package of budget documentation going to Parliament for approval.[17] A similar table with actuals is produced monthly by Treasury and posted on the Ministry of Finance website. The latter tables also include data on the budget but only for the most current budget.[18]

More than 50 per cent of Albania's tax revenue comes from VAT. With its large diaspora, consumer demand in Albania is strongly influenced by remittances, but with a lag. Because of this lag, it took a while until the global economic downturn in the wake of the financial crises had a strong impact on the Albanian economy.

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[17] On the Ministry of Finance website is available only the budget package for 2011 and the data had to be collected directly from the MoF.

[18] The Treasury system is not set up as to keep an audit trail of budget revisions – only the current budget version is kept in the system.

Table 12 Originally Budgeted and Actual Domestic Revenue 2008-2010 ALL million

	2008	2009	2010
Budget			
Total revenue	283 686	334 823	360 955
Grants	4 733	6 313	7 776
Domestic revenue	278 953	328 510	353 179
Actual			
Total revenue	291 238	299 502	324 721
Grants	4 228	4 430	4 605
Domestic revenue	287 010	295 072	320 116
Actual/Budget Domestic revenue	**102,9%**	**89,8%**	**90,6%**

Source: MoF,

Performance change and other factors since 2006 PEFA assessment

The Macroeconomic forecasting unit within the General Directorate of Fiscal Policy and Macroeconomy prepares the Revenue forecasts.

Prior to 2009, the forecasts were also subject to review by and negations with the IMF. This involvement of the IMF instilled a high degree of prudence in the forecasting and actual GDP and revenue growth tended to out-perform the agreed projections. As from 2009, the IMF's involvement in Albania's public finances is limited to the standard Article IV consultations. As a consequence, domestic political factors, which have tended to push forecasts in the opposite direction, have come to the fore more strongly.

As revenue had grown by, on average 8.1 per cent per annum in real terms over the period 2003 – 2007, an element of irrational exuberance tended to influence forecasting during the subsequent years. The effects of the global financial crisis were thought to be short-lived and the expectation was that revenue growth would pick up in 2010. This scenario did not materialize, however. At the end of 2009, when the budget for 2010 had already been tabled, this became apparent and the Government was forced to act very quickly. Some expenditure appropriations were frozen at the beginning of the year and then formally reduced in the July 2010 supplementary budget. The story repeated itself in 2011; expenditure again had to be cut halfway through the budget year.

Forecasting since the fiscal year 2009 has indeed been difficult and Albania is not alone in having been caught off-guard by the financial crises and the subsequent prolonged macro-fiscal crises in Europe and the US. However, the effects of overestimating and underestimating revenue – and basing the expenditure budget on these revenue forecasts – are not symmetric; the efficiency losses of having to cut back expenditure during execution are higher than those of increasing expenditure during execution. There is thus a case for erring on the prudent side, as was the case when the IMF had a strong influence on Albania's fiscal policy. One rule, which the Government has set for itself and which has a strong influence on its fiscal policy and which may have the same constraining influence as the programs with the IMF, is that the budget deficit shall not exceed 60 % of GDP. In 2008, the public debt amounted to 54.7 % of GDP; in 2009 it had increased to 59.3 %. Without the mid-year budget cuts in 2010, it would have surpassed the statutory limit of 60 % per cent but, thanks to them, it ended up at 58.3 %.

The litmus test of the Government's capacity to produce a credible – in the sense of small differences between budget and actual values – as well as a prudent budget, one that will respect the ceiling on the accumulated debt, will be the budget for 2012.

PERFORMANCE INDICATOR

Indicator / Dimension	Score 2006	Score 2011	Justification for 2011 Score	Performance Change Other factors
PI-3	B	D	Scoring method M1	
i)	B	D	Actual domestic revenue collection was below 92 % of budgeted revenue collection in two of the last three years	The methodology for scoring the indicator has been modified since the 2006 PEFA. The change in methodology has no impact on the scores, however. Applying the new methodology to the 2006 numbers would still give a B and applying the old methodology to the 2011 numbers would yield a D.

PI-4 Stock and Monitoring of Expenditure Payment Arrears

This indicator considers to what extent the stock of expenditure arrears of General Government is known and represents a concern, as well as to what extent it is being monitored in order to be controlled. The period under review is the last three fiscal years, 2008 to 2010.

In Albania there is no legal definition of expenditure payment arrears. Treasury executes payments when cash is available but generally within a month. The mechanisms used by Treasury to control payments are described under PI-16. It is considered that all invoices not paid at the end of the year constitute arrears.

Budget institutions receive invoices from suppliers, approve them, and then submit them to the local Treasury District Office (TDO) for payment. The dates registered in the Treasury System (TS) are: 1) when the invoice is entered into the system, 2) the dates for the different steps in the Treasury approval process, and 3) when the invoice is eventually paid. The Treasury System does technically allow for entering invoice due dates, but this is, presently, not done. It is therefore difficult to know to what extent budget Institutions sit on invoices before submitting them to the TDO for payment. In principle, expenditure is recognized in the financial accounting books of the institutions – which presently are separate from the Treasury System – when the goods or services are delivered and accepted by the institution. This, however, does not mean that the invoice is immediately and automatically submitted to Treasury for payment. Thus arrears, as seen from the perspective of the suppliers, may be considerably greater than what is indicated by the statistics on expenditures approved, but not yet paid (outstanding commitments). A restraint on this practice is, however, the fact that contracts normally include penalties if payments are not made by the due date – assuming that the goods or services are accepted.

Dimension (i): Stock of expenditure payment arrears (as a percentage of actual total expenditure for the corresponding fiscal year) and any recent change in the stock

Table 13 below lists invoices approved but not paid at year's end for the three years 2008 – 2010 broken down by the different Treasury District Offices.

Table 13 Invoices approved but not paid at year's end ALL '000

TDO	2008	2009	2010
BERAT	-	n.a.	-
KUCOVE	-	-	-
SKRAPAR	100	4 311	-
BULQIZE	-	38 382	-
DIBER	-	18 605	-
MAT	-	13 000	-
DURRES	-	109 003	-
KRUJE	-	-	-
ELBASAN	-	89 620	-
GRAMSH	-	-	-
LIBRAZHD	-	5 000	-
PEQIN	-	-	-
FIER	-	n.a.	-
LUSHNJE	-	1 286	-
MALLAKASTER	-	n.a.	-
GJIROKASTER	-	n.a.	-
PERMET	-	-	-
TEPELENE	-	-	-
DEVOLL	-	-	-
KOLONJE	-	-	-
KORCE	24 929	110 083	-
POGRADEC	819	3	-
HAS	-	-	-
KUKES	-	n.a.	-
TROPOJE	-	-	-
LAC	-	-	-
LEZHE	-	19 500	-
MIRDITE	-	-	-
M.MADHE	-	14 788	-
PUKE	-	1 500	-
SHKODER	-	62 000	-
KAVAJE	-	-	-
TIRANE	-	2 187 000	1 006 289
DELVINE	-	13 552	-
SARANDE	-	n.a.	-
VLORE	-	n.a.	-
Total arrears:	25 848	2 687 633	1 006 289
Total expenditure	351 491 754	379 602 375	362 752 000
Proportion of total expenditure	0,01%	0,71%	0,28%

Source: MoF

Data for 2009 is not complete because not all Treasury District Offices have kept detailed information about invoices approved but not paid at year's end. The missing information is indicated in the table by: n.a. As from 2010, the information is directly available from the AMoFTS.

With the caveat that the information for 2009 is incomplete, and that there may be hidden arrears in the form of invoices that have not been entered into the system, there is no indication of arrears presently constituting a problem in Albania. The invoices outstanding at year's end in 2010 were all registered in the last few days of the month.

Performance change and other factors since 2006 PEFA assessment

The 2006 PEFA does not really score this dimension, as the team was presumably unable to get any data on payment arrears. It is thus impossible to comment on whether there has been any performance change.

Dimension (ii): Availability of data for monitoring the stock of expenditure payment arrears

Payment arrears in the sense of outstanding commitments can, in principle, be monitored in real-time in the Treasury System. Daily reports on invoices approved but not yet paid and invoices sent for approval are produced and submitted to the responsible officers in the Central Treasury and in the TDOs. What holds for every business day also holds for year's end.

The only, but important, caveat is that there is no way of knowing whether there are delays in Budget institutions' submitting invoices to the TDOs for approval and payment. Anecdotal evidence suggests that this may be the case, but it is impossible to estimate the extent of this practice.

Performance change and other factors since 2006 PEFA assessment

In the 2006 PEFA, this indicator is given a score of D with a reference to there not being any commitment control. Now the indicator refers to payments, not commitments, which makes the 2006 score questionable. It appears that the different Treasury Offices, even before the rollout of the AMoFTS, did keep records of invoices approved but not yet paid and that this information was passed on to the central Treasury Office.

The new Treasury System makes central monitoring of approvals and payments very easy as all transactions are recorded in one comprehensive database.

PERFORMANCE INDICATOR

Indicator / Dimension	Score 2006	Score 2011	Justification for 2011 Score	Performance Change Other factors
PI-4	D	NR	Scoring method M1 (weakest link)	The indicator should not have been scored in 2006 for lack of data.
(i)	?	NR	The stock of arrears (as per Albania's own definition and as per a definition of "debt aged more than 30 days") was 0.28 % in 2010, i.e. below 2 %. There may be	The 2006 PEFA actually does not score this dimension, hence the question mark.

			delays in BIs submitting invoices for approval and payment. For lack of information on the extent of these delays, the dimension is not rated.	
(ii)	D	NR	Treasury monitors, on a daily basis, invoices submitted for approval and invoices approved but not yet paid.	The dimension is not rated for the reason above. The score in the 2006 is based on a misunderstanding of the indicator.

Comprehensiveness and Transparency

P-5 Classification of the Budget

The budget classification system provides the means to track government spending. This indicator aims to evaluate whether the classification system used for budget formulation, execution and reporting of Central Government's transactions is compatible with international standards.

Dimension (i): The classification system used for formulation, execution and reporting of the central government's budget

The chart of account used for classifying transactions in the Treasury System is made up of the following dimensions:

- Government Entity (Central Government, Local Government and non-budgetary funds)
- Line Ministry and Spending unit
- Fund Source (Chapter)
- Functions and Programs
- Economic Classification
- Treasury Districts
- Projects

These dimensions are implemented as flexfields in the Oracle Financials-based Treasury System in the way shown in Table 14.

Table 14 Implementation of the Government of Albania chart of accounts

Dimension Number	Dimension Name	Dimension Qualifier	Maximum Length
1.	Government Entity	Balancing	3
2.	Line Ministry		2
3.	Institution	Cost Center	7
4.	Chapter (Source)		2
5.	Function		5
6.	Economic Account	Natural Account	7
7.	Subaccount		5
8.	Treasury Office		4
9.	Project		7
10.	Budget Release Type		2

11.	Spare 1		1
12	Spare 2		1

Source: MoF

The Line Ministry plus the Institution dimensions together make up the institutional (administrative) classification. The Chapter (Source) classification, among other things, allows incorporating accounting data on donor-executed projects. The function dimension is a combined functional and programmatic classification. The first three digits are used for the functional and sub-functional COFOG classifications. The last two digits are used for identifying programs within these functions and sub-functions. The "Economic account" is the economic classification. It includes accounts that will allow an eventual transition to accrual accounting.

The "Treasury Office" dimension identifies the location of the Spending Unit and it is used to provide financial management and reporting information to the various Treasury offices. The "Project" dimension is used to provide accounting information for time-bound projects. The codes include information on the nature of the financing, grant or loan, and the responsible entity.

Performance change and other factors since 2006 PEFA assessment

The core components of Albania's public finances are managed by the Albania Ministry of Finance Treasury System, (AMoFTS). The system went live in March 2010.

The core of the system is built using a number of Oracle's Business Suite modules. The centrepiece of the system is the General Ledger (GL) with sub-ledgers for purchasing, accounts payable, fixed assets, accounts receivable, and a cash module for bank reconciliation. External systems for managing tax and customs revenues, fixed assets and inventory, externally managed projects, health and social insurance feed information to and receive information from the GL. Budgeting is, so far, done outside AMoFTS but a project is underway to substitute the present bespoke system with a Commercial Off-The-Shelf budgeting module.

With the implementation of AMoFTS, the classification system that was introduced in 2005 was modified. The Functional and programmatic classifiers were merged into on dimension. The functional part of that dimension was expanded to the sub-function level. Programs were moved to become a level below sub-functions. "Projects" was introduced as a separate dimension.

The economic dimension of the chart of accounts is organized in eight classes:

1. Own funds, loans and other long-term liabilities
2. Fixed assets
3. Inventories and work in process
4. Accounts of third parties
5. Financial accounts
6. Expenses by nature
7. Income

8. Year-end results

Source: Extract from AMoFTS, unofficial translation into English

A table with a breakdown of the classes into its component account groups can be found in Annex 7 – Structure of Economic Classification. As can be seen from the structure economic dimension of the chart of accounts and the details in the chart in the appendix, the chart of accounts already includes the elements necessary for a transition to accruals.

PERFORMANCE INDICATOR

Indicator / Dimension	Score 2006	Score 2011	Justification for 2011 Score	Performance Change Other factors
PI-5	A	A	Scoring method M1 (weakest link)	
(i)	A	A	The classification of government financial operations includes the administrative, economic, and functional classifications, the latter down to the sub-functional level.	

Reform in Progress

The functionality of the present Treasury System will be extended to include modules for budgeting (MTBP module), public investment management, and the management of externally funded projects. There are plans to add a data warehouse to the system in order to speed up access to standard extracts of often used information.

Because contractual negotiations with Oracle, the supplier of the TS core modules, failed in early 2011, the Ministry will go to international tender for the supply of the above functionalities.

PI-6 Budget Documentation

In order for the legislature to carry out its function of scrutiny and approval, the budget documentation should allow for a complete overview of fiscal forecasts, budget proposals and results of past fiscal years. This indicator evaluates whether sufficient documentation has been included for this purpose with the budget proposal for 2011, sent to Parliament.

Dimension (i) Share of the above listed information in the budget documentation most recently issued by the central government[19]

Table 15 Information available in the budget documentation

Documentary Requirement	Fulfilled	Document
1. Macroeconomic assumptions, including at least estimates of aggregate growth, inflation and exchange rate.		Macro-economic assumptions including GDP growth and inflation are included in the MTBP. Exchange rate projections are, however, not.
2. Fiscal deficit, defined according to GFS or other internationally defined standard.	√	Fiscal deficit is defined and presented as per the GFS standard.
3. Deficit financing, describing anticipated composition.	√	Deficit Financing is described broken down into proceeds from privatization, and domestic and foreign financing
4. Debt stock, including details at least for the beginning of the current year.	√	Summary information on existing and expected stock of debt is included in the MTBP
5. Financial Assets, including details at least for the beginning of the current financial year (2010)[20].		The information exists but is not presented in the budget documents.
6. Prior year's budget out-turn, presented in the same format as the budget proposal.	√	The information is presented in the MTBP.
7. Current year's budget (revised or estimated out-turn), presented in the same format as the budget proposal.	√	The information is presented in the MTBP in the form of budgetary consequences of different macro-scenarios
8. Summarized budget data for both revenue and expenditure according to the main heads of the classifications used (ref. PI-5), including data for the current and previous year.	√	The information is presented in the MTBP.
9. Explanation of the budget implications of new policy initiatives, with estimates of the budgetary impact of all major revenue policy changes, and/or major changes to expenditure programs.		While the MTBP provides detailed information on programs, there is no strategic overview of policy initiatives and major investment programs and their impact on the public finances.

Performance change and other factors since 2006 PEFA assessment

More information is now available in the MTBP, which, in its final version, is presented together with the Annual Budget Law. Ampler and better structured information is presented in the Economic and Fiscal Programs, the latest one for 2011 – 2013, but these

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[19] In order to count in the assessment, the full specification of the information benchmark must be met.

[20] According to GFS Manual 2001, "financial assets" consist of financial claims, monetary gold, and Special Drawing Rights (SDRs) allocated by the IMF. Typical types of financial claims are cash, deposits, loans, bonds, financial derivatives, and accounts receivable.

documents are only produced in the first quarter of the fiscal year and thus do not inform the Parliament's process of deciding on the budget.

PERFORMANCE INDICATOR

Indicator / Dimension	Score 2006	Score 2011	Justification for 2011 Score	Performance Change Other factors
PI-6	C	B	Scoring method M1 (weakest link)	
(i)	C	B	The budget documentation as submitted to the legislature for FY2011 includes **6** of the **9** components listed in Table 3.6 above.	There

PI-7 Coverage of Government Operations

Annual budget estimates, in-year execution reports and year-end financial statements should cover all budgetary and extra-budgetary activities of the Central Government in order to ensure an efficient allocation of resources. This indicator evaluates the degree to which unreported operations general government operations exist. The assessment of the first dimension includes autonomous government agencies (AGAs) and Local Government Units (LGUs) that are part of general government in Albania. For the purpose of the calibration, expenditure should be reported both ex-ante (budget estimates) and ex-post (actual expenditure) in the above-mentioned fiscal reports in order to be counted as "reported". The evaluation period covers the year 2010, which is the last completed fiscal year.

Dimension (i): The level of extra-budgetary expenditure (other than donor funded projects) which is unreported, i.e. not included in fiscal reports

The state and local budget shall, as per the organic budget law (OBL)[21], include all revenues, expenditures, and financing of the central government and the local governments. The State Budget includes a reserve and contingency funds. The reserve and the contingency fund may not exceed 3% of the total value of the approved funds[22]. The same obtains for the local budgets. Local budget shall be balanced except in cases when there is borrowing to finance investment projects.

Special Funds at central or local level are established by a special law proposed by the Minister of Finance. The budgets for the central funds are presented to the National Assembly together with the state budget. Special funds of local government units are

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[21] Law No.9936 Date 26.06.2008 On Management Of Budgetary System In The Republic Of Albania, articles 5 – 7.

[22] In fact they did exceed 3 % in all three years, 2008 – 2010, considered here.

presented to the local government council together with the local budget. No other extra-budgetary funds exist.

As per article 8 of the generic budget law, all receipts from taxes and other sources of General Government revenue shall be paid into the Treasury Single Account.

The fiscal reports produced by the Government cover general government, i.e. they include central government, local government and social and health insurance funds. There is no unreported general government expenditure – other than possibly some projects directly funded by donors.

Performance change and other factors since 2006 PEFA assessment

All general government expenditure was included in the Government's fiscal reports at the time of the earlier PEFA and continues to be so.

Dimension (ii): Income/expenditure information on donor-funded projects that is included in fiscal reports

Table 16 below compares external financing of Government of Albania expenditure in 2009,[23] as reported in the Government fiscal reports and as registered in the DAC ODA database. The way flows are classified and reported differs between the fiscal reports and the DAC statistics, but the totals are comparable.

The comparison does not say anything definite about the completeness of the information in the 2009 fiscal reports, but at least the latter appear to be more comprehensive than the information provided by the donors and the international financing institutions to DAC. We thus risk concluding that at least 90% of the value of donor-funded projects is included in the fiscal reports.

Table 16 Comparison of external financing as per Albania fiscal reports and as per DAC statistics for the year 2009, Million USD

Government fiscal reports[24]			DAC-statistics	
Budget support	47.33		183.13	ODA Grants
Foreign financing of capital expenditure	216.70		77.75	ODA Loans (gross)
Total	**264.03**		**260.88**	**Total**

Source: "Fiscal indicators regarding consolidated budget of 2010" and the DAC database

[23] DAC statistics on Albania for 2010 are not yet available.

[24] Converted from LEK to USD, using the mid-market exchange rate of July 1, 2009

Performance change and other factors since 2006 PEFA assessment

The 2006 PEFA observed that "donor-financed projects are very poorly recorded, resulting in data inconsistency and poor planning" and assigned a score of D to this dimension.

The Government has since then made serious efforts to improve the management of external assistance, including improving the collection and incorporation of data on donor flows to Albania in the fiscal reports. The efforts are coordinated by the Department of Strategy and Donor Coordination (DSDC) in the Prime Minister's Office and are further described under indicator D-2.

PERFORMANCE INDICATOR

Indicator / Dimension	Score 2006	Score 2011	Justification for 2011 Score	Performance Change Other factors
PI-7	D+	A	Scoring method M1 (weakest link)	
(i)	A	A	There is no extra-budgetary expenditure	
(ii)	D	A	It is highly likely that more than 90 % of the value of external assistance is included in the fiscal reports.	The collection of data on donor flows and has improved considerably since the 2006 PEFA.

PI-8 Inter-Governmental Fiscal Relations

This indicator evaluates the transparency and accountability of the funds that were transferred from Central Government to sub-national governments during the last completed fiscal year (2010). It also assesses the timeliness and reliability of the information passed to sub-national governments on their allocations.

Albania is divided into 12 administrative counties. These counties include 36 districts and 373 municipalities;. 72 municipalities have city status. There are overall 2980 villages / communes in Albania. The municipalities are the first level of local governance, responsible for local needs and law enforcement. Each district has a council composed of representatives from its constituent municipalities and communes.

Prefects are appointed by central Government to oversee the legality, efficacy and efficiency of the operations of districts but have no role in actual service delivery.

Local Government Units (LGUs) carry out a) exclusive ('own') functions, such as water supply, public transportation, public lighting and garbage collection; b) shared functions, such as pre-school and pre-university education, health care, public order and civil protection; and c) delegated functions. The latter are broken down into mandatory and non-mandatory functions and, for example consist, of land administration and carrying out civil census.

Dimension (i): Transparency and objectivity in the horizontal allocation among sub-national governments

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

The volume and relative importance of transfers from the central government to the LGUs are shown in Table 17 below.

Table 17 Transfers to LGUs, '000 ALL

Type of transfer/ year	2008	2009	2010	Share 2010
Unconditional transfers to municipalities and communes	11 255 401	11 779 537	10 290 091	59,56%
Unconditional transfers to districts	1 046 100	1 070 640	925 650	5,36%
Competitive grants	1 653 700	5 500 000	-	-
Regional Development Fund	-	-	5 935 000	34,36%
Compensation fund	28 799	72 823	124 759	0,72%
Total	13 984 000	18 423 000	17 275 500	100,00%

Source: Ministry of Finance

The share of the transfers in relation to total central government expenditure and total LGU revenue is shown in Table 18 below.

Table 18 Relative importance of transfers to Local Government Units

Transfers to local government	2008	2009	2010
As proportion of total central government expenditure	4,0%	4,9%	4,8%
As proportion of total LGU expenditure	51,6%	54,9%	56,2%

Source: Ministry of Finance, own calculations

The Central Government provides financial resources to the municipalities and the communes through two types of transfers: unconditional and conditional grants respectively. The conditional grants have been and are of two types. The first used to be called Competitive Grants. As from 2010, the modalities for providing this type of conditional grant have been altered slightly and the name has been changed to the Regional Development Fund. The second type of conditional grant relates to earmarked financial resources that can only be used for a specific purpose.

Unconditional transfers

The unconditional grants are allocated according to a formula that has been successively modified – if only at the margins – since the introduction of the formula-based system in 2002.

The allocation of these funds to the municipalities and communes and to the districts is presently determined in three steps. In a first step is decided the total amount of unconditional grants to be transferred to the districts. In a second step is decided the shares for the unconditional grants that will go the municipalities/communes and the districts. In 2008 and earlier, the shares where 91% and 9% respectively. From 2009 onwards, they have been 91.5% and 8.5% respectively.

In a third step the allocation to each individual municipality and commune is determined. The lion's share of the total allocation is based on population. A second share is allocated to the municipalities on the basis of their relative geographical size, and a third share is allocated on the basis of the relative geographical size of the communes. In the last three years, the shares of the total unconditional grants allocated in these different ways were 70%, 15% and 15% respectively.

The allocation formula for the unconditional grants to the districts is made up of four elements. The first portion is distributed equally among districts. The second portion is allocated on the basis of the relative size of the population. The third portion makes use of an index capturing the geographical nature of the district: lowland, hilly, and mountainous; the more mountainous the district, the higher the allocation. The fourth and final portion is allocated on the basis of the relative length of the road network in the district, excluding the national roads.

Competitive grants / Regional Development Fund

The Regional Development Fund can finance: local infrastructure, basic, pre-university and university education, health, cultural objects and cultural heritage, water and sanitation facilities, construction facilities agro-food markets and slaughterhouses, irrigation and drainage, and forestation. Despite the explicit reference to sectors, the idea behind the RDF is that a coordinated territorial perspective shall guide the selection of projects to be financed.

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

The Committee is chaired by the Prime Minister and includes nine ministers, three representatives from the respective associations of Municipalities, Communes, and Regions plus the Chairman of the Association of Rectors.

In addition to approving or rejecting the specific requests, the Committee decides on criteria for allocating funds among regions, and the actual distribution of funds among the different regions.

Funding proposals presented to the Committee are assessed and ranked using the criteria in Table 19.

Table 19 Criteria for evaluating funding proposals to the RDF

Criteria	Maximum number of points
Compliance with national or local priorities	20
Impact on poverty and access to basic services.	25

The number of direct or indirect beneficiaries	15
Impact on more than one Local Government Unit	15
Technical quality of the project	5
Level of local taxes and fees collected by the applying LGU(s)	10
The level of co-financing by the applying **LGU(s)**	10

Source: Ministry of Finance

Projects may be co-funded by the regions and/or constituent municipalities and communes (M/Cs).

Despite the formal allocation criteria, the actual allocation of the competitive grants, now brought together under the Regional Development Fund, is, by some, seen as a rather politicized process, tending to favour regions run by the majority party. However, there is not sufficient hard data available to either verify or refute this claim.

Equalization mechanism

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

The M/C's at the receiving end are guaranteed a minimum transfer. In 2010, the floors were 2,930 Leks per capita for the municipalities and 1,930 for the communes. The remainder of the redistributed funds are allocated in such a way that the receiving M/C's receive 35% of the gap between their collection and the average per capita collection of the two taxes.

Transfers from constituent municipalities and communes to districts

In addition to the grants received from central government, the districts receive funds from its constituent municipalities and communes. According to the Law on Local Government[25], the different municipalities and communes making up a district are to provide 1-5 % of their own revenues to finance the operations of the district. The decision on the percentage to be applied to each constituent municipality and commune is taken by the District Council.

Performance change and other factors since 2006 PEFA assessment

The unconditional grant in 2003 only made up about 10% of local government revenue but was, at the time of the 2006 PEFA, evolving into a true equalization mechanism. However,

[25] Law on Organization and Functioning of Local Governments no. 8652/2000

the review team concluded that the determination of the size of the unconditional grant was not yet transparent and predicable and gave this dimension a score of C.

Over the years, the unconditional grants increased in nominal terms as well as a share of total transfers. However, as can be seen in Table 17 above, the unconditional grants have remained more or less stable in nominal terms since 2008 but have decreased as a share of total transfers because of the growth of the competitive grants, replaced in 2010 by the Regional Development Fund.

Dimension (ii): Timeliness of reliable information to sub-national governments on their allocations

Budgeting

The LGUs know for certain in December of each year what exactly they will receive as unconditional grants in the next year. As the grants to the local level are part of the three-year MTBP process and given the fact that the allocation criteria have remained quite stable they do, however, have an indication early in the yearly budgeting process of how much they are likely to receive for the coming year.

Execution

Central government transfers are never physically transferred to any separate bank accounts controlled by the LGUs. All government expenditure, central as well as local, is executed through the Treasury System and all revenue is pooled in the TSA. Just as for central government institutions, there are no constraints on local government expenditure commitments, other than the yearly appropriations. The effective execution constraints are set by the Treasury Plans and the daily controls on payment described under PI-17.

In years when general revenue inflows correspond to or exceed projected flows, the treasury plans – as adjusted monthly during the year – provide a transparent and reliable framework within which the LGU can execute its budget.

This has not been true, however, in years when the revenue projections prove over-optimistic and Treasury has been forced to ration cash and the Government has eventually been compelled to revise downwards the budget ceilings for the expenditure items it controls. It was the case in 2010 and is, again, happening in 2011. In this situation the execution of the local government budgets is affected, and then not only the portion financed by the central transfers but also the part of the budget financed by the LGUs own revenue. The reason is that all expenditure, central as well as local, is paid from a common pool – the TSA – and this pool is effectively controlled by the Central Treasury including LGU payments. It thus does happen that invoices that in principle are to be financed from the LGUs' own sources are being held up. LGUs may also refrain from entering invoices into the system that they expect will not be promptly executed by the Treasury. This lack of control over the use of their own revenue is, especially for those with important own revenues, a source of frustration.

Performance change and other factors since 2006 PEFA assessment

In the 2006 PEFA, the assessors observed that the Annual Budget approved by Parliament only contained the aggregate amount to be transferred to sub-national governments and that the LGUs received detailed information on the transfers only in February of the new fiscal year. They thus assigned a score of D to this indicator.

Dimension (iii): Extent of consolidation of fiscal data for general government according to sector categories

All revenue collection and all expenditure execution is done through and recorded in the Treasury system and the same chart of accounts is used for all levels of government. One of the dimensions of the chart of accounts is the function. Thus all LGU expenditure can be sorted and aggregated by function and merged with central government data. One section within the Treasury is responsible for consolidating the accounts and for preparing the fiscal reports for general government.

Performance change and other factors since 2006 PEFA assessment

The implementation of the AMoFTS in 2009 has greatly simplified the production of consolidated accounts of general government and any ad hoc reports that make use of the dimensions of the budgeting and accounting classification systems.

The Government, for example, produces fiscal reports on expenditure by function. The ones made available from the Treasury are at the function level, but since expenditure is classified at the sub-function level, it would be possible to produce, and publish / make available on the web reports at that level of disaggregation.

PERFORMANCE INDICATOR

Indicator / Dimension	Score 2006	Score 2011	Justification for 2011 Score	Performance Change Other factors
PI-8	C+	B+	Scoring Method M2 (average of scores)	
(i)	C	B	Approximately 65 % of the total volume of transfers to LGUs are done on the basis of a transparent and rule-based system for un-conditional grants	The share of transfers to LGUs that is made up of unconditional grants has increased and the formula the allocation of these grants has become clearer.
(ii)	D	B	The level of unconditional grants is known to the LGUs with certitude in December ahead of the fiscal year. But the MTBP, together with relatively stable allocation criteria, gives a good indication of what can be expected considerably earlier than that.	
(iii)	A	A	Local government revenue and expenditure is executed in the Treasury system and classified in a way identical to that of central government. Consolidated reports for general government can thus easily be produced by eliminating intra-governmental transfers.	The implementation of AMoFTS has greatly facilitated the production of consolidated reports.

Reform in Progress

A process of drafting a “Law on Municipal Finance” was initiated in 2007 but has yet to come to fruition.

PI-9 Oversight of Aggregate Fiscal Risk

This indicator assess whether Central Government monitors and adequately manages the fiscal risks[26] with potential national implications, arising from activities or operations of entities other than central government within the public sector, mainly the AGAs, the PEs and the local government units (LGUs).

Dimension (i): Extent of central government monitoring of Autonomous Government Agencies (AGAs) and Public Enterprises (PEs)

Despite extensive privatizations since the collapse of communism, some public enterprises, but mostly a large number of state-owned facilities, such as car parks and recreation centres still exist in Albania. At the beginning of 2011, the Prime Minister declared that 1,280 such enterprises and facilities would be privatized.

Some public enterprises have benefitted from international credits that have been on-lent to them. The portfolio of such loans, as well as state guarantees issued to public and private companies, are monitored by one of the directorates within the General Directorate of Public Debt Management within MoF.

At the end of 2010, the total stock of outstanding external credit on-lent to AGAs and PEs stood at some ALL 2 billion. A table with the details of the outstanding stock of all on-lent external loans can be found in Annex 5 – On-lending to AGAs, PEs, and SNs. As can be seen from the detailed table, a number of these loans are non-performing, at least in the sense of there being or having been no or very limited amortizations of the loans.

The Department regularly produces reports on the performance of the on-lent portfolio and on the risk of guarantees being called. In the report for 2010, the performance of the loan portfolio is summarized as in Table 20 below.

Table 20 Performance of on-lent portfolio in 2010 ALL ‘000

	Interest	Principal	Total
Budget 2010	1 513 091,84	1 815 367,86	3 328 459,69
Actual 2010	697 215,03	2 025 932,73	2 723 147,76

Source: MoF, Debt Recording and Service Directorate

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[26] Fiscal risks are defined as debt service defaulting, operational losses, expenditure payment arrears, and unfunded pension obligations.

In 2010, the cash flow from interest and amortization of on-lent funds fell some 18 % short of expected. This shortfall amounted to 0.17 % of expected total inflow.

Dimension (ii): Extent of central government monitoring of SN government's fiscal position

A number of municipalities – for details see Annex 5 – On-lending to AGAs, PEs, and SNs, referenced above – have had on-lent to them external loans contracted by the Central Government.

In 2008, Parliament approved a law that allows local government units (LGU) to borrow[27]. In principle the law, within the quantitative limits defined in it, authorizes[28] LGUs, to take up short-term loans to meet short-term liquidity needs as well as long-term loans to finance capital investment. The limits are that:

The ratio of operational surplus, calculated as the difference of the overall operative revenues (from its own sources, shared taxes and unconditional transfers) with the unconditional operational expenditures of the local government unit, including debt service, and the debt service costs that is due to be paid annually for the long term loan, is not more than 1.4:1;

The ratio of the debt stock to operational revenues from its own sources, shared taxes and unconditional transfers is not more than 1.3:1 and that;

The maximum annual limit of debt service to the local government unit's average fiscal revenues of the last three years does not exceed 20 per cent.

In practice, the authority of LGUs to borrow is subject to the substantive approval by Ministry of Finance, represented by its Strategy and Risk Department. Every request by a LGU is vetted by the Department in ways similar to that of a Bank assessing a potential client's ability to service a loan. The possibility of LGUs borrowing are further constrained by the legally established limit on public debt, including guarantees, set at 60 % of GDP[29]. Albania presently being very close to that limit, MoF has thus only authorized an uptake / disbursement of 5 % of the total sum of the very limited number of LGU loans approved in 2010 – six of them for at total of ALL 1,6 billion. As a result, the municipalities concerned have refrained from taking up the approved loans because the amounts authorized for disbursement are not sufficient to initiate any of the infrastructural projects for which the loans have been sought. In 2011, only one request by an LGU to borrow commercially has, so far, been submitted to the MoF.

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[27] Law on Local Government Loans (9869/2008)

[28] "The decision for the long-term loan enters into force after it is confirmed by the Minister of Finance. The Minister of Finance is limited only in confirming the procedural compliance to authorise the loan in accordance with this article and the verification of the way the debt restrictions have been implemented, …"

[29] Article 58 in the Organic Budget Law

Central Government does not guarantee LGU borrowing. Instead, loans by LGUs may be guaranteed by all or by a part of the income over which the LGU has full authority, including unconditional transfers from the Central Government. The LGU may sharpen this guarantee by allowing the loan to be paid directly from the unconditional transfers or separate taxes payable from the State Budget on behalf of this unit. Alternatively, the loan of an LGU can be guaranteed with properties of the local government unit. Besides these two types of guarantees, the LGU may issue a number of other types of guarantees that are specified in the law.

Should the LGU, despite the above safeguards related to borrowing or for other reasons, find itself in "financial difficulties" – according to the definition contained in the law – the LGU is to be put under the supervision of the Ministry of Finance and a number of specified measures should be taken by the LGU in order to rectify the situation. As the law is very recent there are, as of yet, no such cases. Thus the law has thus never been tested and it is too early to tell whether the safeguards built into it will fully eliminate the fiscal risk following from the local entities authority to borrow – i.e. the risk of the Central Government having to bail out defaulting LGUs.

Records of LGU borrowing are kept at LGU level as well as in the MoF. It is the intention of the Ministry to set up a separate Database under DMFAS to monitor LGU borrowing – if and when such borrowing becomes important.

Performance change and other factors since 2006 PEFA assessment

The Law on Local Borrowing has introduced a fiscal risk, the importance of which is very difficult to assess as the legislation is yet to be put to test.

PERFORMANCE INDICATOR

Indicator / Dimension	Score 2006	Score 2011	Justification for 2011 Score	Performance Change Other factors
PI-9	C+	C+	Scoring method M1 (weakest link)	
(i)	C	C	MoF regularly monitors the portfolio of on-lent credits, issued guarantees and AGAs and PEs are required to submit yearly financial statements., There is no consolidated report, however, summarising the fiscal risk associated with these different types of activities.	
(ii)	A	A	In principle, the present legislation should eliminate the fiscal risk from LGU borrowing. As local government revenue and expenditure is recorded in the treasury system, MoF has full, on-line, insight into to the finances of LGUs and the legal powers to enforce financial discipline in the LGUs	

P-10 Public Access to Fiscal Information

This indicator evaluates whether the general public or, at least, the relevant interest groups have access to key information about fiscal plans, position and performance of Central Government in an opportune and simple manner. The evaluation is based on the last fiscal year where documentation is available.

Dimension (i): Number of the above listed elements of public access to information that is fulfilled

The publication of key fiscal information via easily accessible media and in time to be relevant is presented in Table 14 below.

The documentation on the budget that goes to parliament is fundamentally made up of two parts: a) the very succinct (seven pages-long) annual budget law and b) the considerably longer Medium Term Budget Plan (in 2010, 672 pages). Both are available on the MoF web site; the MTBP only in Albanian. The MoF also publishes on the web an Economic and Fiscal Program in English, albeit with some months' delay. The latter is presumably intended for international consumption but is the most informative document in terms of the macroeconomic framework, policy intentions and strategies.

Summary fiscal tables, i.e. tables of revenue and expenditure broken down by major categories plus information on financing and cash balances, related to the execution of the budget are made available on the MoF website about one month after each concluded month. Reports on expenditure by function and by institution are made available in quarterly fiscal bulletins on the MoF web site.

Year-end audited financial statements are to be furnished to the SAI by April 30 of the following year. This deadline was met in 2010. In 2008 and 2009, the government was one month late.

Table 21 Criteria on Public Access to Key Fiscal Information

Requirement	Available	Comment
(i) Annual budget documentation: A complete set of documents can be obtained by the public through appropriate means when it is submitted to the legislature.	√	Available on the MoF web site as soon as they are approved by CoM for presentation to Parliament, i.e. they are available before Parliament discusses the Project Budget and MTBP. After the parliament approves the two documents, the Website of MoF contains the final versions for each of them.
(ii) In-year budget execution reports: The reports are routinely made available to the public through appropriate means within one month of their completion.	√	Summary fiscal tables – i.e. tables of revenue and expenditure broken down by major categories plus information on financing and cash balances – are made available on MoF website about a month after each concluded month. No detailed reports on budget execution against appropriated expenditure are available
(iii) Year-end financial statements: The statements are made available to the public through appropriate means within six months of completed audit.		If Parliament is not sitting, the financial statements do not get made public until it has accepted them.
(iv) External audit reports: All reports on central government consolidated operations are made available to the public through appropriate means within six months of completed audit.		The same applies to the auditor's report. It is not released until Parliament has approved it.

(v) Contract awards: Award of all contracts with value above approximately USD 100,000 equivalent is published at least quarterly through appropriate means.	√	The PPA routinely publishes all contract awards on its web site at least monthly and generally more often.
(vi) Resources available to primary service units: Information is publicized through appropriate means at least annually, or available upon request, for primary service units with national coverage in at least two sectors (such as elementary schools or primary health clinics).	√	Resources for primary health care and primary education are provided by multiple sources. Unconsolidated information is available to these units on request, but is not provided on a consolidated basis.

PERFORMANCE INDICATOR

Indicator / Dimension	Score 2006	Score 2011	Justification for 2011 Score	Performance Change Other factors
PI-10	B	B	Scoring method M1 (weakest link)	
(i)	B	B	The government makes available to the public 4 of the 6 listed types of information	

Policy-Based Budgeting

PI-11 Orderliness and Participation in the Annual Budget Process

This indicator aims to assess whether the formulation process for the General Budget Law is organized in such a way as to allow for an effective participation of the budget organisations, including their political leadership represented by the Council of Ministers. The first two dimensions of this indicator analyze the budget formulation process followed during 2010 for the last budget approved by the National Assembly, which was the budget of 2011. The third dimension covers the last three fiscal year budgets of 2009-2011.

Dimension (i): Existence and adherence to a fixed budget calendar

At the beginning of each budget preparation process, a detailed calendar is established. This practice was introduced together with the MTBP process in 2006, but its details have been revised several times since. The process starts with the preparation of *macroeconomic and fiscal forecasts*. On the basis of these forecasts, *budget preparatory ceilings* are prepared. The latter may be revised latter in the process as the macroeconomic forecasts are updated.

Hearings with the budget institutions are held at least twice during the early phase to assist the latter in preparing their proposals, including costing capital investments. In order to ensure that public expenditure, including major investments, is in line with Government priorities, as reflected in the MTBP, as well as with the priorities of the donors, investment plans are screened by the Strategic Planning Committee headed by the Prime Minister. The Ministry of Integration also plays an important role during the of budget preparation and approval process to ensure that the agenda of European Integration is mainstreamed in the preparation of the MTBF and the annual budget. The detailed budget preparation schedule for 2010 is presented in Table 22 below.

Table 22 Detailed schedule for preparing the 2011 budget

PERIOD	DATE	RESPONSIBILITY	ACTION
December 2009	28	MoF	Prepares and presents in SPC the calendar for Budget preparation (public expenditures)
December 2009	30	SPC/CoM	Analyses and approves the Calendar for Budget Preparation and Public Expenditures Management
January	6	MoF	Present the Macroeconomic and Fiscal Framework in SPC
January	12	SPC/CoM	Approves Macroeconomic and Fiscal Framework
January	19	CoM	Analyzes and approves the Economic and Financial Plan
February	4	DSDC	Presents in CPS priority policies with an impact in Budget Preparatory Ceilings of MTBP
February	10	MoF	Presents in CPS preparatory ceilings for MTBP
February	17	SPC/CoM	CPS analyzes and sends to CoM preparatory ceilings for approval. CoM approves Preparatory (Preliminary) Ceilings
February	24	CoM	Presents, to the General Assembly, preparatory ceilings for the MTBP
February	25	MoF	Sends the Guideline/Circular to Budgetary Institution on the preparation of the Budget
February-April	28 February - 29 April	Central Government Institutions and their Special Funds	Prepare their Budget Requests
April	29	Central Government Institutions and their Special Funds	Present their Budged Requests to MoF
May	2 - 17	MoF, MoI and DSDC	Analyse Budget Requests
May	18 - 31	MoF, MoI and DSDC	Organize hearings with Budgetary Institutions
June	3	MoF	Sends for approval of the CPS the macroeconomic and fiscal updated forecasts
June	10	SPC/CoM	Approves the Macroeconomic and Fiscal Update Forecast
June	1 - 13	MoF	Prepares the new MTBP and new preparatory budget ceilings for analysis and approval in the SPC
June	17	MoF	Presents the new MTBP and new preparatory budget ceilings for analysis and approval in SPC
June	30	SPC/CoM	Approves the new MTBP and new preparatory budget ceilings
July	26	MoF	Present to General Assembly the new revised MTBP document
July	8	MoF	Sends the complementary guideline/circular to Budgetary Institution on the preparation of the Budget
July-August	11 July - 30 August	Central Government Institutions and their Special Funds	Prepare their revised Budget Requests

August	31	Central Government Institutions and their Special Funds	Present their Budged Requests to MoF
September	1 - 16	MoF, MoI and DSDC	Analyze Budget Requests of Budgetary Institutions
September	19 - 30	MoF, MoI and DSDC	Organize hearings with Budgetary Institutions
October	5	MoF	Present in SPC the Macroeconomic and Fiscal Updated Forecast
October	14	SPC/CoM	Approves the new Macroeconomic and Fiscal Updated Forecast
October	20	MoF	Prepares the new revised MTBP, the project/proposal of Annual Budget and sends it for approval by the SPC
October	25	SPC/CoM	Approves the new revised MTBP the project/proposal of Annual Budget
October	31	MoF	Present to General Assembly the new revised MTBP document and Budget Proposal
December 2010	2	General Assembly	Approves the Annual Budget for the coming year

Performance change and other factors since 2006 PEFA assessment

In 2005, the year assessed in the 2006 PEFA, general elections impacted negatively on the orderliness of the budget preparation process. In the years since, the process has been quite orderly and the dates set in the calendar have generally been respected.

Dimension (ii): Clarity/comprehensiveness in the guidance on the preparation of budget submissions (budget circular or equivalent)

Budget guidelines including preliminary ceilings are issued by the Council of Ministers in February. The ceilings are normally updated in June after the revision of the macroeconomic and fiscal framework. The ceilings are not absolute in the sense of the MoF refusing requests surpassing the preparatory ceiling. BIs therefore generally come in with requests above the ceiling, requests that are then subject to negotiations involving, to a varying degree, MoF, SPC, and CoM.

Dimension (iii): Timely budget approval of the budget by the legislature or similarly mandated body (within the last three years)

For the last three years, the Parliament has approved the budget before the start of fiscal year.

Table 23 Dates of Enactment of General Budget Laws by Parliament

Fiscal Year	Dates of Enactment of the General Budget Law
2011	2 December 2010
2010	26 November 2009
2009	27 November 2008

Source: MoF, Government of Albania

PERFORMANCE INDICATOR

Indicator / Dimension	Score 2006	Score 2011	Justification for 2011 Score	Performance Change Other factors
PI-11	A	A	Scoring Method M2 (average of scores)	
(i)	A	A	There is a detailed budget preparation calendar and it is adhered to	
(ii)	B	A	There are detailed budget guidelines including budget preparatory ceilings set by the Council of Ministers.	
(iii)	A	A	For the last three years the annual budget was enacted before the start of fiscal year	

PI-12 Multi-Year Perspective in Fiscal Planning, Expenditure Policy, and Budgeting

This indicator refers to the budgetary central government and discusses four dimensions related to: (i) multi-year fiscal forecasts, (ii) debt sustainability analysis, (iii) existence of multi-year costed sector strategies, and (iv) linkages between investment budgets and forward expenditure estimates.

Dimension (i): Preparation of multi-year fiscal forecasts and functional allocations

A Medium Term Budget Program (MTBP) is the core element of Albania's Integrated Planning System (IPS).

The IPS is a broad planning and monitoring framework that aims to ensure that the core policy and financial processes developed by the GoA function in an integrated manner. The core processes within the IPS are the National Strategy for Development and Integration (NSDI), the MTBP, the Government Program for European Integration, the Public Investment Program, and the planning of external assistance.

The framework for the preparation of the MTBP is given by the generic budget law[30] adopted by Parliament in 2008 supported by detailed instructions[31] issued by the Ministry of Finance. As per the generic budget law, the Minister of Finance shall, in January of each year "prepare for revision and approval of the Council of Ministers a report on

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[30] LAW No.9936 Date 26.06.2008. On Management of Budgetary System In The Republic of Albania

[31] "Budget Institution Internal Rules for Preparation of MTBP Submissions and for Monitoring the Delivery of Outputs"

macroeconomic assessment and forecast for: a) the last two years, b) the budgetary year, and c) forecasts for the following three budget years. The preparation of the MTBP is therefore a rolling process.

This report shall include:

assumptions and methods used in making the macroeconomic and fiscal forecasts/assessments, including a statement and assessment of risks for the sustainability of macroeconomic stability of the country;

recent assessments of economic situation based on official data and comparison with previous forecasts.

estimates of general government revenues under existing policies and proposals for new or amended policies;

estimates of general government expenditures under existing policies and proposals for new or amended policies;

estimates of the general government deficit and its financing which can be sustained without compromising fiscal discipline and fiscal stability;

proposals for Preparatory Expenditure Ceilings for the following three years explaining the changes from the limits set in the previous medium term budget program; and

detailed information on domestic and foreign debt stock for each sector of the general government.

The macroeconomic assessment and forecast is approved by a decision of the Council of Ministers and is sent for information to the National Assembly."

As part of the yearly *Budget Preparation Instruction* (budget circular) issued in February, the Minister of Finance shall, after the approval of the Council of Ministers, provide preliminary expenditure ceilings for the medium term budget program.

Worth noticing here is that the assessment and forecasts prepared by Ministry of Finance are merely sent for information to Parliament; they are not translated into binding ceilings on expenditure for the out-years. Likewise, the sector ceilings communicated to the line ministries are merely indicative; they are not binding.

Thus, while the line ministries are encouraged to stay within or close to the indicative ceiling, nothing stops them from submitting requests that surpass these ceilings – they often do – and the MoF will need to arbitrate between the competing requests in a traditional, yearly-type negotiation process.

The macroeconomic framework is revised in connection with the submission of the supplementary estimates mid-year. A fiscal table summarizing the macro-fiscal framework submitted to the Council of Ministers in July 2011 can be found in Annex 6 – Aggregate fiscal framework for 2011-2014. The framework may again be revised at the time of the submission of the Normative Budget in December; the budget that ex post adjusts the appropriations to actual expenditure.

During the years when Albania had a program with the IMF, the macroeconomic framework was negotiated with the latter institution and tended to be quite prudent; actual GDP and revenue collection overshot the projections. As from 2009 there this constraint has been removed. A combination of political pressures and the effects of the financial crises instead led to GDP and revenue growth coming in at substantially lower levels than projected. Realizing already in the last quarter of 2009 that the forecasts for 2010 were overoptimistic, the government took measures to freeze some spending in the first half of the year and then cut expenditure by close to 10 % in the mid-year supplementary budget. For 2011, the Government had banked on a quick recovery in Albania's main trading partners, a recovery which has not materialized, and the Government was again forced to cut expenditure in the supplementary budget, this time by 4.4 %.

Dimension (ii): Scope and frequency of debt sustainability analysis

According to the law regulating government borrowing[32], "(t)he Minister of Finance shall prepare the medium-term debt portfolio assessment strategy and its progress. This Strategy shall be reviewed and submitted for approval to the Council of Ministers, together with the medium-term budget programming.

The Minister of Finance shall prepare the annual report on the State budget situation which shall be approved by the Council of Ministers and presented in the Assembly as integral part of the performance report on the consolidated budget for that year."

The debt management strategies, submitted yearly as part of the medium–term macroeconomic framework, include a debt sustainability analysis and conclude in a recommendation for the financing strategy to follow in the medium term.

A *Debt Management Performance Assessment* (DeMPA) for Albania was carried out in November 2010. The report concludes that government debt management is particularly strong in the areas of governance and strategy development, coordination with fiscal and monetary policy, and domestic market borrowing. The report, which uses the same scoring system as the PEFA assessment, gives "Coordination with fiscal policy through the provision of accurate and timely forecasts on total debt and debt service under different scenarios" a score of "B". "Availability of key fiscal variables and/or an analysis of debt sustainability, and the frequency with which debt sustainability analysis is undertaken" is given a score of "A "

[32] Law No 9665 of 18.12.2006 On State Borrowing, State Debt And State's Loan Guarantees In The Republic Of Albania

Performance change since the 2006 PEFA assessment

The DeMPA observes that compared to the results of the first DeMPA exercise in April 2007, clear improvements are evident in the quality of the debt management strategy document, including the debt sustainability analysis.

Dimension (iii): Existence of sector strategies with multi-year costing of recurrent expenditure and investment expenditure

The Government, between 2007 and 2009, produced a total of 21 sector strategies and 17 crosscutting strategies, of which 27 have been approved. The status of the remaining strategies is given as: finalised and in the process of being approved by the Council of Ministers (7) or in the process of being prepared (4). The quality of the sector strategies varies greatly. Some include a modicum of multi-year forecasts of recurrent and investment expenditure; most are freestanding policy / intentional documents without any detailed costing and with limited or no anchoring in an overall fiscal framework.

Performance since the 2006 PEFA assessment

The Government has made considerable efforts to improve and integrate the planning and budgeting processes and to improve the coordination of external assistance. These efforts have, however, largely been undermined by the recent external shocks that have affected the Albanian economy and the Government's less than consistent responses to these shocks.

Dimension (iv): Linkages between investment budgets and forward expenditure estimates

Major investment projects are discussed by the Strategic Planning Committee attached to the Prime Minister's Office with input from the MoF departments of Budget Preparation and Public Investment. The processes related to preparing the multi-year frameworks, screening and approving investment, and preparing the annual budgets are still not fully integrated, however, and the linkages remain weak.

PERFORMANCE INDICATOR

Indicator / Dimension	Score 2006	Score 2011	Justification for 2011 Score	Performance Change Other factors
PI-12	C	C+	Scoring MethodM2 (average of scores)	
(i)	C	C	Fiscal frameworks for three years are produced on a rolling basis, but the differences between the three-year frameworks and the annual budgets are not clearly explained	
(ii)	C	A	DSA for external and internal debt is done annually	
(iii)	C	C	Statements of sector strategies exist for several major sectors but are only substantially costed for a few	

			of them	
(iv)	C	C	Recurrent cost implications of investment are included in forward budget estimates only in a few cases	

Predictability and control in budget execution

This section consists of nine performance indicators (PI-13 to PI-21). They cover: the management and control of all revenues and expenditures, including taxes, social charges and customs/excise duties; payroll and non-payroll expenditures; cash and debt management; and *ex post* internal auditing processes.

PI-13 Transparency of Taxpayer Obligations and Liabilities

"A good tax collection system encourages compliance and limits individual negotiation of tax liability by ensuring that tax legislation is clear and comprehensive and that it limits discretionary powers (especially in decisions on tax assessments and exemptions) of the government entities involved…"[33]

The MoF Income Tax and Customs agencies are responsible for all aspects of revenue collection, with the exception of budget institutions' self-generated revenues and local government revenues. Both of the latter are excluded from this analysis. The major taxes are the value-added tax (VAT), personal and corporate income taxes, customs and excise duties and those social charges that are collected as a derivative of the collection of corporate and personal income taxes. Customs administers all customs duties and excise levies on imports and exports, as applicable. Legislation is being developed to transfer the collection of all excise taxes from Tax to the Customs Agency.

Table 24 Tax revenue by type **ALL Million**

Nr.	I T E M S	Budget 2008	Actual 2008	Budget 2009	Actual 2009	Budget 2010	Actual 2010
II.	**Tax Revenue**	**262 352**	**264 421**	**305 988**	**270 830**	**328 729**	**288 564**
II.1	**From tax offices and customs**	**195 711**	**205 292**	**230 168**	**208 870**	**246 036**	**223 019**
1	V.A.T	99 903	107 094	117 491	110 062	126 889	113 998
2	Profit Tax	14 420	18 108	20 813	17 149	19 375	17 606
3	Excise Tax	38 493	32 510	44 363	33 504	41 669	38 788
4	Personal Income Tax	16 272	24 498	26 065	26 820	33 862	27 058
5	National Taxes and others	17 212	14 423	15 312	13 405	16 520	18 295
6	Customs Duties	9 411	8 660	6 124	7 929	7 721	7 274

[33] PEFA Secretariat, _Public Financial Management Performance Measurement Framework_, June 2005, p.28.

II.2	**Local government revenue**	**15 582**	**11 307**	**18 412**	**12 149**	**20 948**	**11 898**
1	Local Taxes	9 487	7 135	11 114	8 154	12 452	7 684
2	Property Tax	3 136	1 586	3 734	1 509	4 383	1 896
3	Small Business Tax	2 959	2 584	3 564	2 486	4 113	2 318
II.3	**Revenues from Special Funds**	**51 059**	**47 822**	**57 408**	**49 812**	**61 745**	**53 647**
1	Social Insurance	45 836	42 775	51 029	44 344	53 757	45 041
2	Health insurance	5 223	5 047	6 379	5 467	6 588	6 432
3	Revenues for owners' in value-compensation					1 400	2 174

Source: MoF

Dimension (i): Clarity and comprehensiveness of tax liabilities

Albania has a flat income tax rate system, set at 10 per cent, which is readily understood by all participants in the formal economy. The legislative base for taxes of all types and customs duties is complete, clear and readily accessible by taxpayers, businesses and importers/exporters by means of Tax and Customs Internet websites. Box B summarises key relevant legislation currently in effect.

The tax and customs laws define the scope, applications, rules and rates for the taxes in force and the methods of payment. These are fully described on each agency's web site, accessible to all clients. Both sites provide a complete description of all laws and regulations relating to the operation of the tax/customs system and procedures, accounting and document requirements. For the tax website, details on income and value-added taxes, social charges for health and pensions, the roles of the tax police, taxpayers right to notice and other tax-related laws are all provided. For Customs, similar disclosure pertains to all customs and excise duties, rates, processes and laws.

Box B. Key tax and customs legislation

- Law on Income Tax no. 8438/1998
- Law on VAT no. 7928/1995
- Law on Tax System as amended no. 9769/2007
- Law on Tax Procedures 9920/2008
- Law on the Tax Advocate 648/2010 & related instructions on advocate responsibilities, procedures and taxpayer procedures no. 37/Nov 2010
- Law on the Customs Code No. 8449/1999
- Law- Customs Implementing Procedures no. 205/1999
- Law on Excise no. 8976/2002
- Law on Fiscal Amnesty no. 10418/2011

Source: MoF at http://www.minfin.gov.al/

There is also a Taxpayers' Advocate, whose responsibility is to provide protection for taxpayers' rights, assisting by providing information on these rights and educating taxpayers. The Advocate has the ability to review complaints, access all relevant information, request a review of any procedures underlying the complaints and recommend systemic changes where appropriate. He operates independently and reports monthly or more frequently if required to the General Director of Taxation and quarterly to the Minister of Finance.

The key tax legislative provisions are transparent and clear. Customs duties are similarly structured. Rates are straightforward, unencumbered by multiple exemptions and variances.

Both the tax and customs websites have contact email and telephone information for those seeking additional guidance information.

The 2011 Law on Fiscal Amnesty will have a major impact on outstanding debts owed to the government. It provides for partial forgiveness of various taxes, penalties for arrears in payments, additional charges for undisclosed assets, revenues and other holdings if there is voluntary disclosure by the taxpayer of such assets and liabilities. The impact on taxes, duties and social charges will be a potential increase in registrations and the reduction of arrears that have been outstanding for long periods of time and that are uncollectable, along with the increased transparency of current amounts owed and not declared (i.e. reduced tax evasion).

Performance change and other factors since 2005 PEFA assessment

All major taxation and customs laws have been modernised to reflect international good practices. The organisational structures of the tax and customs agencies have been altered to meet the requirements of the new laws and sub-legislative orders and instructions. Further changes are being pursued. New IT systems have been, and continue to be, implemented to provide a high degree of information directly to the clients, with provisions for self-service in a number of areas of information dissemination, liability determination and filing. The processes are in the latter stages of their transformation.

Dimension (ii): Taxpayer access to information on tax liabilities and administrative procedures

There are 14 regional tax offices, located across the country. A significant number of taxpayers visit them to obtain direct advice on issues relating to their tax status and issue resolution. There are a variety of other means by which taxpayers can obtain information on their taxes. They include, email interaction with tax officials, Internet access to information on their services, laws, regulations and forms, advertisements in local and national papers, radio and TV stations, seminars and brochures. This includes information on taxpayers' rights and obligations, appeal procedures, tax rates and the related rules and processes. There is also a link for the Taxpayers' Advocate for tax issues and information on the implications of the new Law on Fiscal Amnesty.[34] At present, individual taxpayers cannot file their taxes electronically, although they can access their accounts and prior records.

All citizens have a unique social insurance number. To date, this number has been used to track personal income tax contributions from employer source deductions. This has been the primary source of personal income tax revenues. Beginning in 2012, the Tax Administration plans to use the Social Insurance Number to support the registration of individual taxpayers who are not already registered as employees of registered commercial

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[34] *Law on legalization of capital and the fiscal amnesty of a portion of tax and custom duties debts*, No. 10 418, dated 21.4.2011

enterprises. Commercial organizations have a unique tax identification number assigned on application by the entity to the Agency's National registration Centre.

Qualified and certified brokers have access to an online customs duty calculator. This program enables them to enter of the details of their transaction and to calculate the customs and excise duty owed on the declared value of the goods. Qualified personnel approved by the Agency can then access the files, enter shipment details, calculate duties owed, pay them from a pre-paid account with the agency or make the payment at a commercial bank to obtain the release of the goods. There are approximately 20,000 clients involved in all aspects of the customs system. There are 17 Custom Houses located across Albania that provide customer services and information.

Performance change and other factors since 2006 PEFA assessment

There has been a significant increase in the quality, quantity and timeliness of information on tax liabilities and the administrative procedures made available to the taxpayers. Internet access is the most efficient, with all relevant information and forms available on line. Face-to-face assistance is available through new taxpayer service centres across the country, established under the revised Law on Tax Systems. The establishment of a call centre to provide information by telephone was also implemented under the same law. Consultations with the Chamber of Commerce indicated general satisfaction with the frequency, level and quality of information communications by the Tax Agency.

Dimension (iii): Existence and functioning of a tax appeals mechanism

There is a well-defined process governing the rights of the taxpayer to appeal any administrative act and decision that affects the taxpayer and his/her tax liabilities.[35]The taxpayer may, within 30 days of the action taken, file an appeal with the Director of Tax Appeals. In the interim, the assessed taxes and interest must be paid, pending the outcome of the appeal. The Director has 90 days in which to conduct the required analysis, gather any additional data relevant to the case, and issue a decision. The decision can be to uphold, cancel or reduce the amount of the assessment originally issued. Any decisions that increase the assessment must be referred back to the assessing entity for consideration and for the issuance of a subsequent decision.

If the Director does not issue a decision within 90 days, or if the taxpayer is unhappy with the decision rendered, the taxpayer may appeal the decision to the courts for a judicial review. The team was advised that at present, the court process could take as long as five years to complete. For this reason, a USAID project to support the establishment of an administrative court with the capacity to handle tax-related appeals has been completed and is presently being reviewed in Parliament.

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[35] Minister of Finance, Instruction no 24/2008, Chapter XIII and the Law on Tax Procedures, no 9920/2008, Article 16

The recent history of the appeals process is shown below in Table 30. Slightly more than 60% of appeals were heard; the remaining appeals did not meet the established criteria. Of those accepted one half were upheld, 39 per cent were decided in favour of the appellant, the taxes were repealed for two per cent of the appeals, and eight per cent were sent back to the TDO for additional data collection and analysis.

Table 25 Tax Appeals Statistics 2010

Stage	Step	Number	Percentage of Total
I	Appeals Received	6 428	100 %
	Appeals Refused	2 424	37.7
	Appeals Reviewed	4 004	62.3
II	Taxes Reviewed	9 245.1	100 %
	Taxes Upheld	4 667.8	50.5
	Taxes Repealed	192.5	2.1
	Taxes Refused	3 635.2	39.3
	Returned to TDO	749.6	8.1

Source. General Tax Directorate

This appeals mechanism does not meet fully the PEFA definition of independence. By law, the Directorate of appeal is an independent unit within the central tax administration.[36] The Minister of Finance, on the recommendation of the General Director Taxation, appoints the Director of the Tax Appeals. The Director of Tax Appeals reports directly to the General Director, Taxation. However, he is nonetheless embedded in the Agency and is subject to management direction from the General Director. The Director is also a member of the Agency management team and participates in the overall management of the ministry. A similar process exists within the Customs agency, with the final decision on any appeal taken by the General Director, Customs. An available option for the appellant is to appeal to the courts is dissatisfied with the decision on the appeal. As per the PEFA methodology, this does not qualify as a fully independent appeals function.

Performance Indicator

Indicator / Dimension	Score 2007	Score 2011	Justification for 2011 Score	Performance Change Other factors
PI-13	NR	A	Scoring Method M2 (Average of scores)	
(i) Clarity and composition of tax liabilities	NR	A	Legislation and procedures for VAT, corporate and Personal income taxes, customs and excise duties, social charges are	

[36] *Ibid*.... His decisions are made independent of the management structure (Article 18)

			comprehensive and clear, with charges clearly set out in relevant orders.	
(ii) Taxpayer access to information on tax liabilities and administrative procedures	NR	A	The Internet sites of both tax and customs agencies are comprehensive, with timely and accurate information on all tax liabilities and their administration. On line rate determination for customs duties and filings for corporations are presently available. All changes are accompanied by extensive public information and training campaigns.	2006 data were not available
(iii) Existence and functioning of a tax appeals mechanism	NR	B	.The appeals organization is not completely independent of the agency. Like internal audit, it reports directly to the General Director, Tax Agency.	

PI-14 Effectiveness of Measures for Taxpayer Registration and Tax Assessment

This indicator aims at determining the effectiveness in the tax assessment based on the reliability of the taxpayer registration system and the correct assessment of taxpayer liabilities at the time of this Repeat PEFA Assessment in May 2011.

Dimension (i): Controls in the taxpayer registration system

All corporate taxpayers have a unique identification number. The taxpayer registration system consists of all corporations who have registered and who make employee source deductions for income tax and social charges (pensions, health services) from employees' salaries and individual taxpayers. Individuals earning less than 200 thousand Lek annually do not have to pay taxes and are not registered in the system. There is a grey economy, composed of unregistered, self-employed entrepreneurs and hence do not deduct taxes at source or social charges. Both their firms and their employees are therefore operating outside of the formal economy and are not contributing to tax revenues or social insurances. While there are other government systems that contain information on potential taxpayers who submit no declarations and evade taxes (unregistered taxpayers), the linkages between the tax system and other systems with potential additional information are immature and require development.

As of January 2012, all employed/self employed citizens will be required to file a tax declaration, using their social insurance number in the social data registry as the key. At present, the tax database uses the registrations in the social insurance database and is also linked to the business registration database. The team was informed that, at present, there are no other links with databases that could assist in identifying individuals who fail to register according to the law. This represents a major opportunity for expansion of the scope of the tax database to include those individuals who are not presently captured by the Tax Agency.

The linkages between the database of tax filers and other government databases are underdeveloped. There are linkages to the business registration and social services (pensions, health) databases, but no others. These remain to be addressed over the medium term.

Performance change and other factors since 2006 PEFA assessment

The tax system is moving to a more comprehensive system involving all employed citizens in whatever capacity they earn their living. The creation of a central taxpayer database has facilitated the monitoring of the tax history of all registered taxpayers. The registration of all corporations, the implementation of Internet access to tax filing materials, coupled with the use of the Internet for filing VAT and corporate tax returns, contribute to increasing levels of compliance.

Dimension (ii): Effectiveness of penalties for non-compliance with registration and declaration obligations

The 2008 Tax Procedures Order no 24 establishes that fines and late payment charges are an integral part of tax obligations. These fines and charges may apply to non-filings, non-payments and late payments for taxes and social charges under S. 114 of the Tax Instruction nr.24, dated 02/09/2008. It states that the *"taxable person, who does not pay within the period provided for in specific tax laws, the amount of taxes or social security contributions, (is) forced to pay a fine of 5% of the outstanding liability amount for each month or part of a month all the time delay until the moment of payment of tax. In no event shall the total fine that should not be less than 10,000 lek and greater than 25% of the outstanding liability." As well, there are a variety of other measures that involve the sequestration of bank accounts, the seizure of assets and other similar actions to recover outstanding tax liabilities"*.[37] In addition, there is a fine of 25,000 lek for those who fail to register as taxpayers, as provided by the Law on Tax Procedures no. 9920-2008, Article 112.

The Director of Collections advised the team that the current level of fines was sufficiently high to encourage compliance with the regulations. Discussions with the Chamber of Commerce confirmed this viewpoint. The detection of late payments of taxes has been considerably improved with the new tax system in place that permits an improved monitoring of collection activities and can provide the status on individual cases as required. This also supports greater transparency in the detection and the administrative process of levying these fines for late payments, reducing the opportunities for corruption on the part of tax officials.

[37] *Law on Tax Procedures* (9920/2008) Article 93 and following. ff....The team was informed that the new practice is to avoid monetary fines and focus instead of seizure of moveable assets of debtors.

Performance change and other factors since 2006 PEFA assessment

There has been a tightening up of the procedures to monitor registration and compliance. The computer-based tax rolls have been established for corporate tax filers and the penalties stiffened to discourage non-compliance or fraudulent filings. The ability to seize all movable assets and to sequester bank accounts to cover outstanding liabilities to the Agency has the prospect to increase voluntary compliance.

Dimension (iii): Planning and monitoring of tax audit and fraud investigation programs

The planning and execution of tax audits is an important factor in the operation of any national tax system. Excessive discretion in the selection of auditees can provide opportunities for corruption or other illegal behaviour by the tax auditors. On the other hand, an overly aggressive audit process, even if even-handed, can lead to public criticism, damage the business climate, and adversely affect the compliance levels. The solution lies in adopting a risk-based process for the selection of high-risk candidates for audit, a best practice among tax administrations worldwide.

Since the introduction of risk-based audits in Albania, the practice is to utilise the risk-based audit selection system for 60 per cent of the auditees selected. The remaining 40 per cent are selected by the regional tax offices, which are well positioned to know where the greatest risks are located within their jurisdiction[38]. This system was developed under a USAID-financed project. A tax audit work plan is then prepared for each region, to be executed by the tax inspectors throughout the year. Implementation is on a phased basis. By the end of 2010, this risk analysis had been implemented for the VIP accounts. Subsequent groups of accounts will be subjected to the same analysis during 2011.

There are approximately 150 tax assessors and 100 tax inspectors located at headquarters and the 14 regions across the country. The detection of fraud involves consultation with other government departments (Treasury, Customs, etc.) and the banks to ascertain the validity of all transactions and their appropriate taxable status. They conduct their inspections according to their annual work plan. A protocol exists for any incidences of fraudulent behaviour detected by other entities (State High Auditor, others) that could affect taxation to be reported to the Taxation Agency for investigation.

Performance change and other factors since 2006 PEFA assessment

The government has made good progress with its implementation of the risk-based audit selection system for 60% of its audits.

PERFORMANCE INDICATOR

PI	Score	Score	Justification for 2011 Score	Performance Change / Other factors

[38] The team was unable to investigate this approach in depth. A potential concern is that some unknown portion of that 40% determined by the TDOs could still be subject to abuse. The Chamber of Commerce indicated that this is a continuing issue with its members.

	2006	2011		
PI-14	NR	B	Scoring Method M2 (Average of scores)	2006 data were not available
(i)	NR	C	Database for personal income tax filers not completed. Weak linkages between the taxation database and other government databases with information on individuals and corporate entities.	
(ii)	NR	A	Penalties are high and viewed by the Agency and business representatives as being a valid deterrent to fraud.	
(iii)	NR	B	The 40% of audits that are regionally selected may be subject to abuse by tax inspectors.	

Reforms in Progress

The extension of the e-filing for personal income taxpayers is being planned for implementation in 2011. This will complete the e-filing for all classes of taxpayers and for the related social contributions.

PI-15 Effectiveness in Collection of Tax Payments

Taxes are the major revenue source for governments. This indicator assesses the effectiveness of the collection of taxes assessed and due. To the extent that the assessed taxes are not collected, they represent tax arrears that should be accorded a high priority for action. Once collected, tax revenues should be remitted quickly to the Treasury and reconciled on a regular basis.

Dimension (i): Collection ratio for gross tax arrears

This is the percentage of tax arrears at the beginning of a fiscal year, which was collected during that fiscal year (average of the last two fiscal years). The performance over the latest 2 years was low, well below the minimum threshold for a rating of C or above.

The General Director, Internal Audit identified a number of high-risk areas in which corruption and theft were most prevalent. Financial management systems was one such area, and the tax and customs duty collection systems were identified as having significant risk and important losses of funds.[39] This has a clear impact on the effectiveness of these revenue collection systems, and points to areas for improvement.

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[39] DGA, *2010 Annual Report on Internal Financial Control Systems across General Government Units* (translated by team), section 3.3. This report was based on the review of *(footnote continued)*

A major problem exists relating to the level of tax arrears. In the period prior to the tax reforms, tax arrears were based on the assessed taxes only, with no provisions for the write-off of doubtful accounts receivable. The tax administration did not employ any of the standard financial metrics (age of accounts receivable, collectability analysis, etc.) to support analysis of these receivables. Because there were no enforced collection deadlines and action against outstanding debtors was ineffective, the receivables continued to grow unchecked. By 2010, these receivables were estimated at 58.5 billion lek[40]. The recorded arrears were a fraction of this amount, as shown below in table 31, as only those accounts deemed to be uncollectable were recorded as arrears.

The team was informed that a proper risk-based analysis of this 58.5 billion lek receivables is a high priority of the debt collections department for 2011. Following the risk-based assessment, those amounts deemed to be uncollectable will be written off under the 2011 Law on Fiscal Amnesty. However, in the absence of a clearer policy on the write-off of uncollectable accounts receivable government-wide, the risk of another build up of arrears is a distinct possibility.

Table 26 Recorded Gross Tax Arrears and Collection Ratios 2009-2010

Year	Arrears (Million Lek)				Total Tax Revenue	Average Collection Ratio
	Opening Balance	Incurred during year	Eliminated in Year	Balance at end of year		
2009	9,861	1,339	795	10,405	258,681	8.1%
2010	10,405	4,606	2,713	12,298	276,666	26.1%
					Two Year Average (simple)	17.2%

Source: Tax Agency *Monthly Financial Statis***tics**, *MoF tax and Customs departments*

Performance change and other factors since 2006 PEFA assessment

Changes have been made to the tax collection system. The revised system and procedures are now permitting the Tax Agency to utilize modern tools of tax collection, risk assessment and client analyses that are international best practice. The re-examination of the definition of tax arrears has been changed to be in general conformity with the international accounting definitions for accounts receivable and allowances for uncollectability.

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all Budget institutions' Strategic and Annual Audit Plans, and the results of the audits performed in 2010.

[40] Source: Tax Agency - Debt Collection Department

Dimension (ii): Effectiveness of the transfer of tax collections to the Treasury by the revenue administration

The implementation of the new Treasury system has resulted in same-day clearance of all regional tax revenue collection accounts and their deposit in the TSA. The ability of commercial entities to pay their taxes on line has also improved the cash management of these balances.

Performance change has been positive since 2006. Then, commercial banks were allowed to keep government revenues collected through them for two days before transferring them to the TSA. In 2011, this interval has been reduced to the to the day of collection, with an additional one or two days holiday periods. Under this arrangement, there has been a consolidation of government cash resources under treasury control, which supports government cash management and forecasting.

Performance change and other factors since 2007 PEFA assessment

The Treasury system has introduced daily sweeping of all revenue accounts and their deposit in the TSA. This is a major change since the 2006 PEFA assessment, when all accounting and transfers were manual processes.

Dimension (iii): Frequency of complete accounts reconciliation between tax assessments, collections, arrears records and receipts by the Treasury

The tax collection system has yet to be fully modernised. A major deficiency is the timeliness of the provision of detailed tax payment accounting information.

There is no direct interface between Tax Offices and the Treasury system. Rather, the local tax offices deposit all payments in local bank accounts maintained by the Treasury. These collections are swept and registered daily as revenues received by the Treasury System. The tax system is not involved in this daily activity. The local and regional tax offices prepare a consolidation of all tax receipts with full detail on the transactions that are then provided to the General Tax Department. At the end of each month, the GTD performs a full consolidation at all levels - national/regional/local level – and reconciles these data with Treasury data from the individual Treasury units. As a result, it reports its collection results on a monthly basis, which adversely affects the cash management function's ability to fully understand the details of the cash collected at the time the funds are received. [41] This means that the present system does meet the PEFA standard of a complete reconciliation of all assessments, collections, arrears and Treasury receipts on at least a monthly basis.

The team was advised by Agency staff that the system architecture makes it difficult to link the tax collection system to the other financial systems across government. The Customs ASYCUDA system is more modern and is capable of delivering detailed information on collections on a daily basis.

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[41] However, the cash is swept daily from the revenues accounts in the TSA.

Performance change and other factors since 2007 PEFA assessment

The implementation of the TSA has made cash management of tax receipts highly efficient and effective. Reconciliations are performed automatically on a daily basis throughout the working week. Across weekends, remittances are subject to a two-day delay.

PERFORMANCE INDICATOR

Indicator / Dimension	Score 2006	Score 2011	Justification for 2011 Score	Performance Change / Other factors
PI-15	NR	D+	Scoring method M1 / (weakest link)	
(i)	NR	D	Average collection ratio in 2009 and 2010 was 17.2 %	2006 data were not available
(ii)	NR	A	All accounts are received by Treasury daily and deposited into the TSA	
(iii)	NR	A	All Treasury accounts are reconciled on a daily basis.	

Reform in Progress

The major reform taking place in 2011 will be the completion of the analysis of the 58.5 billion outstanding accounts receivable and the writing off of all amounts deemed to be uncollectable. Those amounts that are determined to be collectable will be subjected to enhanced collection efforts to eliminate as many as possible and to maintain the Agency's high collection ratio.

PI-16 Predictability in Availability of Funds for Commitment of Expenditures

This indicator assesses the extent to which the MoF provides reliable information on the availability of funds to the Budget institutions (BI) that manage the general government budget, and therefore are the primary recipients of such information from the MoF. This indicator is intended to measure performance over the last completed fiscal year before assessment.

Dimension (i): Extent to which cash flows are forecast and monitored

Each BI forecasts its expected monthly cash flow for the entire year and submits these so-called Treasury Plans (TP) to Treasury together with the draft annual budget. TPs for each BI are made up of two components: one for expenditure for personnel and one for operational expenditure, which includes other recurrent expenditure and investment outlays. Treasury may revise the original forecasts by the BIs if it considers them to be unreliable or unrealistic.

The consolidated treasury plan is updated monthly. The treasury plan for an individual institution can be updated either on the basis of a justified request by a Budget institution or by the General Treasury Department in case of a liquidity shortage. The latter type of revision should be done within 10 latest days of a month for the following month. The second case is very rare, almost not used, because of the use of daily payment limits that effectively make the latter type of controls superfluous. Whenever a change in the Treasury Plan is made, the concerned BIs are informed about it.

Daily payments are monitored and controlled very tightly by the Central Treasury and its 35 Treasury District Offices (TDOs); payments are made only when there is cash available. (See further under PI-17). The Central Treasury controls daily payments by imposing different types of limits: limits on total payments, limits on the payment by different TDOs, limits on specific types of expenditure (salaries and operational), or different combination of these limits. Which invoices are paid can furthermore be controlled by setting a processing priority when individual invoice are registered in the system.

To monitor the payment process, daily reports on pending payments for approved expenditure, and on payments in the authorization pipeline, are extracted from the system and distributed to the responsible officers in the Central Treasury and the TDOs.

Performance change and other factors since the 2006 PEFA

The 2006 PEFA assigned a score of B to this dimension. The justification of the score was the following: Fiscal statistics on expenditure and revenues are compiled and made public on the Internet on a quarterly basis. These statistics show a trend for the revenues and expenditures based on actual figures from previous fiscal years and they are the basis for the budget institutions' forecasts. A cash flow forecast is prepared by the Treasury Department of Ministry of Finance on a quarterly basis.

Dimension (ii): Reliability and horizon of periodic in-year information to BIs on ceilings for expenditure commitments

Ceilings for commitments are based solely on the limits set by the budget appropriation. As per the organic budget law: "Authorizing officers of general government units shall maintain information on financial commitments, and shall not allow undertaking of any new commitment if that exceeds the limit of the budget appropriation".

Strictly applying the PEFA methodology, which is couched in terms of commitments, the horizon is thus, in theory, at least six months, up until the passing of the mid-year supplementary budget and the predictability is quite high.

In practice there is much less predictability, or at least it has been in the last two years, as previously discussed. The Ministry of Finance can in the early stages of budget execution contain expenditure by freezing some appropriations or parts of them and by adjusting the budget institutions' Treasury Plans. Reductions initiated and imposed by the MoF are regularized in the mid-year Supplementary Budget and in the so-called Normative Budget before the end of the year.

Dimension (iii): Frequency and transparency of adjustments to budget allocations, which are decided above the level of management of BI's

The organic Budget Law of Albania[42] specifies what rules apply to virements. These are:

For central government units:

1. reallocation of funds between programs, within a central government unit, and for various general government units, shall be approved by the Council of Ministers and shall not exceed 10% of the total fund approved for the program;
2. reallocations of funds of investment projects within program of the central government unit shall be approved by the minister of finance;
3. reallocations between current expenditure items within program shall be approved by the principal authorizing officer;
4. reallocations within a programme and current expenditure item, between various spending units shall be approved by the authorizing officer of the central government unit from which the spending unit is a subordinate body.

For the local government units:

1. reallocations between programs shall be approved by the Council of the local government unit;
2. reallocations of capital projects shall be approved by the Chairman of the local government unit;
3. reallocations between current expenditure items of the same program are approved by the chairman of the local government unit;
4. reallocations within the same program and current expenditure item between various spending units, shall be approved by the authorizing officer of the local government unit from which the spending unit is a subordinate body.

Reallocations are formally done twice a year, first in the Supplementary Budget tabled in Parliament in mid-year and then in the "Normative budget" tabled in Parliament at year-end.

PERFORMANCE INDICATOR

Indicator / Dimension	Score 2006	Score 2011	Justification for 2011 Score	Performance Change Other factors
PI-16	C+	B+	Scoring method M1 (weakest link)	
(i)	B	A		
(ii)	C	A	Strictly following the PEFA methodology, which is couched in terms of commitments, predictability is high.	In practice, because, so much of execution control is exercised by the Treasury Plans over which Treasury has a large influence, there is less predictability

[42] Law No.9936 Date 26.06.2008 On Management of Budgetary System in The Republic of Albania

(iii)	C	B	Significant in-year adjustments to budget allocations take place only once or twice in a year and are done in a fairly transparent way	Formally, all adjustments in the Treasury Plans are done at the behest of the BIs.

PI-17 Recording and Management of Cash Balances, Debt and Guarantees

As previously described, the World Bank recently conducted a debt management assessment (DeMPA).[43] Its scope was much more detailed than this PEFA analysis. Overall, it noted definite progress in the function since the previous assessment conducted in 2007. According to the report, 11 assessment dimensions were scored A, five dimensions scored B, 12 scored C, and five D. Government debt management was rated very high in governance and strategy development, coordination with fiscal and monetary policy and domestic market borrowing.

These debt-related activities take place within a strict legal framework. The core legislation is the *Law On State Borrowing, State Debt and Guarantees of the Republic of Albania* (number 9665/2006) covering state borrowing activities. It provides clear criteria for borrowing and guarantees. The team was advised that at present, these loans are not assessed on a risk basis for the recipient's ability to repay the loan. [44]Such guidelines are an EU SAA requirement. An analysis of the capacity to repay an obligation or to guarantee a loan is one factor in the risk analysis. The Directorate follows an annual debt strategy that is approved by the Council of Ministers, working through the Central Bank of Albania as its fiscal agent for treasury bills and government bonds. The state borrowing law is complemented by the *Law On Local Borrowing* (number 9869/2008) for municipalities, only a few of which have incurred debt[45].

Dimension (i) Quality of debt data recording and reporting

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

It employs the Debt Management Financial Analysis System[46] for all external debt and uses stand-alone Excel spreadsheets for managing domestic debt and guarantees. The team considers that the debt records are accurate and complete. Reconciliations of domestic debt are performed on a monthly basis, while external debt can take up to two months to be reconciled. The delay of an additional month for some external debt reflects the fact that

[43] World Bank, Debt Management Performance Assessment, February, 2011.
[44] An early draft of risk-based criteria has been developed and is under internal review.
[45] See PI-9 for examples.
[46] DMFAS is a system developed by UNCTAD for the management of debt by national governments worldwide. See www.unctad.org/templates/Page.asp?intItemID=2875&lang=1.

some line ministries bypass the General Directorate and deal directly with “direct payment” applications from World Bank loans or other IFI credits.. As a result, information on disbursements can take up to two months to reach the GDPDM and to be recorded in their system.[47]

Quarterly and annual debt bulletins contain domestic and foreign borrowing of all general government and government guarantees. They are posted on the MoF website. External debt is broken down by maturity (long-term or short-term), currency, types of creditors, and interest rates. Domestic debt is broken down by maturity (weighted average maturity and the maturity profile), types of interest rates, and by holders of debt.[48] For guarantees, only aggregate external and domestic stocks are outlined.

The government issues regular announcements of its debt activities. Table 27 illustrates the data provided, using recent examples of auctions results.

Table 27 Recent Debt Activities

Auction date	/	30.06.2011	30.06.2011	16.06.2011	16.05.2011	05.05.2011
Bond type	2 year	2 year	5-year Reopen	2 year	2 year	5 year
Coupon type	Fix	Fix	Variable	Fix	Fix	Variable
Amount offered	3,500	1,500	2,500	5,150,000	3,500,000	3,000,000
Settlement date	20.07.2011	04.07.2011	04.07.2011	20.06.2011	18.05.2011	09.05.2011
Maturity date	20.07.2013	04.07.2014	09.05.2016	20.06.2013	18.05.2013	09.05.2016
Indicative coupon rate	8.30%	8.90%	--	8.15%	8.10%	--

Source: MoF

Under the government’s current accounting rules, debt charges are recorded on an accrual basis of accounting.

Performance change and other factors since 2006 PEFA assessment

Compared to the results of the first DeMPA exercise in April 2007, clear improvements are evident in the quality of the debt management strategy document, the involvement of legal advisors during the negotiating process of external borrowing, and the management of operational risks.[49]

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[47] World Bank, *loc cit*, pp 26-7.

[48] By main authorized banks and an aggregate category called “individuals”. However, these were not broken down by residency and, consequently, there were no records on foreign holdings of government securities.

[49] *Ibid,* p.4.

Dimension (ii): Extent of consolidation of the government's cash balances

The government has consolidated all of the general government entities into the TSA. The General Directorate of Treasury manages all aspects of the TSA, including all expenditures and revenues of all of the central government. These include ministries, departments and agencies, regional and local government units and special funds.

These Treasury accounts are maintained at the Central Bank. In order to keep track of the source of revenue and disbursements, the Central Bank has established a sub-account ledger that includes a revenue and an expenditure account for each budget institutions. The daily report from the Central Bank summarizes the activity in each ledger account to allow Treasury to know the source of financial transactions. The balances of these sub-accounts are swept daily into the TSA by the Central Bank.

A limited number of bank accounts are maintained outside the TSA mechanism, most notably some project accounts that have external funding with provisos in the loan or grant agreements to maintain separate bank accounts. These project bank accounts are maintained in the Central Bank but are not under Treasury's control. However, these project accounts are recorded in the General Leger and thus the Treasury has full knowledge as to their existence and status. The bank reconciliations are performed by the Central Bank and its monthly financial summaries are sent to the MoF General Account Directorate for incorporation of the data into the monthly financial accounts. Public Enterprises do not provide any financial data to Treasury on a regular basis; they are outside general government and exclusively utilise commercial banks for their financial operations.[50]

Performance change and other factors since the 2006 PEFA assessment

The completion of this phase of the Treasury system and the implementation of the Treasury Single Account to include all government bank accounts have constituted a major accomplishment of the period since the previous PEFA assessment. This reform strengthened a consolidated approach to cash management, improved cash control and reduced the need for short-term borrowing.

Dimension (iii): Systems for contracting loans and issuance of guarantees

State debt is defined in the law as the total public debt issued in the national currency or in another official currency. It excludes the financial liabilities of all municipalities, communes and other local government authorities. Outstanding foreign denominated debt is converted into lek using the conversion rate in effect on the day of conversion.

The legislative limit for total public debt outstanding (borrowing and guarantees) is set in the Law on Budget Systems[51] at 60 per cent of GDP. This limit is respected in the borrowing

[50] These entities prepare annual financial statements that are submitted to the responsible government ministry

[51] Law on Management of Budgetary Systems in the Republic of Albania, (9936/2008)
, , Art 58.

authorized in the annual budget law. This limit forms an integral part of the government's fiscal plan that underlies the annual budget.

The Minister of Finance's exclusive authority to contract loans and issue guarantees is defined by the Law On State Borrowing.[52] The basis of this authority is clear and respected. The law also provides clear guidelines for the conduct of all aspects of borrowing and loan guarantees. The Minister implements borrowing terms and conditions approved by the Council of Ministers.

The Minister of Finance is responsible for performing a risk assessment of available debt instruments and guarantees and their associated costs as well as for preparing a medium term debt management strategy for CoM approval. His annual report on the state budget presents the performance of the government in its debt management activities. He is obligated to consult with the Central Bank on the impact of the government's borrowing activities on the impact of borrowing on monetary policy, the level of foreign reserves and forecast exchange rates.

Performance change and other factors since the 2006 PEFA assessment

The World Bank noted in its 2009 review that "compared to the results of the first DeMPA exercise in April 2007, clear improvements are evident in the quality of the debt management strategy document, the involvement of legal advisors during the negotiating process of external borrowing, and the management of operational risks."[53]

PERFORMANCE INDICATOR

Indicator / Dimension	Score 2006	Score 2011	Justification for 2011 Score	Performance Change / Other factors
PI-17	B	B+	Scoring method M2 (Average of dimensions)	
(i)	B	B	Foreign Debts are recorded on the DMFAS system; their debt records are complete, updated and can take up to two months to be reconciled. Excel files are used for domestic debt, on-lending and guarantees, and require regular reconciliations. Comprehensive management and statistical reports (cover debt service, stock and operations) are produced at least quarterly	
(ii)	B	B	All cash balances are calculated daily and consolidated in the TSA, with the exception of bank remitted payments, which are deposited on the following day.	Selected accounts are consolidated only monthly.
			Central government's contracting of loans	

[52] Law on State Borrowing, State Debt and State's Loan Guarantees in the Republic of Albania (9665/2006) and On the Management of Foreign Financing in the Republic Of Albania, (775/2010)

[53] World Bank, Debt Management Assessment Report Albania, Feb 2011, p.4.

(iii)	B	A	and issuance of guarantees are made against transparent criteria and fiscal targets and always approved by a single responsible government entity	

Reforms in Progress

The MoF is pursuing a set of improvements to its debt management activities. The risk assessment models are being refined to better reflect the multiple determining factors for debt-related risk. A forthcoming version of DFMAS will integrate on-lending and domestic debt management into the automated system. The MoF is also developing technical procedures for local government debt management and monitoring.

Improved linkages between the tax system and the Treasury system are planned to speed the reporting of details on cash receipts in support of better cash management.

PI-18 Effectiveness of Payroll Controls

Payroll and related charges represent a significant percentage of current costs in governments. In a mature system, there are four steps involving: an approved position database (organogram), operated by a central personnel function; a personnel file of employees occupying the approved positions in budget institutions (employee register); the payroll pay list, which provides a list of all employees on the active payroll for the current cycle; and the financial accounts, recording the actual payroll disbursements.

Dimension (i): Degree of integration and reconciliation between personnel records and payroll data

There are several components to the payroll management process:

- Organizational Structure Controls. Managed by the Department of Public Administration for the 89,400 public sector staff. Approval of changes to existing organizations is required before a request can be submitted in the budget submission. Not all approved positions are staffed, although the resources approved by the MoF are based on the positions, not the actual staff numbers.

- Position Control. The MoF determines global complement and the total wage bill from the upcoming annual fiscal plan and translates this amount into an authorized level of staffing for the upcoming budget year, using standard salary costing techniques. The MoF takes these staffing levels and allocates them to budget institutions in the form of specific positions and salaries for inclusion in their annual budget request. Budget institutions then insert these staffing levels and their costs into their budget submission. The Treasury monitors the utilization of the positions as a regular part of its processing and control activities.

- Personnel Records. These are maintained in the budget entity as physical files for each individual for personnel data by the Human Resources department in every institution of government. These files contain the general information about the employees – date of birth, gender, civil status, educational and other professional qualifications, etc.. The Human Resources Department in all institutions collects the data for all employees. This is supplemented by a register of employees for pension purposes that contains the employee name, birth date, the start date of employment, the salary category and the retirement date.

- Attendance List. It is maintained for each employee on a daily basis, signed by the responsible unit manager and is managed by the HR Department as the basis for the preparation of the payroll.

Payroll Records. The payroll records and management of issuing salary payments to employees is the responsibility of the Director of Financial Services. He/she validates the HR-provided data, confirms the attendance calculations for payroll purposes and updates the payroll. It includes salary amounts, bonus payments (if any) and payroll deductions. Checks are performed weekly.

All departmental pay and HR systems are manual systems, employing EXCEL spreadsheets to perform the tasks. These require continuous reconciliation and are subject to regular internal audits.

Monthly payroll updates are based on changes made to the personnel file during the previous month. Budget institutions' internal audit units include payroll audits in their high-risk category of audits. Payment of salaries is made by the Treasury system in a similar manner to all other transaction payments.

Controls

Access to these files is strictly regulated. These files are accessible only by the HR specialists designated by the HR section or department head. All changes made to the databases require an approval document signed by the First Authorizing Officer (Secretary General) or when foreseen by law, from the head of the Institution. This document is retained as part of the audit trail for use by internal audit.

As the budget is implemented, Treasury monitors the staffing levels with respect to a ceiling of authorized positions. Note that the financial resources and controls in place are based on this ceiling and not on the actual number of staff employed. Inevitable staffing lags result in an underutilized salary budget. As well, the MoF is unable to accurately set the payroll budget amounts.[54]

Internal audit units interviewed confirmed that the payroll was a high-risk area and that audits are regularly conducted in this area. Based on interviews with three IAUs, the cycle of audit ranged from two to three years for payroll. Confirmation of the high-risk rating was also provided in the GDA's 2010 Annual Report.[55]

As well, DOPA's Human Resource Directorate has a cadre of 21 internal control officers who visit field offices to verify that employees are actually at work, a compliance measure that is

[54] Temporary staffs are allocated by CoM decision and controlled by temporary position, not by name.

[55] DGA, *loc cit.*

also payroll-related. Their Internal Control Directorate (that reports directly to the Minister) also performs some spot checks, usually initiated by the receipt of a complaint from a citizen, parent or principal. This function is essentially an inspection function, operating outside of the responsibilities of internal audit.

In Budget institutions' field units such as the Ministry of Education, their internal audit unit audits all regional or local units that are funded by the Ministry in any form (including subsidies). Where funding comes from another source, such as LGU-provided maintenance expenditures, they are audited by the Internal audit unit of the local government units. Similarly, non-financial resources such as teaching materials are audited by the ministry's internal audit unit as they are financed from this ministry's Regional Offices.

The team was briefed on the new human resource management information system (HRMIS) that is under development by DOPA. A pilot database was set up with two thousand records from sample entities and preliminary work is under way. The team noted that there were no auditors participating in, or being consulted by, the project team, despite the critical natures of financial controls in the system. This next phase of testing prior to approval of the system for government-wide implementation would benefit greatly from the participation of an experienced IT systems auditor in all aspects of the project, including the development of the data base applications (payroll, etc.), establishment of critical audit trails and accounting controls, their interfaces with the existing Treasury system and a data migration strategy. This is a critical step, as the integrity of the Treasury database must be protected.

Performance change and other factors since the 2006 PEFA assessment

Present systems involved in the determination and management of payroll are "stove pipe" systems that cannot communicate with each other. Extensive manual reconciliations are therefore required. The government is taking gradual steps to implement a modern human resource management information system (HRMIS) to replace the current manual systems in each ministry that has been in use for many years. At present, the performance is not materially different from the previous system in place in 2006.

(ii) Timeliness of changes to personnel records and the payroll

Measures of timeliness of implementation of changes in the personnel records and the payroll include:

1. average number of days between a change in employee status to the updating of the personnel database and the payroll list;
2. percentage of correction to salary payments (if data exist);
3. regular payroll audits, conducted at least every 3 years across all central government entities.

The team was advised by interviews with budget institutions and MoF that updates from any of the payroll management components are reflected in the payroll through a monthly updating process. Any changes occurring during that month are reflected in the following month's payroll.

No information was available on the average number of days elapsing between the change in the agencies' own personnel records and the payroll list, but based on the statements provided to the team, the average would be 6 weeks[56]. There was no analysis of error rates in the agency manual payrolls, but Treasury monitors commitments against approved staff complements on a daily basis as transactions are processed. Regular payroll audits are conducted continuously by all Internal Audit Units; with the high-risk status of payroll, the average cycle for all payrolls to be audited is in the range of 2-3 years.

Performance change and other factors since the 2006 PEFA assessment

The only completed change has been the role of the Treasury in monitoring actual staffing levels against approved levels. The design and implementation of the HRMIS with its payroll functionality is presently in the pilot stage. Plans are to complete the testing and validation of the system and its implementation across government beginning in 2012.

Dimension (iii): Internal controls applied to changes to personnel records and the payroll

This measure requires that internal controls exist to restrict and control the access to payroll and staff database (i.e. under what internal control is someone able to determine who is authorised to make changes to the databases.

Overall responsibility for the control of all aspects of personnel records and payrolls is vested with the Authorising Officer under the Law on Budget Systems Management.[57] The team was advised that there are specific rules regarding delegations regarding personnel and payroll records under the General Code of ethics and Code of Administrative Procedures. Delegations for access to these records are made to the head of Personnel Office; he/she may sub-delegate to the Chief of the Sector or HR unit staff. There is a specific process that is established for the recording of time worked and the calculation of amounts due as salaries, bonuses and deductions. There is also an adequate separation of functions between HR and Finance. Box D summarizes the key controls involved.

Box D. Key Controls Relating to Payroll and Related HR Systems

- procedures and authority for delegating, transfer and recording of the standard delegations;
- segregation of duties in the area of payroll and HR systems providing data to support pay activities;
- dual signature system for payroll commitments and payments;
- defined and controlled access to HR and payroll systems, assets and information;
- procedures to ensure timely, accurate and complete HR and financial information employed in payroll determination and payment;
- procedures to safeguard information and financial assets relating to the payroll process;
- documented monitoring and audit procedures;
- clearly established HRM rules related to systems feeding payroll;
- rules for documenting all transactions and activities, related to the operation of unit.

[56] One half month (2 weeks) plus the month (4 weeks) before the next payroll.

[57] Law no.9936 date 26.06.2008 on Management of Budgetary System in the Republic of Albania, article 3 and ff.

Source: MOF

The GDA report[58] identified payroll as one of the components with the highest level of risk, involving important violations that have material impacts on the revenues of the State. The team was advised by budget institutions that their Internal auditors regularly audit the linkages between the employee, personnel and payroll databases and individual payrolls.

Performance change and other factors since the 2006 PEFA assessment

The entire internal control regime has been revised since the last PEFA report. However, the payroll systems remain by and large manual systems, and the associated controls are manually based as well. The new HRMIS, when validated and fully implemented, is expected to have a major impact of the robustness of the payroll controls and a reduction in instances of corruption and fraud.

Dimension (iv): Existence of payroll audits to identify control weaknesses and/or ghost workers

Internal audit units regularly include payroll audit as one of their high-risk audit areas. Interviews with a number of Internal Audit Units indicated that the audit cycle for all payrolls is 2-3 years. This reflects the high risk rating assigned to pay and compensation in their risk-based audit planning. There is now an opportunity for the General Director of Internal Audit to plan for a government-wide payroll audit with a common set of audit criteria to enable the government to get an accurate snapshot of the performance of the entire pay process prior to implementation of the HRMIS. This could help ensure that all control weaknesses in the existing system have been addressed in the new HRMIS before its implementation is complete.

Internal audit is absent from the HRMIS development process. DOPA has no internal auditors involved in any aspect of HRMIS development or implementation. This means that there is no opportunity for internal audit to offer recommendations for improvements to the internal controls involved or to learn the system and its controls as they are being developed. This is an essential requirement to: (i) ensure that the internal control system identifies and addresses all potential sources of risk in the system's operations; and (ii) enable the General Director of Internal Audit to access experienced audit staff to assist in the preparation of an internal audit manual on the new HRMIS system at the same time as the HRMIS is being implemented.

Performance change and other factors since the 2006 PEFA assessment

This is a high-risk area, now receiving more attention in the identification phase of audit risk assessment. Measureable changes in performance of the payroll system are yet to be observed.

[58] GDA, *loc cit.*

Performance indicator

Indicator / Dimension	Score 2007	Score 2011	Justification for 2011 Score	Performance Change / Other factors
PI-18	B+	B+	Scoring method M1 (weakest link)	
(i)	B	B	Databases not linked. Monthly review of all changes and reconciliations.	
(ii)	A	A	Changes are updated monthly, generally in time for the next payroll.	
(iii)	A	A	Rules for accessing key files may not be fully compliant with all internal control requirements.	
(iv)	B	B	Payroll audits are covered on a 2-3 year cycle, reflecting the budget institutions' risk assessments and available audit resources.	

PI-19 Competition, VFM and Procurement Controls

This indicator assesses the strength of legal framework governing the national procurement system, covering the process design and the level of overall government compliance. The law requires transparency, a widespread use of competitive procurements, use of standardized documentation and processes, and an independent appeals process for procurement complaints.

Modification in PEFA methodology

In January 2011, the PEFA Secretariat modified the PEFA methodology for Procurement in order to provide a greater degree of detail in the assessment of this PFM function. Four sub-indicators now comprise this measure. One indicator has been added that links to the OECD/DAC methodology for procurement. The remaining three indicators have also been amended to enhance their ability of reflect the full scope of the procurement function. This represent a significant change in the structure, composition and scoring of the global indicator PI-19.

The legal foundation for public procurement in Albania is the Law On Public Procurement (LPP) No. 9643 of 2006, with two amendments in 2007, one in 2009, culminating with amendment no.10309 of July, 2010. The net result has been a law that has consolidated the use of electronic procurement; covered public utilities procurement activities; and established introduced a Public Procurement Commission to examine complaints, operating independent of the regulatory authority.[59] In addition, the organization of the Public Procurement Agency (PPA) was changed by Prime Minister Order No. 89 of April 23, 2010 into a centralised procurement entity. The LPP created an independent body, the Public Procurement Advocate (PPAd) to *"safeguard the legal rights and interests of candidates, bidders or suppliers against irregular actions or lack of actions by the (contracting authority)....... in the field of public procurement, by monitoring and investigating the administrative procedures in public procurement".*[60] As well, responsibility for dealing with complaints was assigned to an independent body, the Procurement Complaints Commission (PCC). This transfer took place in May, 2010, with the referral by the PPA of 267 outstanding complaints to the new PCC.

The PPA's objectives are set out in the LPP. In summary, its role is to promote efficient and economic public procurement, to encourage increased competition among suppliers by the use of transparent and non-discriminatory processes that will build public trust in the new, more equitable procurement process. All procurements greater than 16,000 Euros must be competitively tendered; procedures below 3,000 Euros are exempt from pre-publishing. All procurements between these two limits must be pre-published on the website and attract a minimum of five bidders.

BOX E. Public Procurement Procedures

Open procedures are those procedures whereby any interested economic operator may submit a tender.

Restricted procedures are those procedures in which any economic operator may request to participate and whereby only those economic operators selected by the contract authority may submit a tender.

Negotiated procedures are those procedures whereby the contract authority consult the economic operators of its choice and negotiate the contract terms with one or more of these.

Request for proposals is a procedure without prior public notice, whereby the contract authority may seek offers from a limited number of economic operators of its choice and compare them according to the criterion of price.

Source: LPP (10 309/2010)

The Public Procurement Agency operates a computer-based procurement system that is mandatory for all contracting authorities (CAs). Approximately 1700 contracting authorities

[59] SIGMA. *Albania Public Procurement Assessment, 2010*, p.1

[60] *Law on Public Procurement*, 2010, Article 14(1).

operate across the central government agencies using the system. The PPA publishes an annual report on its procurement activities on its website.

Dimension (i): Transparency, comprehensiveness and competition in the legal and regulatory framework

There are six sub-criteria used to assess this dimension. The legal and regulatory framework should:

1. be organized hierarchically and with clearly established precedence;
2. be freely and easily accessible to the public through appropriate means;
3. apply to all procurement using government funds;
4. make open procurement the default method of procurement and clearly justify when other means are to be permitted;
5. provide for public access for procurement plans, bid opportunities, contract awards and data on resolution of complaints;
6. provide an independent administrative procurement review process for handling procurement complaints.

The team's assessment was that the current regimes met fully criteria (1) to (4) and (6. Insofar as the public access criterion (5), it fully meets two of the three subcomponents and succeeds in 80% of the cases to meet the provision of a legal requirement to provide advance notice of annual procurement plans. This reflects the fact that some 20% of CAs do not notify the PPA of their procurement plans and hence the PPA is not able to publish them. This dimension is rated as a B.

Performance change and other factors since the 2006 PEFA assessment

The 2006 PEFA study rated the overall scoring was a D+. This reflected a low percentage of competitive procurements, significant overuse of less-competitive processes and an ineffective procurement complaints mechanism. There were only these three criteria used for the for procurement assessments.

Since this assessment, the government has made substantial progress. A new procurement law that is largely compliant with UNICTRAL standards was promulgated, and subsequent amendments have refined its provisions, bringing the law steadily closer to compliance with EU requirements, provided for an independent Procurement Complaints Commission, established an electronic procurement system that is now used for all procurement procedures conducted by all budget institution contracting authorities. This also increased public access to all bid related documents, including the annual procurement plans, notice of bid opportunities, awards, appeals and resolution of appeals. The system is also used for the dissemination of regular PPA monthly and annual reports on procurement activities. In 2010, a total of 53 Public Notification Bulletins, were disseminated. Since May 25, 2010, all subsequent bulletins are published only on the Internet, a measure of the confidence of the potential suppliers and the budget institutions in the electronic system.[61]

Dimension (ii): Use of competitive procurement methods

The percentage of total value of procurements that are performed using open competition. This percentage was 84.8 % in 2010. The PPA advised that all non-competitive procurement has to be fully justified and is subject to audit.

Table 28 2010 Public Procurement by Type and Value

Procurement Type	Number of Procurements	Value of Procurements (LEK Billion)	% Total Procurement Value
Open International Competition	5	2.9	11.1
Open Competition	1733	19.3	73.7
Call for Proposal	1437	3.1	11.8
Consulting and other services	69	0.9	3.4
Total Procurements	**3244**	**26.2**	**100.0**

Source: PPA 2010 Annual Report

Performance change and other factors since the 2006 PEFA

The percentage of open competitive procurements by value has risen significantly since the 2006 PEFA assessment. This is due to the improved legislative framework, the capacity development implemented by the PPA for the contract authority staffs, and the electronic procurement system. The electronic procurement system reported that in 2010, 84.8% of procurements by value used the open international and open competitive process. Details are provided in Table 27.

The 2010 SIGMA Assessment Report noted a number of concerns regarding the procurement methods. Central to their concern was the slow pace of implementation of the legal provisions of the LPP, coupled with a low capacity among procurement staff to understand and implement the fundamental operations of a government procurement function to achieve a competitive marketplace for its activities. It identified the need for more secondary legislation, guidelines and manuals to assist in the training of procurement officers.

Dimension (iii): Public access to complete, reliable and timely procurement information

This subcomponent assesses whether key procurement information is made easily available to interested parties. Required information includes: government procurement plans, bidding opportunities, contract awards and information on the resolution of complaints.

[61] The source for all statistics is the 2010 Annual Report of the Public Procurement Agency.

The PPA routinely publishes all contract notices for announced procurement procedures, winner award announcements, signed contracts announcements, and notifications of procurement procedures in the Public Notification Bulletin. However, it does not make available on its website public access to all of the individual budget institution procurement plans. Hard copies of the bulletin were discontinued in May 2010 and replaced by notices on the PPA's Internet website. During 2010, the PPA published 53 Public Notification Bulletins, 20 in hard copy and the remainder on the Internet. [62]

The PPC publishes in its annual report the breakdown on the resolution of all complaints received. Although the statistical analysis has only been performed for the last seven months of 2010 (i.e. from PPA transfer date to year end), the trend has been downward, from 51 complaints in June, to 37 in July, to 29-25 in August through October, to 8 and 11 in November and December respectively.[63]

Performance change and other factors since the 2006 PEFA assessment

The changes in the legal foundations of public procurement, the structural changes mandated by law to create the appropriate checks and balances in the operation of the procurement process and the implementation and mandatory use of the IT-based procurement system has resulted in significant increases in transparency and the availability of documentation and in information to all interested suppliers. The use of the Internet system for bid advertisements, acquisition of detailed information on the specific procurement requirements, the assessment of the proposal and the announcement of contract awards has given Albania a sound basis upon which to refine the understanding and use of the new procurement processes.

Dimension (iv): Existence of an independent administrative procurement complaints system

There are seven subcategories for this dimension. A complaint review body:

1. is comprised of seasoned professionals who are familiar with the legal framework and include members from the private sector and civil society;
2. is not involved in any capacity with the procurement process leading to contract award decisions;
3. does not charge fees that prohibit access by concerned parties;
4. follows clearly-defined and publically-available procedures for the submission and the resolution of complaints;
5. exercises its authority to suspend the procurement process;
6. issues decisions in a timely fashion in accordance with the regulations;

[62] CoM Decision No.398 of May 26, 2010 "*On some additions and amendments to the Decision of the Council of Ministers No. 1 of January 10, 2007 "On the public procurement rules*".

[63] Procurement Complaints Commission 2010 Annual report, p.13.

7. issues decisions binding on all parties.

All of these criteria have been met.

Public Procurement Commission:

The Public Procurement Commission (PPC) examines appeals on public procurement procedures. Its role is to determine is the cases being appealed are compliant with the PPL. The commission is financed from the state budget. The CoM appoints the members of the commission for a five-year term, renewable once. Article 19 of the PPL defines the structure and functioning of the commission. *Inter alia,* it specifies that:

- Its membership consists of five commissioners, who are to have a minimum of three years procurement experience and at least three must be lawyers;
- all members must have a clean record with respect to criminal offenses or dismissal for cause;
- members are restricted from participating in political activities, managing economic organizations or engage in other profit-making activities (other than lecturing);
- The commission decisions are required to be posted on their website.
- Article 19-7 specifies that it is a criminal offense to attempt to influence a decision of the commission.

Performance change and other factors since the 2006 PEFA assessment

The evolution of the Albanian procurement system has been directed at consistency with the EC procurement requirements. The creation of the independent Public Procurement Commission to investigate all complaints of procurement irregularities in a transparent and objective manner is one such step towards compliance with EC requirements. A separate independent Procurement Complaints Commission has been established and staffed with qualified personnel.

PERFORMANCE INDICATOR

Indicator / Dimension	Score 2006	Score 2011	Justification for 2011 Score	Performance Change / Other factors
PI-19	D+	B+	Scoring method M2 (average of dimensions)	
(i)	C	B	Five of the six sub criteria for the regulatory framework were met	Missing the legal requirement to disclose annual procurement plans of budget institutions.
(ii)	D	A	All cases of use of non-competitive procedures by law have to be justified	
(iii)	NR[64]	B	The majority of required key data are provided routinely on the	Consequential to the missing legal requirement to publish

[64] This performance subcomponent was not present in the 2006 PEFA assessment.

			electronic procurement system	budget institutions annual procurement plans
(iv)	C	A	The independent Procurement Complaints Commission is in place and functioning.	

Reforms in Progress

Major reforms in procurement have moved Albania to among the top-ranked procurement systems in the region. Current plans involve extending access for budget institutions to the PPA database to enhance the management of their procurement activities. Additional security measures are being designed to reduce the threat of hacking into commercially sensitive bid information and to protect the integrity of the procurement process.

PI-20 Effectiveness of Internal Controls for Non-Salary Expenditures

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

Articles 6 through 12 of the Law on Financial Management and Control establish the role of the various parties involved in the financial management control system. These included the Minister of Finance, The Principal Authorising Officer (MoF Secretary General), the entity authorizing officer and subordinate authorizing officers, executing officers, and line managers. These responsibilities are clearly defined and form the basis for any communications with the budget institutions on the components and requirements of the PIFC system in their entities.

Dimension (i): Effectiveness of expenditure commitment controls

Commitment controls for salary and non-salary financial transactions are present in the current control system. The team was advised that commitments are entered into the system when the event occurs (i.e. on an accrual basis). The Treasury system also has the capacity to receive contractual payment dates for future payments at the time of registration of the contract. This is particularly important in procurement contracts, where the contract might be signed in January, but deliverables may occur over several later periods.

At present, commitment controls exist at the level of the annual appropriation. That is, irrespective of any monthly cash flow forecasts prepared by individual budget institutions, they may enter commitments into the system up to the total uncommitted funds in their appropriation. There is no particular impediment to changing this control within the Treasury system – it could be altered to permit commitments on a quarterly or monthly basis through to the monthly budget forecast provided by the budget institutions to Treasury. However, the current annual basis was agreed with the World Bank when the new systems were developed in 2006. Under the system, contractual obligations for the entire year are entered as commitments when signed. Multi-year commitments are not currently permitted. Monthly payments are validated against the planned commitments and adjustments are negotiated with Treasury should deviations form the planned commitments occur. Periodic cash rationing is the only effective mechanism to ensure that payments do not exceed cash availability. As a result, this requirement of sub-dimension (i) is rated as a C.

Performance change and other factors since the 2006 PEFA assessment

The 2006 assessment noted that no commitment controls were exercised by the MoF. Existing bi-monthly spending ceilings appeared to be ineffective. The new Treasury system provides an improved commitment control/expenditure control systems.

Dimension (ii): Comprehensiveness, relevance and understanding of other internal control rules/ procedure

Since the last PEFA in 2006, there has been substantial progress. The Organic Budget Law (Budget Systems Law) was passed in 2008, separating financial policy functions (MoF responsibility) from financial administration (ministries' responsibilities). It was complemented by a new Financial Management and Control Law, a Law on Internal Audit, the PIFC Policy & Implementation Plan Law and the Law on Financial Inspection. Numerous COM decisions were approved as well as two manuals on Financial Control and Internal Audit.[65] The government issued its comprehensive Financial Management and Control Manual in 2010.[66] It provides clear information and direction on all aspects of the PIFC system that was being implemented. While the legal and structural bases for PIFC are in place, there is considerable work to be done in inculcating this fundamental change in internal control throughout management. Senior managers do not understand fully the cultural change embedded in the PIFC system. As a result, they do not act as the champions of change for PIFC in order to embed the concept deeply into their entity or to utilise Internal Audit as an essential management tool. Many line managers do not understand their responsibilities with respect to the operation of their internal financial control system, nor do they understand the major change in the role of the internal auditor from one of inspection to one of advisor on control risks and mitigation measures.

Many auditors still have not internalised the PIFC concept. Compliance and financial control audits are still prominent in the audit plans of budget institutions. This is likely due to a combination of the lack of: auditors with experience in modern internal audit and control techniques; good role models among the audit community, and support from senior managers in the budget institutions.

[65] *Ibid*. See Box A for complete references.

[66] Minister of Finance, *Manual on Financial Management and Control*, Order no.89780/ 2010

The team has rated this sub-component as a C to reflect the fact that, while the legal and guidance for the internal control system has been fully established, it is not yet fully understood by management and auditors.

Performance change and other factors since the 2006 PEFA

In 2006, comprehensive procedures for internal controls were lacking; procurement controls were weak and contributed to budget reallocations throughout the year. This situation has now been rectified.

Dimension (iii): Degree of compliance with rules for processing and recording transactions

Treasury instructions on the recording, processing and reporting transactions are clear and are respected by the financial officers involved in the preparation and entry of the transactions. The Treasury system has built-in, extensive checks that ensure that errors are detected before they enter into the system and are correct when processed. The error rates for transactions are not monitored by Treasury, but are felt to be low. A formal systems audit of the quality of data and error rates would be a useful initiative at a future date. This would have to await the development of systems auditing expertise by either the internal audit or the external audit organisations.

PERFORMANCE INDICATOR

Indicator / Dimension	Score 2006	Score 2011	Justification for 2011 Score	Performance Change / Other factors
PI-20	C+	C+	Scoring method M1 (weakest link)	
(i)	C	C	Commitment controls are based on the limit set by total annual appropriation and not by month.	.
(ii)	B	C	Other internal controls in place are comprehensive and respected	New PIFC system just implemented and not well understood by managers and auditors.
(iii)	B	A	Compliance with the controls is generally high.	

Reforms in Progress

The implementation of the new PIFC controls is a work in progress. The government will continue to refine its control systems and develop its staff capacities to improve the effective application of these new PIFC internal controls.

PI-21 Effectiveness of Internal Audit

The government has actively pursued the development of internal audit and control over the past decade. Box F summarises the key relevant laws and decisions.

BOX F. Internal Audit Laws and Sub-legislative Instruments

- *CoM Decision on Financial Control /no. 217/2000*
- *Internal Audit Law no. 9009/2003*
- *CoM Decision on Internal Audit Manual no. 345/2004*

- *Law on Internal Audit in the Public Sector no. 9720/2007 and amendments*
- *Law on Budget Systems no. 9936/2008*
- *CoM Decision Policy Paper and Action Plan for PIFC 2009-2014 no 640/2009*
- *Law on Financial Inspection no. 10294/2010*
- *Law on Financial Management and Control no. 10296/2010*
- *Minister of Finance Order: Financial Management and Control Manual no. 89780/2010*

The internal audit function has received considerable attention within the government of Albania. This is largely due to the influence of the EC and their ongoing discussions with the government on accession planning.[67] This resulted in a series of assistance projects, designed to bring the government's administrative and policy frameworks into alignment with the EU Acquis Communautaire. In financial management terms, this has meant the alignment of the financial management laws, policies, processes and procedures with the EC's Public Internal Financial Control (PIFC) system. A key component of the PIFC system is a fully functioning, modern internal audit system in operation across the government entities.

The government agreed a program of strengthening internal audit as one component of its PIFC implementation initiative.[68] This complements actions already taken that have resulted in a new Law on Internal Audit, the creation MoF of a Central Harmonisation Unit (CHU) for Internal Audit (that complements a similar CHU for Financial Management and Control) in the MoF, and the establishment of Internal Audit Units in budget institutions across government. In addition, the government has passed a new Law on Financial Inspection that clarifies the difference between the inspection function and that of internal audit.

The Central Harmonisation Unit for Internal Audit exercises the responsibilities of the Minister of Finance for internal audit. These responsibilities include the overall coordination of internal audit on behalf of the government, the development of laws and bylaws relating to audit, the preparation of audit policies, methodologies, procedures and manuals, the periodic monitoring of the performance of individual Internal Audit units, the professional development of the internal audit community and other related responsibilities." Insofar as departmental internal audit units, the Minister is responsible for their effective implementation and operation from a systemic perspective.

Internal audit units are responsible for preparing risk-based strategic and annual internal audit plans for the approval of the ministry or agency Head. They also develop more detailed audit guidance specific to their entity's operations as required. The internal audit unit then conducts the audits as per the annual audit plan, reporting on their findings to the auditee and periodically to the ministry or agency Head and the General Director, Internal Audit. The internal audit units also follow up on management's implementation of the auditors'

[67] Albania presented its application for membership of the European Union in April 2009.

[68] CoM Decision on the Approval of The Policy Paper and Action Plan for the Public Internal Financial Control for 2009 - 2014 , (640/ 2009)

recommendations for risk mitigation. They also prepare quarterly and annual reports on the results of their audits to the General Director Internal Audit.

BOX G. Financial Inspection

Albania has established a separate inspection function under the Law on Public Financial Inspection69. The rationale for this was to provide a greater focus on corruption and other illegal acts and to ensure that appropriate actions (administrative, criminal) are instituted when appropriate. This law was also designed to address the confusion that resulted from Internal auditors maintaining a heavy focus on inspection activities, rather than extending their audits to examine broader systemic internal control risks and operational efficiencies and effectiveness audits. A single financial inspection unit has been created and located within the MoF.

The Minister of Finance is responsible for the development of the inspection unit within the MoF and for a process of qualifying financial inspectors in budget institutions . He must agree to requests for inspections, to set the criteria for an inspection and to develop cooperative relationships with qualified inspection staff in budget institutions (who will participate in an inspection on a one-off basis). The inspection unit consists of five staff members, who will be supplemented by qualified ministry staff when the need arises.

Dimension (i): Coverage and Quality of the Internal Audit Function

Box H summarizes the present status of the implementation of the structures of internal audit in the General Government sector. The audit law defines the certification process for internal auditors. It consists of four courses of 2-3 weeks duration on legal principles, accounting & reporting, internal control & governance and internal audit. These are based on the relevant international standards in the given areas. The area of risk assessment is a current challenge. New risk management guidelines have recently been issued by the CHU for FMC, to support the recent Order from the MoF making risk management mandatory across government.[70]

BOX H. Internal Audit Unit Statistics

- 130 permanent Internal Audit Units
- 1200 qualified internal auditors, 440 in government
- 13 of 14 ministries now have IAUs
- 55 subordinate entities, 8 independent institutions and approximately 55 local government units also have IAUs in place.

Source: MoF DGA

The quality of IA is based on the application of international standards for all aspects of audit planning, executing, analysing and reporting. These include: the use of an international standard – the PIFC Implementation plan requires the use of ISPPIA;[71] independence of the

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[69] Law on Financial Inspection, (.10294/2010)..

[70] Minister of Finance Order, Risk Management, no 668/2011.

[71] Institute of Internal Auditors, International Standards for the Professional Practice in Internal Audit, undated.

audit unit in location and reporting relationships; full access to all required information necessary to conduct the audit; an unimpeded ability to report on findings; and the availability of qualified auditors to conduct the audit.

The team's general conclusions are that the structures and processes for internal audit are generally in place across government. But the legal and organizational structures are only the first step in making the audit function operate as envisaged. Effective implementation of these legal requirements is, and will be, the continuing challenge. The implementation of internal audit is dependent in part on the implementation and the acceptance by management of the fundamental principle of internal control and the use of internal auditors as a tool to detect areas of control risk and to propose solutions to mitigate these risks. This is a major change in culture for both management and auditor, one that is only slowly gaining acceptance between both groups.[72]

Table 29 One ministry's internal audit unit at a glance

Characteristic	Statistic
No. of staff	10 (Director + 9 auditors)
Audit Universe	88 entities
Planning	3-year and annual plan, approved by the Minister
Audit Selection	Risk-based selection of auditees
Coverage	2 years before, now risk-based
Salary Audits	High risk, 3 year cycle in past and in plan
2011 Audits	38 completed in first half year, 68 planned
Performance Audits	None to date
Training	No training yet on new audit manual

Source: Ministry of Health

The team interviewed a sample of three

[72] The comment was made that internal auditors are viewed by managers as "plucking their eyes out of their heads" (Old Albanian expression)

internal audit heads and/or their managers and consulted with the General Director of Internal Audit on the extent of implementation of the function across government. In general, the audit units are performing in compliance with the new PIFC laws. They prepare risk-based annual audit plans and conduct the audits according to the 2010 FMC Manual. However, the degree of understanding of the application of risk-based analysis to audit assessments for planning purposes remains weak. They report to the General Director, Internal Audit in the MoF on the results of their audits on a quarterly and annual basis. Many of the audits continue to be compliance and financial audits, albeit with some degree of risk assessment. It will require a considerable period of time for the auditors to master the new audit planning, execution and reporting techniques and for line management to understand their responsibilities under the PIFC system.

Box I. Types of Audits

- **Compliance:** to determine whether the procedures and policies are being adhered to.
- **Systems-based audit (SBA):** evaluates systems and processes in horizontally across an entity to identify inconsistencies or flawed interfaces. It follows a small number of transactions through the system to assess its performance.
- **Risk-based audit (RBA):** Risk-based audit focuses on the areas of the highest business risk from the viewpoint of business objectives rather than controls.
- **Value for money (VFM):** audit of a process in order to assess whether it is delivering the required objectives in an effective and efficient manner.

Source: Phil Griffiths, Risk Based Auditing, p.7.

At the present time, the GDA's focus is on theme-based and systems-based audits. The GDA estimated that, in 2010, some 990 audits were systems-based and 1170 theme-based to some extent. Approximately 220 were monitoring and supervision audits. However, the quality and depth of these audits is generally low and the internal audit function is still at an early stage in its overall development. As a result, these statistics must be adjusted to reflect the nascent stage of internal audit. The team believes that these quantitative data on the type and number of audits performed are highly optimistic. Discussions with a number of IAU Directors indicated that performance audits are in their infancy, and will require a number of years to be fully implemented into the audit plans. Any detailed metrics relating to audit types and quality must be qualified. Box I refers. In particular, the IAUs are in transition to the new risk-based audit assessment and are progressing in their experience. Training has yet to be received, although the World Bank-funded Health project were anticipated to provide financing for auditor training.

The GDA's 2010 report[73] indicated that management and auditors alike poorly understand the concept of risk-based planning and management. Much more effort in explaining and marketing the essential control concept of management responsibility for internal control remains to be done. It also noted that the internal auditors require greater awareness in the

[73] GDA, *op cit*, para 33.33

analysis of evidence, in the formulation of recommendations based on this evidence, and on the communication of essential key recommendations in a direct manner.

Performance change and other factors since the 2006 PEFA assessment

Following the 2003 Law on Internal Audit, the function was implemented across all budget institutions. An audit manual consistent with ISPPIA was formulated and auditors began the transition to modern internal audit. Progress was deemed to be slow, and when the new Law on Internal Audit was passed in 2007 to implement the PIFC control system favoured by the EC, the implementation process was re-initiated. Much more time will be required for these units to gain the skills and experience needed to perform to the requirements of International standards. As well, there is a major change in management culture to be achieved, one that accepts responsibility for maintaining internal control and that considers internal audit as a useful tool of management.[74]

Dimension (ii): Frequency and Distribution of Audit Reports

Internal audit results are reported to the auditee and to the responsible agency head. Copies are also sent to the MoF GDA and the High State Audit. In addition, quarterly and annual summary reports from each IAU are shared with the agency head and with the MoF. In the MoF, the General Director, Internal Audit prepares a consolidated annual report that summarises the key trends in risk, mitigating measures and other issues of interest to management and Ministers. This report is tabled with the Council of Ministers. The GDA analyses the results of the audits to identify trends and areas of high risk.

Performance change and other factors since the 2006 PEFA assessment

The reporting system is has been significantly improved since 2006.The quarterly summary reporting by all IAUs has provided the GDA with a timely overview of major problems identified by budget institutions' internal auditors and the ability to advise policy centres on problems as they arise. The accumulation of all audit reports also facilitates more detailed issue analyses if required. As well, it will enable the DGHA to assess the quality of the audits conducted to guide additional professional development activities.

Dimension (iii): Extent of Management Response to Internal Audit Findings

The 2010 consolidated audit report identified many incidences requiring management action. These included fiscal evasion, fraudulent activities, on-compliance with rules and regulations and damage to public property. Procurement and payroll (pay and allowances) were common areas in which violations occurred.

According to the GDA's 2010 Annual Report, line management implemented 77 % of all audit recommendations within a year. Some 19 % are in process and only four per cent were not implemented, largely due to changes that rendered the recommendation unnecessary. The team was unable to review the basis for these assertions due to time limitations.

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[74] *ibid.* Executive Summary section 2.

PERFORMANCE INDICATOR

Indicator / Dimension	Score 2006	Score 2011	Justification for 2011 Score	Performance Change / Other factors
PI-21	C+	C+	Scoring method M1 (weakest link)	
(i)	C	C	Systems review audits quality is uncertain and cannot justify the higher rating implicit in the statistics presented above.	
(ii)	A	A	Reports are issued regularly for those entities with internal audit units and distributed to the accountable minister, the MoF and the High State Auditor.	
(iii)	C	B	Management implementation of recommendations is 77% within a one-year period.	

Reforms in Progress

The government is proceeding to implement its PIFC strategic plan 2009-2014 that includes a number of IA reforms. These reforms are also governed by the 5-year plan for Implementation Concepts of Financial Management and Audit, supported by SIGMA. These include further implementation of IAUs in General Government, developing addition training for auditors, educating line management on their responsibilities for internal control and how to use effectively internal audit, and building capacity in area such as performance auditing, systems auditing, identifying training needs, delivering training, certification of internal auditors and providing continuous training programmes.

Accounting, recording and reporting

This section assesses whether adequate records and information are produced, maintained and disseminated to meet decision-making control, management, and reporting purposes.

PI-22 Timeliness and Regularity of Accounts Reconciliation

This indicator assesses the extent to which reconciliations of government accounting data with the government's bank accounts held in all banks and the clearing and reconciliation of suspense accounts and cash advances from which expenditures have yet to be recorded.

Dimension (i): Regularity of bank reconciliations

Treasury reconciles all of its cash balances with the TSA sub-accounts in the Central Bank of Albania on a daily basis. A limited number of donor-financed projects are financed by foreign currency accounts maintained in the Central Bank. These accounts do not form part of the government's cash balance in the TSA[75]. However, they are reconciled monthly and reported to the General Directorate Treasury for reporting purposes. Public enterprises maintain their bank accounts outside of the TSA, in the commercial banking system.

Between 2008 and 2010, public enterprises were not reconciled monthly from Treasury. Their accounts were consolidated by line ministries who are responsible for public enterprises' performance. These line ministries registered the public enterprises' obligations in excel spreadsheets and at the end of the year submit them to Treasury for inclusion in the summary financial statements. Under the Treasury system, beginning in 2012, public enterprise data will be uploaded monthly for the preparation of the budget reports and annual financial statements.

Performance change and other factors since the 2006 PEFA

The previous treasury processes were generally manual and reconciled monthly. Public enterprise data was prepared annually. The new Treasury system performs daily reconciliations of all cash balances. Advances and suspense are automatically reconciled as soon as transactions on the accounts occur.

Dimension (ii): Regularity of reconciliation and clearance of suspense accounts and advances

In governments generally, advance accounts are applicable to travel advances and operational imprest accounts. Suspense accounts are used temporarily to record revenues or disbursements that have yet to be classified. The MoF Treasury clears these accounts daily, as advised by the budget institutions. The accounts are cleared as the need for them is extinguished; there is no standard time schedule for any clearance of these open accounts.

Performance change and other factors since the 2006 PEFA Assessment

In the 2006 assessment, the suspense and advance accounts were manually accounted for and reported to Treasury, where they were cleared on a monthly basis. Clearance is now daily, using the new Treasury system.

PERFORMANCE INDICATOR

Indicator / Dimension	Score 2006	Score 2011	Justification for 2011 Score	Performance Change / Other factors
PI-22	B	A	Scoring method M2 (Average of dimensions)	
(i)	B	A	All cash balances are sub-reconciled daily with the TSA	

[75] MoF Instruction: On Working Procedures Of Treasury System and Relations With The Budgetary Institutions No 3486/2005

			accounts in the Central Bank.	
(ii)	B	A	Advances and all suspense accounts are cleared daily by Treasury on advice of Budget institutions.	

Reforms in Progress

A number of enhancements to the existing Treasury system are planned:

- Additional AMoFTS program modules will be implemented to cover budget preparation, external assistance and medium term budget planning. This will provide a fully functional financial management information system for the MoF.
- The Treasury system will be expanded from the present 36 TDOs to all participating entities (budget institutions, selected municipalities) to permit interaction between the system and the entity. There will be direct access via the larger entities.
- The contract covering the AMoFTS enhancements will be re-tendered in late 2011; target dates for these enhancements remain to be determined.
- Beginning in 2012, public enterprise data will be uploaded monthly for the preparation of the budget reports and annual financial statements.

PI-23 Availability on Information on Resources received by Service Delivery Units

This indicator measures the extent to which financial and in-kind resources received by front line service delivery units are provided to these units. Primary health care facilities and primary schools are of particular interest. It also assesses the extent to which public finance management systems effectively support front-line service provision.

Dimension (i): Collection and processing of information to demonstrate the resources that were actually received (in cash and kind) by the most common front- line service delivery units (focus on schools and primary health clinics) in relation to the overall resources made available to the sector(s), irrespective of which level of government is responsible for the operation and funding of those units.

Front line resource management is fragmented across several levels of government. The resources for front line service delivery units are provided by a number of sources, both centralized and decentralized. Front line units participate in the budget planning and formulation process by sending their respective requirements to the appropriate entity responsible for their operation. The approved budgets are administered in a similar fashion.

All front line health and education staff salaries are controlled by the responsible ministry. Thus the Ministry of Education and it regional units manage all teacher salaries. The process is more complex in the health sector. Salaries for doctors and nurses are administered by the Health Insurance Institute; all other staff salaries are administered by the Ministry of Health and its regional offices. Salary funds are transferred from the ministry to local governments as conditional transfers/grants for delegated functions. Front line maintenance and utility expenses are budgeted by the municipal government through the regular budget process.

Capital financing has been provided since 2010 through competitive grants from the Regional Fund, administered by a committee chaired by the Prime Minister.

Reporting for front line units comes from several sources. The salary budget is provided at the beginning of the budget year by the regional offices of the respective ministry and the local governments provides similar information on the non-salary budget. The Ministry of Finance sets the Capital budgets, based on the Regional Fund committee decisions. Line units do not get a monthly budget utilization report, although such information may be acquired from the Treasury District Offices, through their access to the Treasury System. The Regional/County district offices prepare a report every four months on non-financial resources (books, medical supplies, etc.) consumed in the reporting period and the amounts available in the coming quarter.

The net result is that there is no integrated and comprehensive reporting provided to front line service delivery units on a regular basis during the year. However, the individual components of their budgets are made available, or can be requested, by the front line units. There is no attempt to provide a monthly, consolidated financial budget for line management and accountability purposes. Responsible institutions therefore do not have a consolidated view of the resources made available to the front-line units.

Performance change and other factors since the 2006 PEFA

In the 2006 study, it was reported that the Treasury did not capture information on cash resources received by primary health care and education units and no information on in-kind resources was provided to any central government institutions. Resource information from multiple sources is either provided or can be obtained by the front line service units. However, the fragmented reporting of these individual reports makes it difficult for the front line units to manage their operations in the most efficient and effective manner.

PERFORMANCE INDICATOR

Indicator / Dimension	Score 2006	Score 2011	Justification for 2011 Score	Performance Change / Other factors
PI-23	D	C	Scoring method M1 (weakest link)	
(i)	D	C	There is no consistent and regular upward flow of complete information on their resource utilisation of these resources to the accountable ministries. Periodic surveys are the only way to establish these data.	

Reforms in Progress

As ministries are granted improved access to the Treasury system data, there will be an opportunity for improved reporting to and from the front line units. This is an important management tool for the accountable ministries for the effective management of front line operations.

PI-24 Quality and Timeliness of In-Year Budget Reports

Governments require timely and accurate information on their actual budget performance against the approved budget. This is a key element of management accountability for financial management. This information should be available on a comprehensive (government-wide, sector) or selective basis.

Dimension (i): Scope of the reports in terms of coverage and compatibility with budget estimates

Data on actual expenditures are produced daily by the Treasury system. They are reported monthly as provisional data in a Consolidated Fiscal Indicators report in the same format as contained in the annual budget.[76] On a quarterly basis, these data are consolidated and detailed for each budgetary institution in the quarterly Fiscal Statistics of Government report. This report provides a summary of the year-to-date financial statistics including spending by function, by ministry and by local government units. It also provides all other budget-related fiscal statistics relating to the deficit, debt financing, debt stock, etc. [77]

All data necessary for the production of these reports is contained in the Treasury system database and no direct input is required from the budget institutions for this reporting function. Monthly budget execution reports are prepared for all accounts in the General Government entity. In-year budget execution reports are prepared monthly and sent to the budget institutions by the end of the first week after the end of the month. The actual budget utilization is presented largely in the same format as the budget, using the Treasury and budgeting classification system[78].

Performance change and other factors since 2006 PEFA assessment

The AMoFTS system has automated and expanded the range, timeliness and scope of regular financial budget reporting with a significant reduction in BI workload. It will support sound financial analysis by BIs and by the MoF of the spending patterns and utilization of the approved budgets as a basis for improved multi-year budget planning in the MTBFG.

Dimension (ii): Timeliness of report presentation

In year-budget reports are produced monthly and are ready at the end of the first week after month-end. Budget and actual items are reported on a common chart of accounts basis (subject to the comments above). While the Treasury system has the ability to prepare a budget statement at any time during the month, this feature if not available to the budget institutions. To do so would require them to have on-line access to the Treasury system, a step that the MoF is now piloting, for future implementation across all major budget entities.

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[76] See http://www.minfin.gov.al/minfin/Fiscal_Indiciator_59_2.php/

http://www.minfin.gov.al/minfin/Fiscal_Statistics_1290_2.php/

[78] This is not always the case. See the discussion in the analysis of PI-1 and PI-2.

Such a change will provide additional information to line management on specific issues they might wish to examine, using the budget data for their analysis.

Performance change and other factors since 2006 PEFA assessment

The Treasury system was not in operation in 2006 and hence all systems were manual or spread sheet based. This meant that the reports suffered from all of the usual deficiencies associated with a manual reporting system – delays in preparation and reconciliation of reports, problems with data accuracy and quality and lack of flexibility in obtaining ad hoc or special reports. The new Treasury system outputs are more flexible, comprehensive, timely and accurate than the manual system in place in 2005.

Dimension (iii): Quality of information

The government is in the process of implementing fully the IPSAS standards, using the cash basis of accounting. The current accounting standard in use is on a modified cash basis, using cash accounting except for expenditure and revenue accruals. At present, financial data are accounted for in general compliance with the IPSAS cash-based standard, although there will likely be some adjustments requires for full compliance. In general, there are no concerns about the quality of the data now in the Treasury Financial system.

Performance change and other factors since the 2006 PEFA assessment

The automated Treasury system makes a significant contribution to better quality data, in terms of timing and accuracy. The government's phased approach to implementing the IPSAS cash-based accounting and reporting standards will only enhance the scope, presentation and comparability of future reports as these changes are implemented.

Reports for monitoring the implementation of the budget are issued quarterly. Until the last year they were centralised at the level of the MoF and were published on the MoF website. Since this year, individual ministry budget reports are published on the website of each of the line ministries. They consolidate the information from dependent budgetary units and reconcile the data with the online treasury system.

PERFORMANCE INDICATOR

Indicator / Dimension	Score 2006	Score 2011	Justification for 2011 Score	Performance Change / Other factors
PI-24	C+	C+	Scoring method M1 (weakest link)	
(i)	C	C	Budget-actual comparisons are possible for payments. There is no separate commitment accounting, merely a follow-up of payments against the yearly appropriations	
(ii)	B	A	Reports are prepared monthly within one week of end of period.	
(iii)	B	A	There are no material concerns over data accuracy.	. .

Reforms in Progress

The government's phased approach to gradually implement the IPSAS cash-based standards for accounting and reporting will be pursued over the medium term. Improvements in accounting compatibility and reporting quality and flexibility will ensue.

PI-25 Quality and Timeliness of Annual Financial Statements

The timely preparation of a comprehensive set of financial statements for the General Government entity is a prerequisite for accountability of the government to Parliament and the public. It also supports moves towards greater transparency in government operations and contributes to increased trust between the government, parliament and the public.

Dimension (i): Completeness of the financial statements

The consolidated financial statements of the government cover the operations of the central government Institutions, the Social Security and Health Insurance Institutes and the local governments. Its scope covers all entities generally identified as General Government within the GFS-2001 classifications. The data are drawn from the Treasury System when the final accounts are closed and audited. The government prepares a set of GFS-compliant cash-based financial statements that consist of

- a statement of government operations that presents statements of:
    - revenues (*taxes, social contributions, grants and other revenue*)
    - expenditures (*compensation, goods and services, fixed capital consumption, interest, subsidies, grants, social benefits and other expenses*)
    - gross and net operating balances, net acquisition of financial assets, net lending, and net acquisition of financial assets by instrument and debtor (domestic and foreign)
    - a statement of financial assets and liabilities (*currency and deposits, securities other than shares, loans, shares and other equity, insurance technical reserves, financial derivatives and other accounts payable*)
- a statement of sources and uses of cash, including
    - cash receipts from operating activities (by revenue type)
    - cash payments for operating activities (by expense type)
    - net cash inflow from operating activities
    - net cash outflow for investments in non-financial assets
    - cash surplus/deficit
    - net acquisition of non-cash assets (by instrument)
    - net incurrence of liabilities (by instrument)
    - net cash inflow from financing activities
    - net change in total stock of cash.

These statements are not fully compliant with IPSAS standards for cash-based reporting systems. They do, however, comply with the present OBL and its modified cash requirement that revenues are to be reported on a cash basis. Full compliance will be achieved over the next six years as discussed in the accounting section of this report. The government had previously stated that it would prepare IPSAS-compliant statements when the new Treasury system had been completed.

Performance change and other factors since 2006 PEFA assessment

The statements prepared over the period 2006-2010 are unchanged. Major changes will occur in 2012.

Dimension (ii): Timeliness of submission of the financial statements (final accounts)

By law, the final accounts are to be submitted by May 30th of the year following the reporting period. Table 34 indicates that the government has missed the date by one month in 2 of the past three years. However, this is within the six month limit defines in the sub-indicator for the performance indicator.

Table 30 Government Submission of Final Accounts

Final Accounts Report	Final Accounts Sent to High State Auditor	
	Legal Date	Actual Date
2008	May 30 2009	Jun 22 2009
2009	May 30 2010	Jun 30 2010
2010	May 30 2011	May30 2011

Source: High State Audit

Performance change and other factors since 2006 PEFA assessment

No change.

Dimension (iii): Accounting standards used

Following a national standard, the MoF prepares its final accounts under a modified cash-basis accounting system. Under MoF order, the following IAS standards were adopted by the government for use in its accounting and financial statement presentation. Thus it continues to follow national standards, which are, themselves, in transition to IPSAS compliance.

Box J. Accounting Standards Adopted for Government Accounting and Reporting

IAS 1 Presentation of Financial Statements
IAS 2 Inventories
IAS 7 Statement of cash flows
IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors
IAS 10 Events after the balance
IAS 11 Construction Contracts
IAS 12 Income Taxes
IAS 16 Property, Plant and Equipment (land, buildings, machinery and equipment)
IAS 17 Leases
IAS 18 Income
IAS 19 Employee Benefits
IAS 20 Accounting for Government Grants and Disclosure
IAS 21 The Effects of Changes in Foreign Exchange Rates
IAS 23 Borrowing Costs
IAS 24 Disclosure of related party
IAS 26 Accounting and Reporting for Pension Benefit Plans
IAS 27 Consolidated and Separate Financial Statements
IAS 28 Investments in Associates
IAS 29 Financial Reporting in Hyperinflationary

IAS 31 Interests in Joint Ventures *Source MoF Accounting Circular 19, 18 April 20110*

The statements present complete information on revenues, expenditures, financial assets and financial liabilities. The basis is modified cash, in that the recognition of the current and capital expenditures takes place when they occur, regardless of the payment date. Debt liabilities are also reported on an accrual basis. Tax and non-tax revenues are recorded on a cash basis.

Otherwise, the statements are generally compliant with IPSAS pronouncements on financial reporting under a cash-based accounting system. The government has a medium term plan of migration to full compliance with the IPSAS cash based pronouncement.

Performance changes and other factors since 2006 PEFA assessment

The government's previous accounting standards (CoM Decision no 248/1998) were based on the 1993 Law of Accounting. The present system is significantly closer to compliance with international accounting standards for governments as specified in IPSAS.

PERFORMANCE INDICATOR

Indicator / Dimension	Score 2006	Score 2011	Justification for 2011 Score	Performance Change / Other factors
PI-25	B+	A	Scoring method M1 (weakest link)	
(i)	A	A	A consolidated financial statement for the General Government Sector is prepared annually. The most recent statements were for the 2010 financial year. They included information on revenues and expenditures, financial assets and liabilities.	
(ii)	A	A	The government has submitted the financial statement to the auditor within 6 months of year-end for the past 3 years.	
(iii)	B	A	The annual financial statements are prepared from the Treasury's modified cash-basis accounting system. .	The government is applying IPSAS accounting standards for accounting transactions and is moving towards compliance with the standards for cash-based financial statement presentation.

Reforms in Progress

In 2009, the government approved a six-year transition plan under the PIFC reform program[79]to enhance its accounting and the related financial disclosure. The initial steps

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[79] CoM Decision On The Approval of the Policy Paper and Action Plan for PIFC 2009-2014. (640/2009).

involve the definition of the General Government reporting entity and implementing budget-actual comparison in all relevant financial statements under the appropriate the IPSAS standards.

Over the next five years, the Government plans to:

- prepare a consolidated cash statement of cash receipts and cash payments;
- prepare pro forma consolidated financial statements for a sample of budget entities; and
- implement the consolidation to include all General Government entities.

External Scrutiny and Audit

PI-26 Scope, Nature and Follow-up of External Audit

The External auditor function has made a number of improvements since the 2006 PEFA study. It undertook a two-year twinning project with the UK National Audit Office and the Netherland Court of Accounts that resulted in a reorganisation, a new risk-based audit planning process, and an internal quality assurance process for the production of audit reports. It is planning to increase its audit focus on performance and theme-based audits in future audit cycles. Improving staff capacity remains a challenge that will remain a short and medium term priority. The progress made and the challenges that remain have been noted by SIGMA regular evaluations and by the EU DG Budget. [80]

Dimension (i): Scope and nature of audits performed including adherence to auditing standards

The Albanian Constitution established the High State Control.[81] It is the highest institution of economic and financial control in the country, its Supreme Audit Institution (SAI). The Constitution provides the foundation for the SAI and specifies: its status as an independent entity; its responsibilities for discharging its audit role; chairman appointment procedures; and its reporting relationship to Parliament. More detailed provisions on the operations of the SAI are contained in its 1997 founding law and amendments.[82] A 2002 amendment provided for the removal of the Chairman by the National Assembly on any grounds. There are no criteria in the law governing the reasons for such a dismissal.

The SAI is administratively and functionally independent of the government. It's financing is subject to review by the parliamentary Budget and Finance Committee.[83] The National

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[80] SIGMA, *Albania External Audit Assessment*, May 2009 and EC, *Commission Opinion on Albania's application for member ship in the European Union*, November 2010, p.118.

[81] Albania, *Constitution*, 21 October 1998, Part 14.

[82] Law "*On The State Supreme Audit Institution*" (8270/1997) as amended by law. 8599/2000

[83] The SAI is subject to MoF general budget reductions to help maintain the government's fiscal position

Assembly elects the Chairman for a seven-year, renewable term. Its audit universe includes: all state and other state persons; private companies whose shares are owned by the State or whose debts are state-guaranteed; state employment, health and pension funds; recipients of state funds, foreign donor-provided funds and local government. SAI audits may be financial, performance, legality or regularity audits.

The independence of the SAI is not fully compliant with INTOSAI requirements. The ability of Parliament to remove the chairman without cause, the renewability of the term of office of the Chairman and the susceptibility to budget cuts by the government all increase the SAI's risk of political or other external pressures, threatening its independence. SIGMA reported in its most recent assessment of the SAI that there has been no independent audit of the SAI as required by the SAI law, since 2002.[84]

Table 31 SAI Annual Audits

Audit Type	2009	2010	2011(Planned)
Compliance	126	121	121
Financial	10	17	15
Performance	5	3	5
Theme-based	6	7	5
Other	3	5	4
Total	150	153	150

Source: SAI

The SAI has been conducting approximately 150 audits annually over the last three years. Table 35 refers. These audits comply with the applicable INTOSAI auditing standards. It has incorporated the requirements of risk-based audit planning into its annual audit planning process. Materiality and risk, which are to a degree related, are now the dominant factors in auditee selection. For this reason, earlier measures relating to the number of years to completely cover all entities are moot. Coverage is now determined by the relative risk profiles, plus a random selection process of low risk entities to yield the audit coverage.

Specific data on the financial coverage of the annual audits are not maintained by the SAI. However, they did report that their 2010 procurement audits covered 8.2 Billion lek out of a total General Government procurement of 11.4 billion lek. This yields a coverage ratio of 72 %. In the absence of additional data, this coverage is assumed to reflect the proportion of total spending covered by the annual audit in 2010. Given that procurement is a high-risk activity, its prominence in the SAI annual audit plan is guaranteed.

The implementation of risk-based audit planning may work against achieving a high score on this sub-component. This is because the significance of the resources controlled, although

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[84] *On The State Supreme Audit Institution, op cit,* Article 3.

important, is no longer the only determining factor in a risk assessment. This may require a future re-examination of the relevance of this particular sub-dimension.

Audits of the government accounts include audits of its financial assets, liabilities, revenues and expenditures. The SAI does not express an overall audit opinion on the government's financial statements that, at present, are being brought into compliance with the IPSAS reporting standards for cash-based reporting. See PI-25 for details.

Performance change and other factors since the 2006 PEFA assessment

The previous assessment was based on an estimate of the total expenditure values audited by the SAI on an annual basis. Because the SAI did not calculate the total expenditures subjected to audit, the assessment team estimated the percentage subjected to audit.

Dimension (ii): Timeliness of submission of audit reports to legislature

SAI Audit reports on the government's final accounts and its annual report are submitted to the legislature annually. There is no legal deadline for the submission of the final accounts audit; the SAI annual report is due three months after the year-end. Table 26 refers.

Table 32 Schedule of Submission of Audit Reports to the Legislature

Final Budget Report	Final Accounts Sent to SSA		SSA Audits Final Account		SSA Annual Audit Report to Parliament		Parliament completes review of audit report	
	Legal Date	Actual Date	Legal date[85]	Actual date	Legal date[86]	Actual date	Legal date[87] (3)	Actual date
2008	May 30 2009	Jun 22 2009		Sept 3 2009	March 2009	March 23 2009	-	n/a
2009	May 30 2010	Jun 30 2010		Sept 2 2010	March 2009	March 15 2010	-	April 22 2010
2010	May 30 2011	May30 2011		-	March 2009	March 1 2011	-	June 6 2011

Source: SAI

The SAI has complied with the legal reporting date for its annual report in all of the last three years. While there is no legal deadline for the submission of the audit of the

[85] Tabled during the autumn session of Parliament.

[86] The SSA is required to table its annual report on its activities within first three months of the year

[87] There is no legally specified date for the review

government's accounts, these audits have been submitted within three months of receipt for 2009 and 2008. The 2010 audit was still in process during the 2011 summer mission.

The SAI prepares quarterly reports on the results of its audits. It is widely distributed across ministries and agencies, as well as Parliament.

Performance change and other factors since the 2006 PEFA assessment

The previous assessment noted that the audit of the government's accounts was submitted within four months of receipt.

Dimension (iii): Evidence of follow-up on audit recommendations

The SAI tracks the implementation of its recommendation on a regular basis. It also records the funds recovered as a result of its audits. Table 37 refers. There is a good track record in the follow up of management action on outstanding recommendations on a timely basis.

Table 33 Implementation of SAI Audit Recommendations 2009-2010

Type of Audit	2009			2010		
	Recommended	Implemented	%	Recommended	Implemented*	%
Organisational	1254	923	73.6%	1525	1256	82.4%
Administrative Disciplinary	835	627	75.1	847	685	80.9$
Proposals for New Laws	62	33	53.2	47	33	70.2
Total	2151	1583	73.6%	2419	1974	81.6%
Funds recovered (Billion Lek)	7.3	3.6	49.3%	1.6	0.8	50.0%

Source: SAI * as of December 2010

Performance change and other factors since the 2006 PEFA assessment

The audit implementation percentage in 2006 was approximately 78%. However, the impact of these audit implementations was limited. In 2010, the implementation ratio was higher and recoveries were approximately 50% in the past two years. The effectiveness of these audit recommendations is not tracked.

PERFORMANCE INDICATOR

Indicator / Dimension	Score 2006	Score 2011	Justification for 2011 Score	Performance Change / Other factors
PI-26	C+	C+	Scoring method M1 (weakest link)	
(i)	B	C	Central government entities covering approximately 70 % of total spending are audited	**Percentage coverage of spending is a derived value from procurement coverage in the 2010 audits**.

			annually, covering revenues, expenditures, financial assets and liabilities.	The use of risk-based audit planning may work against achieving a high score on this sub-component. This is because the significance of the resources controlled, although important, is no longer the only determining factor in a risk assessment. *This may require a future re-examination of the relevance of this particular sub-dimension*.
(ii)	A	A	Timely submission of all audit reports within 4 months of receipt	
(iii)	C	A	Clear Evidence of follow-up with average of 78% implementation of the past two years' recommendations.	

Reforms in Progress

The SAI continues to work on revisions to its audit law, an ongoing priority. This is designed to bring it more into line with the independence required by INTOSAI's Lima Declaration, in order to specify the SAI's responsibilities for the audit of EU funds, for the expression of an audit opinion on the government's summary financial statements and to harmonize external audit with the new PIFC control system now being implemented.

For the past two years, the SAI has given an audit opinion on Internal Audit, identifying audit weaknesses, capacity of auditors, offenses committed by auditors, quality of audit reports and the internal audit performance. In 2012, the SAI intends to focus on the PIFC system currently in place. In terms of the mix of audits performed, the SAI wishes to increase the percentage of financial audits to 50% of total annual audits performed in the medium term. This will require a concomitant decrease in the percentage of compliance audits now being undertaken.

PI-27 Legislative Scrutiny of the Annual Budget Law

This indicator is concerned with the degree that legislature performs a meaningful, thorough and timely review of the annual budget proposed by the executive. This indicator assesses the legislature's review of the central government budget for the last completed fiscal year, which was 2010.

Dimension (i*): Scope of legislature's scrutiny of the annual budget law*

The legislature has a full review of both the macro-fiscal aspects of the budget, the medium term framework and the proposed allocations to budget institutions. The budget is submitted to the legislature by November 1st. A formal process is followed for the review by Parliament.

The first review is largely a political discussion on the macroeconomic and fiscal aspects of the fiscal framework, generally of one day's duration. The budget is then approved in principle. The next review is in more depth. The Chair of the Economics and Finance committee and the Chairs of the other functional committees determine a schedule of in-depth hearings.

The Chair of the Economics and Finance Committee reported that these hearings are in-depth and may involve testimony from the Minister of Finance, other ministers, members of parliament, other staff from the MoF or from the line ministries, invited academics and other interested parties. The media are present for these hearings, the discussions of which are widely reported. Following these hearings the Chairs of the Committees report back their recommendations to the Chair of the Economics and Finance Committee. A consolidated report on the budget is then prepared, with the assistance of permanent staff of three economic advisors and submitted to the Parliament for second reading and the final vote. The average time for passage is approximately five weeks.

Performance change and other factors since the 2007 PEFA assessment

Thus is a formal review that is well understood and implemented by parliament for all annual budget reviews. It has been unchanged since the 2006 PEFA assessment.

Dimension (ii*): Extent to which the legislature's procedures are well established and respected*

The Budget review processes are established in the Organic Budget Law. The internal review processes by Parliament are rules agreed by Parliament itself. The OBL permits Parliament to alter the proposed budget when the main indicators of revenues underlying the budget have changed, when expenditures are above the budget limit or when the deficit or other financial resources change.[88]

Performance change and other factors since the 2006 PEFA assessment

These rules are established and accepted. They are unchanged from those in effect in the 2006 review.

Dimension (iii): Adequacy of time for the legislature to provide a response to budget proposals both the detailed estimates and, where applicable, for proposals on macro-fiscal aggregates earlier in the budget preparation cycle (time allowed in practice for all stages combined)

The Chairman of the Committee on Economy and Finance stated that adequate time is provided to the legislature to complete its budget reviews. An average time is five weeks, although additional time is available, until such time as the Parliament is satisfied with the budget and agrees to support it.

Performance change and other factors since the 2006 PEFA assessment

The process is unchanged from that described in the 2006 study. This sub-criterion was not utilised in the 2006 PEFA.

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[88] Organic Budget Law, On Preparation and Execution of the State Budget of the Republic of Albania, (8379/1998,), Article 22.

Dimension (iv): *Rules for in-year amendments to the budget without ex-ante approval by the legislature*

Ministries may perform virements under terms of the Budget Systems Law.[89] Under the law, central government units may reallocate up to 10 % of funds between programs, with CoM approval. Intra-program reallocations of investment funds require MoF approval, intra-program current expenditures require the approval of the Principal Authorising Officer and subordinate body reallocations of current expenditures require the approval of the authorizing officer of the central government unit. A similar set of procedures applies to local government reallocations. The right of general government units for reallocations of the approved annual budget funds is valid until November 15th of the budget year.

Performance change and other factors since the 2006 PEFA assessment

This sub-criterion was not part of the assessment process for the 2006 PEFA exercise.

PERFORMANCE INDICATOR

Indicator / Dimension	Score 2006	Score 2011	Justification for 2011 Score	Performance Change / Other factors
PI-27	B+	B+	Scoring method M1 (weakest link)	
(i)	A	A	Legislature review includes macro-fiscal policies and forecasts, MTEF and priorities, as well as details son revenues and expenditures by budget institution.	No change
(ii)	A	A	Rules and procedures for review firmly established	
(iii)	B	B	The legislature has at least one month to review the government's budget proposals	
(iv)	B	B	Clear rules exist for the executive permitting extensive reallocations	

Reforms in Progress

No related reforms were identified.

[89] Law On Management of Budgetary System in the Republic of Albania, (9936/2008), Article 44.

PI-28 Legislative Scrutiny of External Audit Reports

The SAI audit report covers the entire general government, as well as public entities that are owned by the government or whose debts are guaranteed by it, as well as entities in receipt of government grants and foreign-financed projects.

Dimension (i): Timeliness of examination of audit reports by the legislature (for reports received within the last three years

The current legislation and/or existing procedures do not establish any fixed deadlines for the review of audit reports by the legislature. Table 38 shows that the times for parliamentary examination of the audit reports range from one to two months, well within the 3 month target for an A rating.

Table 34 Schedule of SAI Audit Report Dates to Parliament

Final Budget Report	SAi Annual Audit Report to Parliament		Parliament completes review of audit report	
	Legal date	Actual date	Legal date	Actual date
2008	March 2009	March 23 2009	none	n/a
2009	March 2009	March 15 2010	none	April 22 2010
2010	March 2009	March 1 2011	none	June 6 2011

Source: SAI

<u>Performance change and other factors since the 2007 PEFA assessment</u>
No change.

Dimension (ii): Extent of hearings on key findings undertaken by the legislature

The process is the same as for the Parliament's review of the annual budget, with less interest than for the budget review. Unless there is a serious political issue, the Minister for whose entity is the subject of the hearing is unlikely to participate in the hearings. Responsible officials from the entities involved in the audit are present as witnesses as requested by the committee.

The SAI advised that most of entities with adverse audit opinions are examined by Parliament each year.

<u>Performance change and other factors since the 2006 PEFA assessment</u>
No change.

Dimension (iii): Issuance of recommended actions by the legislature and implementation by the executive

Follow-up is the responsibility of the SAI. Reports on implementation progress by the government are provided by the SAI in its annual audit report. Detailed statistics are provided in PI-26. The Economy and Finance Committee issues an annual activity report based on its review of the SAI audit report that contains its recommendations on actions to be undertaken by the government. This report is submitted to the whole Parliament and a resolution is passed.

Performance change and other factors since the 2006 PEFA assessment

Parliament's participation in the oversight process has improved across the board.

PERFORMANCE INDICATOR

Indicator / Dimension	Score 2007	Score 2011	Justification for 2011 Score	Performance Change / Other factors
PI-28	C+	A	Scoring method M1 (weakest link)	
(i)	A	A		
(ii)	C	A	Most adverse opinions are followed up by Parliament during their annual hearings on the SAI audit report/	
(iii)	B	A	As required, Parliament issues recommendations arising from consideration of the auditor's annual report.	The previous assessment noted that Parliament occasionally recommends action, with a 50 – 70 per cent compliance rate.

Reforms in Progress

No reforms were identified. There is an opportunity for parliament to be more proactive in engaging the executive in implementing additional PFM reforms.

Donor practices

D-1 Predictability of Direct Budget Support

Poor predictability of inflows of budget support affects the government's fiscal management in much the same way as the impact of external shocks on domestic revenue collection and can have serious implications for the government's ability to implement the budget as planned. This indicator assesses the predictability of all DBS provided by donors to or through the Central Government during the last three fiscal years (2008-2010).

Dimension (i): Annual deviation of actual budget support from the forecast provided by the donor agencies at least six weeks prior to the government submitting its budget proposals to the legislature[90]

Table 35 Global Budget Support Deviations by Donor in Albania received no budget support during the 2008-2010 period.

[90] Or equivalent approving body.

Performance change and other factors since 2006 PEFA assessment

During the period on which the score for this indicator was based in the previous assessment, Albania received direct budget support from the EU (in the form of balance of payment support) and the World Bank (three PRSCs an one FSAC). This type of support has since ceased.

Dimension (ii): In-year timeliness of donors' disbursements (compliance with aggregate quarterly estimates)

See above

Performance change and other factors since 2006 PEFA assessment

See above

PERFORMANCE INDICATOR

Indicator / Dimension	Score 2006	Score 2011	Justification for 2011 Score	Performance Change Other factors
D-1	D	NA	Scoring method M1 (weakest link)	
(i)	D	NA	Albania received no budget support during the 2008-2010 period.	Budget support from the EU and the WB has since ceased.
(ii)	D	NA	See above	

D-2 Financial information provided by donors for budgeting and reporting on project and program aid

This indicator aims at evaluating how predictable donor financing is for programs and projects in relation to the provision of accurate and timely estimates of available funds for inclusion in the budget proposal and the presentation of reports on actual donor flows.

In 2005, the Government of Albania adopted a set of operating principles to seek to ensure that government policy planning, budgeting, execution and monitoring as a whole takes place in as efficient and harmonized way as possible. To coordinate these processes, the Government has set up, within the Prime Minister's Office, a Department of Strategy and Donor Coordination (DSDC).

One of the mandates of the DSDC is to ensure that the Government's priorities, and the requirements for EU and NATO integration, are fully reflected in all core government policy and financial planning processes and communicated to all stakeholders.

The DSDC's Aid Co-ordination Unit is responsible for organizing major co-ordination activities such as the Government donor roundtables and the IPS Support Group, which is a policy-level advisory board. The Department, in cooperation with the Donor Technical Secretariat, has established a donor database with information on commitments and disbursements by all active donors. The DSDC co-leads negotiations with donors on policy-based conditions for loans/credits and participates in negotiations led by the Ministry of European Integration on IPA programming. In co-operation with donors and line ministries, the Department has established 32 Sector and Sub-sector Working Groups.

As a result of the Albania's rapid growth in recent years, the volume and nature of the external assistance has changed and continues to change. A number of bilateral donors have already or are pulling out and external financing is given on less concessional terms. The centre of gravity of Albania's external financing is shifting towards the mechanisms that are part of the EU accession process and to borrowing on commercial terms.

In order to capture the state of the flow of information from the donors to the Government in the dimensions used for rating this indicator, the DSDC was requested to provide structured information as per Table 36 below. The donors included in the compilation provide close to 95 per cent of total assistance to Albania. The information on disbursed volumes is extracted from the DSDC database, which is populated by data provided directly by the donors to the DSDC.

The table includes information related both dimensions of this indicator. The first dimension, relating to the provision of estimates for disbursements, is broken down into two: one regarding the timeliness, the other regarding the classification of the estimates provided.

Table 36 Information on project assistance provided by the major donors

Source	Total Disbursed 2007-2009*	Provides budget estimates for disbursement of project aid consistent with the Government's budget calendar	Provides budget estimates for disbursement of project aid with a breakdown consistent with the government's budget classification	Provides quarterly reports within one month of end-of-quarter on all disbursements made with a break-down consistent with the government budget classification
		Y/N	Y/N	Y/N
EC (CARDS/IPA)	194 580	Y	N	N
World Bank	105 420	Y	N	N
EIB	90 901	Y	N	N
EBRD	72 855	Y	N	N
Germany	72 230	Y	N	N
Greece	66 750	Y	N	N
Italy	64 596	Y	N	N
US	57 235	Y	N	N
CEB	45 637	Y	N	N
Spain	26 910	Y	N	N
Sweden	25 620	Y	N	N
Switzerland	23 221	Y	N	N
UN	18 700	Y	N	N
IDB	17 259	Y	N	N
Netherlands	14 390	Y	N	N
Austria	13 660	Y	N	N
OPEC Fund	11 847	Y	N	N

Source: DSDC information extracted from DSDC Donor Database based on information provided by donors

Dimension (i): Completeness and timeliness of budget estimates by donors for project support

As can be seen from Table 36 above, all donors provide estimates of disbursements of project support so as to fit with the Government's budget calendar, but no single donor provides these estimates in a format that is consistent with the classification used by the Government. This situation does not fit any of the four different archetypes of the PEFA methodology[91] for this dimension.

[91] These archetypes leave a great deal to be desired in terms of logical and semantic clarity.

Dimension (ii): Frequency and coverage of reporting by donors on actual donor flows for project support

As can be seen in Table 36 none of the donors provides quarterly reports within one month of end-of-quarter on all disbursements made with a breakdown consistent with the government budget classification.

PERFORMANCE INDICATOR

Indicator / Dimension	Score 2006	Score 2011	Justification for 2011 Score	Performance Change Other factors
D-2	C (partial)	D+	Scoring method M1 (weakest link)	The 2006 PEFA should not have scored this indicator or lack of information
(i)	C	C	Donors do provide estimates sufficiently early to fit into the Government budget process but not in a format compatible with that of the Government's	
(ii)	NA	D	No donor provides information classified in the Government's format and within the reference time frame.	

D-3 Proportion of aid that is managed using national procedures

Dimension (i): Overall proportion of aid funds to central government that are managed through national procedures

A very small portion of assistance provided to Albania is managed through national procedures. The data in Table 37 is compiled by DSDC using data submitted by Albania to the OECD for the DAC 2011 Survey on Monitoring the Paris Declaration. The proportion of the provided by each individual donor is then weighted by the total assistance provided during the years 2007-2009.

One reason for this very low proportion is the fact that the Treasury system was only fully implemented in 2010. As argued in the text related to PI-5 and PI-19, the Treasury system, together with the newly system and routines for procurement, would effectively allowing using national procedures, without any loss of transparency and control. But this is yet to be recognized by the donor community.

Table 37 Proportion of aid funds managed through national procedures

Source	Total Disbursed 2007-2009*	Weighted percentage of procurement associated with aid provided by the donor using national procedures	Weighted percentage of payment and accounting associated with aid provided by the donor using national procedures	Weighted percentage of audit associated with aid provided by the donor using national procedures	Weighted percentage of reporting associated with aid provided by the donor using national procedures	Average weighted score
EC	194 580	0,00%	0,00%	0,00%	0,00%	0,00%
World Bank	105 420	0,00%	0,80%	0,00%	0,80%	0,40%
EIB	90 901	0,00%	0,00%	0,00%	0,00%	0,00%
EBRD	72 855	0,00%	0,00%	0,00%	0,00%	0,00%
Germany	72 230	6,50%	6,50%	6,50%	6,50%	6,50%
Greece	66 750	0,00%	0,00%	0,00%	0,00%	0,00%
Italy	64 596	0,00%	0,00%	0,00%	0,00%	0,00%
US	57 235	0,00%	0,00%	0,00%	0,00%	0,00%
CEB	45 637	0,00%	0,00%	0,00%	0,00%	0,00%
Spain	26 910	0,00%	0,00%	0,00%	0,00%	0,00%
Sweden	25 620	0,17%	2,78%	0,00%	0,00%	0,74%
Switzerland	23 221	0,00%	0,00%	0,00%	0,00%	0,00%
UN	18 700	0,04%	0,10%	0,00%	0,10%	0,06%
IDB	17 259	0,00%	0,00%	0,00%	0,00%	0,00%
Netherlands	14 390	0,00%	0,00%	0,00%	0,00%	0,00%
Austria	13 660	0,00%	0,00%	0,00%	0,00%	0,00%
OPEC Fund	11 847	0,00%	0,00%	0,00%	0,00%	0,00%
Total	921 811	6,71%	10,18%	6,50%	7,41%	7,70%

Source: Questionnaire filled in by DSDC

Performance change and other factors since 2006 PEFA assessment

Despite substantial efforts by the Government through the DSDC, and the passing of the Paris Declaration, there has been no increase in the proportion of assistance to Albania that is executed using national procedures.

PERFORMANCE INDICATOR

Indicator / Dimension	Score 2006	Score 2011	Justification for 2011 Score	Performance Change Other factors
D-3	D	D	Scoring method M1 (weakest link)	
(i)	D	D	Only 7.7 per cent of project assistance provided to Albania is on average -- looking at procurement, payment and accounting audit, and reporting -- managed by national procedures	

Government Reform Process

The government's PFM reform strategy has been articulated in the Draft Public Finance Sector Strategy 2007 to 2013. It has been developed for the public finance sector in the context of the country's Integrated Planning System's National Strategy for Development and Integration (NSDI). It also must take into account the requirements in the EU Stabilisation Agreement, other supra-national agreements, donor requirements and public investment concerns. This strategy has served as the general framework for PFM reform activities in Albania since its inception. While it has the structure of a strategic plan with a series of medium term initiatives to achieve them, there are no clear priorities in the document, which conveys the sense of a "laundry-list" approach to the planning of the individual actions.

The reform strategy covers, in a different mapping, many of the PEFA assessment categories. The strategy has four functions, outlined in Table 38 below.

Table 38 PFM reform strategy components and proposed initiatives

Function	Component	Initiatives
Fiscal Policy	Economic Analysis and Revenue Projection Public Expenditure Policy Tax Policy Customs and Excise Policies Debt Policy Policies to combat illegal financial transactions	*Modernizing public debt management* by: • rebalancing short term and long term debt with increased maturity for shorter term borrowings; • increasing the percentage of foreign debt in overall borrowing portfolio; • reducing the debt/GDP ratio; and • implementing an integrated debt management system. • strengthening macroeconomic and fiscal indicators forecasting and estimation capacities • adopting a common macroeconomic model with Bank of Albania to coordinate fiscal & monetary policy
Revenue Administration	Tax administration Customs Administration *Broadening the tax base and align tax policy with national priorities* by; increasing compliance with tax laws and increasing participation in the formal economy by policies (more equitable tax burden), technical innovations (new systems investments) and refining tax policies and processes to bring them more	• addressing major sources of tax evasion and reduce the tax gap by broadening the tax base, more transparent enforcement of laws and regulations and by increasing compliance; • upgrading taxpayer service quality through self-help information and assistance facilities, internet-based information and filings, and easily-understood rules and procedures for filing and payment; • using the customs systems to support EU initiatives

Function	Component	Initiatives
	into alignment with EU practices	and protect domestic and international export markets; • strengthening tax and customs performance, management control and audit to combat fraud and corruption in inspections and assessments of fines and other levies; • providing an independent appeals process for both tax and customs; • accelerating tax and customs administration reforms to meet EU requirements. In the longer term, creating a National Revenue Agency for all tax and customs policies and operations.
Management of Expenditure and Investment	Budget Planning and Execution Management of Public Capital Investments Management of Government's financial interest in other institutions.	*Improve the quality of expenditure* by: • fixing the chronic overestimation of revenues in forecasts; • improving investment planning and implementation; • New OBL • institutionalizing the MTBF and focusing spending on national priorities; • improving budget preparation and execution; • Improving regulation of virements • harmonizing payroll systems. • Improve planning and execution of public investments. o Implement Action Plan for Improving Public Investment Management covering; o Institutional arrangements, procedures, information systems, and human resources and capacities • Strengthen the processes for selecting, planning, funding and managing public investments
Financial Management	Treasury Function Public Sector Accounting Internal Financial Management Control	• strengthening the Treasury system for commitments, procurements and cash management; • strengthening accounting, internal audit and public

Function	Component	Initiatives
		internal financial control for all of the public service. New policies in the public accounting component to: • improve public expenditures and properties management, • increase fiscal transparency through ex ante control procedures • public accounting and reporting procedures, • develop and implement the OBL and decentralization regulations • Complete the formulation of OBL and de-centralization regulations. • Prepare and implement Accounting Standards and Reporting Forms for budget execution, used by Treasury and spending units; • formally adopt the GFSM 2001-based reporting format • fully embed PIFC into the financial management and control culture of the government; • develop staff capacities in PFM across government Budget institutions and thereby increase transparency, efficiency and effectiveness. • strengthen and institutionalize Fiscal Intergovernmental Relations o Increase transparency and objectivity in the horizontal allocation among sub national governments. o In the area of conditional grants, expand the process of competitive allocation of investment grants, • develop a legal and regulatory framework for local budget process, as part of the new OBL o set the roles of Ministry of Finance and local government and their process of annual consultation on proposed fiscal decentralization reforms, overall fiscal policy and management and monitoring of local budget process in the context of

Function	Component	Initiatives
		MTBP. • Improve and clarify legal and regulatory framework for local budget process. o treasury procedures, o timeliness and clarity of instructions and details for local budget process; o budget execution rules, o the system of financial accounting and reporting and local budgets delivery as approved. • Implement a fiscally sound framework for local borrowing • improve organisational competence within the Ministry of Finance, Treasury, the General Directorate of Taxation and the General Directorate of Customs

Source: MoF Draft Strategic Plan, 2007-2013

The government has made good progress in implementing its strategic plan milestones. Without going into detail of each and every project by development partner, Table 52 summarises the PFM activity in the Albanian PFM sector.

Table 39 PFM activities by major development partner and PFM area

Development Partner	Fiscal & PFM Policy	Revenue Administration	Budget & Investment	Other Financial Management		
				Treasury	Accounting	Internal Control
IMF	Macro-fiscal & economic framework Law on State Borrowing, Law on State Foreign Financing.	Diagnostic	--	Diagnostic	--	--
World Bank	IPS, Public Administration Reform (PAR) DeMPA	--	OBL, PAR MTBF, Procurement, PEFA, BSL, PPL, eProcurement	OBL, PEFA, Treasury Modernisation Treasury Law, Treasury systems, e-commerce law AFMIS	OBL,PAR, PEFA,	OBL, PAR, PEFA, Law on Audit, Law on Financial Management Control,
EC	SAA, CHU/FMC	TDO Automation, ASYCUDA, revised tax laws, Customs Harmonisation,	SAA	--	--	SAA, PIFC, CHU/IA, IAUs, Revisions to Law on State Supreme Audit SAI NAO-

		SAA				Netherlands–twinning, audit technical assistance
IPS MDTF Austria, DfID, Italy, Netherlands Switzerland, Sweden, EC and WB	EU SAA	--	MTBP, Budget formulation	Treasury Systems	--	
USAID/MCC	Anti-corruption analyses	Functional reorganization of the tax agency, internal and criminal investigation units, e-file and e-payment, taxpayer audit selection system, taxpayer advocate, new tax law Anti-corruption analyses	e-Procurement Anti-corruption analyses	--	--	Administrative Court for Financial management violations Anti-corruption analyses

Institutional Factors Supporting Reform Planning and Implementation

The major institutional factor supporting reform planning has been the Government of Albania and its strategic decision to seek EU membership. This long-term goal has engendered a host of reforms in all of the areas covered by the Stabilisation and Association Agreement, of which PFM and procurement are two chapters. The government has been a willing and enthusiastic supporter of the PFM/procurement agenda, committing resources and support to the projects required to meet the SAA conditions.

This has resulted in a strong, modern legislative base for PFM and procurement activities. It also includes a restructured Tax Agency with the elimination of the "stove-pipe" tax systems for management and control, replaced by a functional organization that spans all present and future taxes. It has also led to the creation of a client-centric services centre approach to tax services delivery, backed up by a modern internet based system that provides information, permits tax declarations and allows direct payments of amount due. The structure of the MoF has also changed, with the implementation of the Treasury and the PIFC Central Harmonisation Units for Financial Management and Control and for Internal Audit. A new Inspection function has also been created to focus more on corruption and fraudulent activities within government operations. Major changes in the procurement function included the automated procurement management system, the creation of an independent Procurement Complaints Commission and a dramatically increased transparency in procurement operations. Structural changes in ministries and agencies included the extension of Internal Audit Units to many more budget entities, the formalisation of the Authorizing, Executing and Implementing Officers and their respective roles in the management of public finances.

The EU SAA and the MoF Strategic Plan 2007-2013 are the key drivers for PFM reforms. Both of these initiatives support a perspective broader than PFM and enable donor-specific assistance to be garnered in a more holistic manner. In a sense, the vast majority of the reforms have either been completed or a nearing completion in the context of multi-year project assistance. There will no doubt be other specific items that will arise that have not currently been programmed. The single most important, and perhaps the most challenging, reform is that of gaining broad acceptance of the new systems of financial management and control among all financial and procurement staffs,, the line managers who are the clients of the FMC/procurement services and the senior management cadre, whose strong and continuing support through this lengthy period of implementation, adaptation and learning will be necessary.

Annex 1 - Performance Indicators – detailed summary

Indicator	Description	Meth.	2006	2011
	A. PFM OUT-TURNS: Credibility of the budget			
PI-1	**Aggregate expenditure out-turn compared to original approved budget**	M1	B	A
i)	The difference between actual primary expenditure and the originally budgeted primary expenditure		B	A
PI-2	**Composition of expenditure out-turn compared to original approved budget**	M1	D	D+
i)	Extent of the variance in expenditure composition during the last three years, excluding contingency items		D	D
ii)	The average amount of expenditure actually charged to the contingency vote over the last three years		NA	A
PI-3	**Aggregate revenue out-turn compared to original approved budget**	M1	B	D
i)	Actual domestic revenue compared to domestic revenue in the originally approved budget		B	D
PI-4	**Stock and monitoring of expenditure payment arrears**	M1	D	NR
i)	Stock of expenditure payment arrears (as a percentage of actual total expenditure for the corresponding fiscal year) and any recent change in the stock		?	NR
Ii)	Availability of data for monitoring the stock of expenditure payment arrears		D	NR
	B. KEY CROSS-CUTTING ISSUES: Comprehensiveness and Transparency			
PI-5	**Classification of the budget**	M1	A	A
i)	The classification system used for formulation, execution and reporting of the central government's budget		A	A
PI-6	**Comprehensiveness of information included in budget documentation**	M1	C	B
i)	Share of listed information in the budget documentation most recently issued by the central government		C	B
PI-7	**Extent of unreported government operations**	M1	D+	A
i)	The level of extra-budgetary expenditure (other than donor funded projects) which is unreported, i.e. not included in fiscal reports		A	A
ii)	Income/expenditure information on donor-funded projects that is included in fiscal reports		D	A
PI-8	**Transparency of Inter-Governmental Fiscal Relations**	M2	C+	B+
I)	Transparency and objectivity in the horizontal allocation among sub-national governments		C	B
ii)	Timeliness of reliable information to sub-national governments on their allocations		D	B
iii)	Extent of consolidation of fiscal data for general government according to sector categories		A	A
PI-9	**Oversight of aggregate fiscal risk from other public sector entities**	M1	C+	C+
i)	Extent of central government monitoring of Autonomous Government Agencies (AGAs) and Public Enterprises (PEs)		C	C
ii)	Extent of central government monitoring of SN government's fiscal position		A	A
PI-10	**Public Access to key fiscal information**	M1	B	B
i)	Number of the listed elements of public access to information that is fulfilled		B	B

	C. BUDGET CYCLE			
	i) Policy-based budgeting			
PI-11	**Orderliness and participation in the annual budget process**	**M2**	**A**	**A**
i)	Existence and adherence to a fixed budget calendar		A	**A**
ii)	Clarity/comprehensiveness in the guidance on the preparation of budget submissions (budget circular or equivalent)		B	**A**
iii)	Timely budget approval of the budget by the legislature or similarly mandated body (within the last three years)		A	**A**
PI-12	**Multi-year perspective in fiscal planning, expenditure policy and budgeting**	**M2**	**C**	**C+**
i)	Preparation of multi-year fiscal forecasts and functional allocations		C	**C**
ii)	Scope and frequency of debt sustainability analysis		C	**A**
iii)	Existence of sector strategies with multi-year costing of recurrent expenditure and investment expenditure		C	**C**
iv)	Linkages between investment budgets and forward expenditure estimates		C	**C**
	ii) Predictability and Control in Budget Execution			
PI-13	**Transparency of taxpayer obligations and liabilities**	**M2**	**NR**	**A**
i)	Clarity and comprehensiveness of tax liabilities		NR	**A**
ii)	Taxpayer access to information on tax liabilities and administrative procedures		NR	**A**
iii)	Existence and functioning of a tax appeals mechanism		NR	**B**
PI-14	**Effectiveness of measures for taxpayer registration and tax assessment**	**M2**	**NR**	**B**
i)	Controls in the taxpayer registration system		NR	**C**
ii)	Effectiveness of penalties for non-compliance with registration and declaration obligations		NR	**A**
iii)	Planning and monitoring of tax audit and fraud investigation programs		NR	**B**
PI-15	**Effectiveness in collection of tax payments**	**M1**	**NR**	**D+**
i)	Collection ratio for gross tax arrears		NR	D
ii)	Effectiveness of the transfer of tax collections to the Treasury by the revenue administration		NR	A
iii)	Frequency of complete accounts reconciliation between tax assessments, collections, arrears records and receipts by the Treasury		NR	A
PI-16	**Predictability in the availability of funds for commitment of expenditures**	**M1**	**C+**	**B+**
i)	Extent to which cash flows are forecast and monitored		B	**A**
ii)	Reliability and horizon of periodic in-year information to BIs on ceilings for expenditure commitments		C	**A**
iii)	Frequency and transparency of adjustments to budget allocations, which are decided above the level of management of BI's		C	**B**
PI-17	**Recording and management of cash balances, debt and guarantees**	**M2**	**B**	**B+**
i)	Quality of debt data recording and reporting		B	**B**
ii)	Extent of consolidation of the government's cash balances		B	**B**
iii)	Systems for contracting loans and issuance of guarantees		B	**A**
PI-18	**Effectiveness of payroll controls**	**M1**	**B**	**B+**
i)	Degree of integration and reconciliation between personnel records and payroll data		B	**B**
ii)	Timeliness of changes to personnel records and the payroll		A	**A**

iii)	Internal controls applied to changes to personnel records and the payroll		A	**A**
iv)	Existence of payroll audits to identify control weaknesses and/or ghost workers		B	**B**
PI-19	**Competition, value for money and controls in procurement**	**M2**	**D+**	**B+**
i)	Transparency, comprehensiveness and competition in the legal and regulatory framework		C	**B**
ii)	Use of competitive procurement methods		D	**A**
iii)	Public access to complete, reliable and timely procurement information		NR	**B**
iv)	Existence of an independent administrative procurement complaints system		C	**A**
PI-20	**Effectiveness of internal controls for non-salary expenditures**	**M1**	**C**	**C+**
i)	Effectiveness of expenditure commitment controls		C	**C**
ii)	Comprehensiveness, relevance and understanding of other internal control rules/ procedure		B	**C**
iii)	Degree of compliance with rules for processing and recording transactions		B	**A**
PI-21	**Effectiveness of internal audit**	**M1**	**C+**	**C+**
i)	Coverage and Quality of the Internal Audit Function		C	**C**
ii)	Frequency and Distribution of Audit Reports		A	**A**
iii)	Extent of Management Response to Internal Audit Findings		C	**B**
	iii) Accounting, Recording and Reporting			
PI-22	**Timeliness and regularity of accounts reconciliation**	**M2**	**B**	**A**
i)	Regularity of bank reconciliations		A	**A**
ii)	Regularity of reconciliation and clearance of suspense accounts and advances		B	**A**
PI-23	**Availability of information on resources received by service delivery units**	**M1**	**D**	C
i)	Collection and processing of information to demonstrate the resources that were actually received by the most common front- line service delivery units		D	**C**
PI-24	**Quality and timeliness of in-year budget reports**	**M1**	**C+**	**C+**
i)	Scope of the reports in terms of coverage and compatibility with budget estimates		C	C
ii)	Timeliness of report presentation		B	**A**
iii)	Quality of information		B	**A**
PI-25	**Quality and timeliness of annual financial statements**	**M1**	**B+**	**A**
i)	Completeness of the financial statements		A	**A**
ii)	Timeliness of submission of the financial statements (final accounts)		A	**A**
iii)	Accounting standards used		B	**A**
	iv) External Scrutiny and Audit			
PI-26	**Scope, nature and follow-up of external audit**	**M1**	**C+**	**C+**
i)	Scope and nature of audits performed including adherence to auditing standards		B	**C**
ii)	Timeliness of submission of audit reports to legislature		A	**A**
iii)	Evidence of follow-up on audit recommendations		C	**A**
PI-27	**Legislative scrutiny of the annual budget law**	**M1**	**C+**	**B+**
i)	Scope of legislature's scrutiny of the annual budget law		A	**A**
ii)	Extent to which the legislature's procedures are well established and respected		C	**A**

iii)	Adequacy of time for the legislature to provide a response to budget proposals		B	**B**
iv)	Rules for in-year amendments to the budget without ex-ante approval by the legislature		-	**B**
PI-28	**Legislative scrutiny of external audit reports**	**M1**	**C+**	**A**
i)	Timeliness of examination of audit reports by the legislature (for reports received within the last three years		A	**A**
ii)	Extent of hearings on key findings undertaken by the legislature		C	**A**
iii)	Issuance of recommended actions by the legislature and implementation by the executive		B	**A**
	D. DONOR PRACTICES			
D-1	**Predictability of Direct Budget Support**	**M1**	**D**	**NA**
i)	Annual deviation of actual budget support from the forecast provided by the donor agencies		D	**NA**
ii)	In-year timeliness of donors' disbursements (compliance with aggregate quarterly estimates)		D	**NA**
D-2	**Financial information provided by donors for budgeting and reporting on project and program aid**	**M1**	**C**	**D+**
i)	Completeness and timeliness of budget estimates by donors for project support		C	**C**
ii)	Frequency and coverage of reporting by donors on actual donor flows for project support		NA	**D**
D-3	**Proportion of aid that is managed by use of national procedures**	**M1**	**D**	**D**
	Frequency and coverage of reporting by donors on actual donor flows for project support		D	**D**

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Annex 3 – People interviewed

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Mr. Dorian Teliti	Secretary General	Ministry of Finance
Mr. Ansi Shundi	Consultant	Payroll and Public Administration
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Mr. Saimir Lacaj	Director of Tariffs and Origins	General Directorate of Customs
Ms. Ervina Domi	Director	General Directorate of Customs, Legal Department
Mr. Arben Nikshiqi	Director	General Directorate of Customs, ICT Department
Ms. Dhurata Hoti	Specialist	Ministry of Finance
Mr. Fran Hoti	Specialist	Ministry of Finance
Ms. Blerta Selenica	General Director	DOPA
Ms. Mirela Bimo	Head of Unit	Ministry of Education, Budget Programming Unit
Mr. Adem Rrenga	Director	General Directorate of Tax, Directorate of Tax Control
Mr. Theothoraq Zguri	Head of Unit	Ministry of Health, Internal Audit
Ms. Alexandra Fehlinger		Austrian Embassy Tirana, Coordination Office for Technical Cooperation
Mr. Robert Gjini	General Director	State Supreme Audit
Mr. Nikolin Jaka	Chairman	Chamber of Commerce and Industry of Tirana
Ms. Etleva Murati		Ministry of Labor and Social Affairs, Department of Social and Economic Assistance

Annex 4 – Deviations expenditure composition

Table 40 Deviations expenditure composition 2008

	73 343 500	74 656 000	63 893 567	10 762 433	16,8%
	37 269 750	35 470 000	32 467 734	3 002 266	9,2%
	24 409 008	16 314 000	21 264 033	4 950 033	23,3%
	32 456 470	15 861 017	28 274 621	12 413 604	43,9%
	21 650 000	15 043 000	18 860 509	3 817 509	20,2%
	17 354 500	14 761 000	15 118 462	357 462	2,4%
	5 783 850	5 413 000	5 038 631	374 369	7,4%
	6 175 500	4 735 000	5 379 819	644 819	12,0%
	6 331 900	4 283 000	5 516 067	1 233 067	22,4%
	2 403 000	2 083 000	2 093 386	10 386	0,5%
	2 227 000	2 034 000	1 940 062	93 938	4,8%
	3 191 800	1 779 000	2 780 553	1 001 553	36,0%
	2 001 977	1 634 000	1 744 033	110 033	6,3%
	1 294 500	1 247 000	1 127 710	119 290	10,6%
	1 127 000	1 096 000	981 792	114 208	11,6%
	1 760 000	1 031 000	1 533 233	502 233	32,8%
	1 009 800	1 006 000	879 692	126 308	14,4%
	1 180 000	967 000	1 027 963	60 963	5,9%
	438 000	549 000	381 566	167 434	43,9%
	290 000	430 000	252 635	177 365	70,2%
	3 031 550	12 805 000	2 640 950	10 164 050	384,9%
	244 729 105	**213 197 017**	**213 197 017**	**50 203 320**	**23,5%**

Table 41 Deviations expenditure composition 2009

	61 572 717	76 998 760	52 886 096	24 112 664	45,6%
	41 464 211	37 023 720	35 614 479	1 409 241	4,0%
	34 800 200	15 608 184	29 890 621	14 282 437	47,8%
	16 577 005	15 364 970	14 238 337	1 126 633	7,9%
	23 633 000	14 473 290	20 298 879	5 825 589	28,7%
	25 614 730	7 464 986	22 001 028	14 536 042	66,1%
	6 378 244	6 478 150	5 478 407	999 743	18,2%
	6 981 595	6 030 380	5 996 638	33 742	0,6%
	5 953 454	5 882 000	5 113 546	768 454	15,0%
	2 572 900	3 124 830	2 209 918	914 912	41,4%
	2 557 043	2 533 000	2 196 298	336 702	15,3%
	2 156 800	2 046 900	1 852 521	194 379	10,5%
	1 858 100	2 006 820	1 595 961	410 859	25,7%
	2 044 900	1 948 100	1 756 407	191 693	10,9%
	1 638 350	1 546 760	1 407 213	139 547	9,9%
	1 177 520	1 219 850	1 011 397	208 453	20,6%
	1 186 000	1 165 590	1 018 680	146 910	14,4%
	539 000	807 350	462 958	344 392	74,4%
	1 043 000	724 000	895 855	171 855	19,2%
	695 800	713 700	597 637	116 063	19,4%
	369 000	363 000	316 942	46 058	14,5%
	3 032 450	5 920 113	2 604 635	3 315 479	127,3%
	243 846 019	**209 444 453**	**209 444 453**	**69 631 844**	**33,2%**

Table 42 Deviations expenditure composition 2010

	51 726 846	50 218 000	37 762 593	12 455 407	33,0%
	43 508 924	39 699 000	31 763 193	7 935 807	25,0%
	43 646 500	20 566 000	31 863 629	11 297 629	35,5%
	17 457 088	17 113 000	12 744 348	4 368 652	34,3%
	25 037 786	13 482 000	18 278 550	4 796 550	26,2%
	29 325 138	7 225 000	21 408 482	14 183 482	66,3%
	6 794 000	7 182 000	4 959 882	2 222 118	44,8%
	7 275 226	5 305 000	5 311 196	6 196	0,1%
	3 855 000	4 429 000	2 814 299	1 614 701	57,4%
	6 843 575	3 469 000	4 996 074	1 527 074	30,6%
	2 328 000	2 318 000	1 699 530	618 470	36,4%
	3 456 000	2 189 000	2 523 013	334 013	13,2%
	2 100 720	1 895 000	1 533 607	361 393	23,6%
	2 594 851	1 787 000	1 894 341	107 341	5,7%
	1 735 000	1 553 000	1 266 617	286 383	22,6%
	1 298 023	1 247 000	947 607	299 393	31,6%
	1 309 855	1 198 000	956 245	241 755	25,3%
	869 000	799 000	634 404	164 596	25,9%
	567 000	788 000	413 932	374 068	90,4%
	361 600	496 000	263 982	232 018	87,9%
	4 177 148	4 127 000	3 049 479	1 077 521	35,3%
	256 267 280	**187 085 000**	**187 085 000**	**64 504 569**	**34,5%**

Annex 5 – On-lending to AGAs, PEs, and SNs

Data	Currency	Date of signature	Total on-lent	Outstanding
DEBTORS				
KESH (Albanian Power Company)				
Tr-Shpr En-El Kesh USD	USD	30.04.1996	17 888 454	10 494 917
Losses reduction En-El-IDA	USD	30.04.1996	4 963 894	2 151 022
Comm AID 8 KFW Korça	Euro	6.12.1999	5 112 918	4 943 169
Power Supply for Southern Albania KFW	Euro	24.07.1999	17 895 215	17 302 516
Power Supply for Southern Albania KFW	Euro	5.10.2002	2 556 460	2 556 245
Power Grid rehabilitation Tr-Shk-Dr LIT	Euro	29.10.1996	4 441 576	2 018 896
Support for Energy Sector LIT	Euro	11.5.2000	11 361 052	11 361 052
Eksportfinans I/Norway	USD	24.3.2000	10 230 647	1 534 597
Eksportfinans II/Norway	USD	19.08.2000	14 473 131	2 170 970
PCRSP IDA KESH	USD	21.12.2002	29 900 000	31 063 178
KESH risk managemet	Euro	2,6,2004	41 528 041	19 756 412
Thermo power Plant -I Vlore IDA	SDR	7,9,2004	25 000 000	22 402 157
Power Supply for Southern Albania 3	Euro	25,4,2005	10 000 000	5 221 115
Power Supply for Southern Albania 3	Euro	25,4,2005	3 289 522	3 215 435
Community Project of Southeast Energy	USD	25,7,2005	27 000 000	8 172 577
Substation Building Project in FIER/Spain	USD	28,12,2005	9 304 465	9 304 465
Dams Safety-IDA	SDR	25.11.2008	19 798 150	851 625
TSO/Kalimash	ALL	24.12.2008	542 241 828	542 241 828
Reconstruction and strengthening of Power System/TSO	Euro	30.01.2007	51 494 303	27 462 345
Tirana Water Company LIT				
Bovilla Phase I - Italy/Guarantee	Euro	24.02.1995	6 713 940	5 221 953
Bovilla Phase II - Italy/Guarantee	Euro	27.5.1996	11 362 051	9 468 376
Rehabilitation of Tirana Hydric System - Italy/Guarantee	Euro	05.11.2000	3 511 395	3 511 395
Technical Assistance for Hydric System - Italy/Guarantee	Euro	11.05.2000	27 475 507	12 252 368
Improvement of sewerage of large Tirana	JPY	12.02.2009	11 121 000 000	148 486 337
DURRES WATER COMPANY				
Rehabilitation of Durres water supply OPEC	USD	10.10.2002	2 672 938	2 672 938
Municipal Water Project of Durres- IDA	USD	7.7.2003	5700000 (SDR)	5 607 909
Water Infrastructure/EIB	Euro	15,4,2004	10 000 000	4 074 969
KAVAJE WATER COMPANY				
kavaje water supply - KfW/credit	Euro	21.1.2003	2 045 176	2 041 910
KORÇE WATER COMPANY				
Korçe water company/credit-Kfw	Euro	29.1.2003	6 646 795	6 646 794
Water Infrastructure/EIB	Euro	15,4,2004	14 500 000	12 571 494
Korçe waste water IV/KfW	Euro	22.12.2008	15 000 000	2 373 092
POGRADEC WATER COMPANY				
Pogradec water company-Kfw	Euro	23,3,2000	4 882 837	4 646 489

SARANDE WATER COMPANY				
Water infrastructure / EIB	Euro	14.04.2004	5 000 000	1 325 382
Municipal Water Project -IDA	SDR	07.07.2003	1390000 (SDR)	2 530 821
LEZHE WATER COMPANY				
Lezhe Municipal Water Project - IDA	SDR	07.07.2003	1460000 (SDR)	2 892 578
LEZHE Water Infrastructure / EIB	Euro	15.04.2004	6 000 000	1 655 072
Fier Municipal Water Project - IDA	SDR	07.07.2003	2850000 (SDR)	5 419 906
Elbasan Water Company / KFW	Euro	7.8.2001	8 515 359	8 515 359
Kuçove Water Company - KfW	Euro	28.1.2003	6 646 794	3 133 036
Lushnje Water Company -KfW	Euro	29.1.2003	4 971 627	4 601 627
Vlore Water Company / Holland	Euro	28.12.2007	12 447 524	11 859 622
Housing Entity	USD	30.11.95	15.000.000	5 108 992
Tirane Municipality - Building of Schools - CEB	Euro	25.07.2005	12 400 000	12 400 000
Municipal Roads EBRD	Euro	04.09.2006	8 400 000	4 807 670
Bulding of social houses -Tirana	Euro	13.02.2008	6 347 000	5 712 300
Building of social houses-Durres	Euro	13.02.2008	3 341 410	1 000 000
Building of social houses -Elbansan	Euro	13.02.2008	1 127 870	1 015 000
Building of social houses - Korça	Euro	13.02.2008	1 191 600	980 214
Building of social houses -Kavaje	Euro	13.02.2008	662 000	515 000
Building of social houses - Peshkopi	Euro	13.02.2008	381 000	344 000
Building of social houses - Berat	Euro	13.02.2008	624 120	561 707
Building of social houses - Fier	Euro	13.02.2008	1 325 000	1 192 500
Microcredit Project				
Urban works / Besa Foundation	ALL	17.10.1999	701 520 000	245 532 000
Rural Financing Fund	ALL	17.10.1999	685 949 961	388 704 978
Saving and Credit Union / ASHG	ALL	8.9.2004	194 756 376	175 280 739
BESA Foundation/ ASHG	ALL	8.9.2004	195 050 679	175 545 612
MOUNTAINOUS AREAS FINANCING FUND				
IFAD III -loan	USD	5.03.2002	3 021 981	2 921 248
Mountainous Areas Development Agreement -credit	USD	2.10.2007	4 253 613	3 352 644
FAF-Sh.a - CEB	Euro	10.06.2009	5 000 000	3 000 000
Durres Harbor				
Rehabilitation of Harbor Infrastructure EIB	Euro	11.10.2002	17 000 000	14 700 000
Harbor Project IDA 3068ALB	USD	28.12.2002	16 751 251	15 777 327
Harbor Project Kuwait Fund 430	KD	28.12.2002	2 700 000	269 370
Harbor Project OPEC	USD	28.12.2002	5 000 000	1 666 720
Total				**2 046 121 969**

Annex 6 – Aggregate fiscal framework for 2011-2014

TREGUESIT FISKALE SIPAS BUXHETIT TE KONSOLIDUAR
ne milion Leke

Nr.	E M E R T I M I	2007	2008	2009	2010	2011 Buxheti Rishikuar	2012 PBA	2013 PBA	2014 PBA
	TOTALI TE ARDHURAVE	**251 555**	**291 238**	**298 981**	**324 721**	**344 047**	**367 212**	**391 749**	**417 651**
I.	**Ndihmat**	**1 280**	**4 228**	**4 430**	**4 605**	**8 422**	**11 480**	**14 112**	**14 687**
II.	**Te ardhura tatimore**	**228 164**	**264 421**	**270 830**	**288 564**	**315 397**	**340 603**	**367 700**	**397 713**
II.1	***Nga Tatimet dhe Doganat***	**176 808**	**205 292**	**208 870**	**223 019**	**242 077**	**260 658**	**281 612**	**304 816**
1	*Tatimi mbi Vleren e Shtuar*	87 771	107 094	110 062	113 998	120 056	129 245	139 406	151 154
2	*Tatmi mbi Fitimin*	21 077	18 108	17 149	17 606	21 127	22 794	24 772	26 843
3	*Akcizat*	28 731	32 510	33 504	38 788	41 270	44 606	48 212	52 211
4	*Tatimi mbi te Ardhurat Personale*	14 850	24 498	26 820	27 058	29 493	31 879	34 645	37 473
5	*Taksa Nacionale dhe te tjera*	14 531	14 423	13 405	18 295	22 320	25 106	27 142	29 264
6	*Taksa Doganore*	9 848	8 660	7 929	7 274	7 812	7 028	7 434	7 872
II.2	***Te ardhura nga Pushteti Lokal***	**9 366**	**11 307**	**12 149**	**11 898**	**15 300**	**18 863**	**22 346**	**26 356**
1	*Taksa lokale*	7 134	7 137	8 154	7 684	10 930	13 108	15 861	19 033
2	*Tatimi mbi Pasurine(ndertesat)*	0	1 586	1 509	1 896	1 850	2 815	3 293	3 853
3	*Tatimi mbi Biznesin e vogel*	2 232	2 584	2 486	2 318	2 520	2 940	3 192	3 469
II.3	***Te ardhura nga fondet speciale***	**41 989**	**47 822**	**49 812**	**53 647**	**58 020**	**61 082**	**63 742**	**66 541**
1	*Sigurimi Shoqeror*	37 562	42 547	44 344	45 041	50 010	52 486	54 943	57 405
2	*Sigurimi Shendetsor*	4 427	5 275	5 467	6 432	6 610	7 096	7 598	8 136
3	*Te ardhurat per kompensimin ne vlere te pronareve*					1 400	1 500	1 200	1 000
III.	**Te ardhura jotatimore**	**22 112**	**22 588**	**23 720**	**31 552**	**20 228**	**15 129**	**9 937**	**5 251**
1	*Tran.Fitimi nga Banka e Shqiperise*	5 010	5 700	6 241	4 936	5 200	4 000	3 500	3 100
2	*Te ardhura nga Inst.Buxhetore*	9 458	8 919	9 338	13 994	10 323	8 929	5 137	1 551
3	*Dividenti*	0	6 402	374	735	500	700	500	300
4	*Tarifat sherbimeve*	0	0	4 183	2 977	3 000	1 000	600	200
5	*Te tjera*	7 644	1 567	3 584	8 910	1 205	500	200	100
	TOTALI I SHPENZIMEVE	**285 674**	**351 492**	**379 863**	**362 752**	**390 859**	**408 776**	**436 048**	**464 910**
I.	**Shpenzime Korrente**	**224 976**	**250 298**	**283 898**	**300 878**	**311 538**	**331 034**	**354 260**	**376 133**
I.1	***Personeli***	**59 087**	**66 621**	**62 359**	**65 762**	**68 747**	**71 701**	**74 304**	**77 057**
1	*Paga*	49 663	55 983	53 272	56 951	58 734	60 954	63 222	65 433
2	*Kontributi per Sigurime Shoqerore*	9 425	10 637	9 087	8 811	9 013	9 447	9 782	10 124
3	*Politikat e reja pagash*	0	0	0	0	1 000	1 300	1 300	1 500
I.2	***Interesat***	**25 594**	**31 307**	**36 301**	**41 604**	**46 838**	**51 300**	**56 918**	**59 812**
1	*Te brendshme*	23 499	28 386	31 408	35 583	38 700	41 700	46 600	49 700
2	*Te Huaja*	2 096	2 921	4 893	6 021	8 138	9 600	10 318	10 112
I.3	***Shpenzime Operative Mirembajtje***	**25 259**	**28 788**	**32 058**	**34 318**	**28 971**	**29 917**	**31 255**	**33 130**
I.4	***Subvencionet***	**3 536**	**2 555**	**2 004**	**3 535**	**1 759**	**1 600**	**1 500**	**1 400**
I.5	***Shpenzime per Sig.Sociale dhe transferime te tjera***	**69 892**	**76 199**	**96 725**	**106 207**	**116 201**	**122 724**	**130 757**	**138 848**
1	*Sigurime Shoqerore*	60 824	65 823	73 744	79 316	85 100	90 140	96 414	102 698
2	*Politika te reja pensionesh*	0	0	0	0	1 634	1 650	1 700	1 800
3	*Sigurime Shendetsore*	9 068	10 376	22 980	25 141	27 767	28 934	30 443	31 850
4	*Shpenzime per Kompensimin ne Vlere te Pronareve*	0	0	0	1 750	1 700	2 000	2 200	2 500
I.6	***Buxheti lokal***	**21 340**	**27 079**	**33 583**	**30 764**	**29 314**	**33 493**	**37 826**	**42 886**
1	*Buxheti lokal (Granti)*	11 973	15 772	21 434	18 866	14 014	14 630	15 480	16 530
2	*Buxheti lokal (Te ardhurat e veta)*	9 366	11 307	12 149	11 898	15 300	18 863	22 346	26 356
I.7	***Shpenzime te tjera***	**15 268**	**17 750**	**20 867**	**18 688**	**19 708**	**20 300**	**21 700**	**23 000**
1	*Pagesa e papunesise*	869	825	868	982	1 050	1 000	1 100	1 100
2	*Ndihma Ekonomike*	13 491	15 925	16 060	16 706	16 858	17 300	18 300	19 400
3	*Kompensim per te perndjekurit politike*	0	1 000	2 200	1 000	1 800	2 000	2 300	2 500
4	*Kompensim per energjin elektrike*	408	0	0	0	0	0	0	0
II.	**Fondi Rezerve**	**0**	**0**	**0**	**0**	**5 575**	**5 500**	**7 500**	**11 500**
1	*Fondi Rezerve i Keshillit te Ministrave*	0	0	0	0	1 928	1 500	1 500	1 500
2	*Fond Kontigjence per ruajtjen e deficitit*	0	0	0	0	3 647	4 000	6 000	10 000
III.	**Shpenzime Kapitale**	**57 040**	**93 783**	**95 881**	**67 492**	**73 746**	**72 242**	**74 288**	**77 277**
1	*Financimi Brendshem*	48 220	50 046	75 600	46 642	41 023	31 000	21 962	23 619
2	*Financimi Huaj*	8 819	43 587	20 281	20 850	32 523	41 242	52 326	53 658
IV	**Transferta te ndryshme**	**3 658**	**7 411**	**85**	**-5 618**	**0**	**0**	**0**	**0**
	DEFIÇITI	**-34 119**	**-60 254**	**-80 883**	**-38 031**	**-46 812**	**-41 564**	**-44 299**	**-47 259**
	FINANCIMI DEFIÇITIT	**34 119**	**60 254**	**80 883**	**38 031**	**46 812**	**41 564**	**44 299**	**47 259**
	Brendshem	**28 829**	**24 417**	**70 701**	**27 819**	**30 062**	**21 982**	**18 154**	**25 345**
	Te ardhura nga Privatizimi	13 246	5 538	25 138	411	300	300	300	300
	Hua-marrje e brendeshme	17 039	18 012	43 339	25 948	29 463	21 682	17 854	25 045
	Te tjera	-1 456	866	2 224	1 460	300	0	0	0
	I Huaj	**5 289**	**35 837**	**10 182**	**10 212**	**16 750**	**19 582**	**26 144**	**21 914**
	Hua afatgjate(e marre)	9 109	39 794	15 375	18 429	26 601	29 762	38 214	38 971
	Ndryshimi i gjendjes se arkes	279	292	567	-1 705	0	0	0	0
	Ripagesat	-4 098	-4 248	-5 760	-6 512	-9 851	-10 180	-12 070	-17 057
	MEMO:								
	Borxhi Publik Total (Stok)	**516 923**	**595 786**	**682 403**	**715 475**	**784 186**	**834 219**	**880 592**	**929 386**
	Borxhi publik nga buxheti (stock)	489 521	559 238	636 629	670 049	716 262	757 526	801 525	848 483
	I Brendshem (stock)	369 536	395 504	409 501	401 821	431 284	452 966	470 820	495 865
	I Huaj (stock), nga i cili:	119 985	163 734	227 128	268 228	284 978	304 560	330 704	352 618
	Pushteti Vendor (stock)	0	0	0	147	219	500	1 500	1 500
	Borxhi publik jashte buxhetit (stok)	27 402	36 548	45 774	45 425	67 924	76 693	79 067	80 902
	Borxhi publik i garantuar (stok)	27 402	36 548	45 774	45 425	47 184	52 933	50 095	46 528
	Borxh nga disbursimet jashte buxhetit (stok)					10 800	8 800	8 800	8 800
	Provigjion per riskun nga kursi i kembimit (flow)					9 940	5 020	5 212	5 403
	PBB nominal	967 670	1 089 293	1 151 020	1 224 881	1 319 836	1 408 939	1 501 670	1 601 982

Burimi: Ministria e Financave

Albania PEFA 2011

Annex 7 – Structure of Economic Classification

Class	1	2	3	4	5	6	7	8
Group	**Own funds, loans and similar long-term liabilities**	**Fixed assets**	**Account's Balances of inventories and production in process**	**Accounts of third parties**	**Financial accounts**	**Expenses by nature**	**Income**	**Year end results**
0	Own funds	Fixed Intangible assets		Suppliers and related accounts	Securities settlement	Current Expenditure	Taxes and mandatory contributions	Accounts of engagement (off balance)
1	Other own funds		Materials	Clients and related accounts	Amount receivable and accounts in the Treasury		Non-tax revenue	Accounts of rented elements(off balance)
2	Carried over result from functional section	Fixed tangible assets	Inventory items	Personnel and related accounts	Bank account		Current general grants	Operations of the previous years
3	Extraordinary subsidies	Expenditure for increasing fixed assets	Products (works, services) in the process	State social insurance and other social organizations	Cash and other values	Change of Inventories	Changing conditions of inventory	Assignment from operating investment income
4	Participation of the institution in investments	Damaged Tangible assets	Products	Other public institutions		Expenses in kind		Transfers Operations
5	Provision for risks and expenses	Lending and Sublending	Merchandise	Relationships with institutions within & outside the system	Accreditation and advances	Internal financial expenses	Contributions of social and health insurance	Results from Budget Operations
6	Domestic borrowing and other similar	Participation in equity	Growing cattle and fattening	Different creditors and debitors	Accounts in Credit Institutions	External financial expenses	Financial income	
7	Foreign borrowing		State of Inventories non arrived or at third parties	Temporary or Pending Accounts		Extraordinary expenses	Extraordinary income	
8		Appointments	Difference from storage prices	Adjustment accounts	Internal Transfers	Depreciation, residual, and original value AQ	Proceeds from Investments and recoveries	
9			Provision for depreciation	Provision for devaluation of debtors and clients	Provision for devaluation of securities settlement	Technical Application Account - debit	Technical Application Account - credit	

Annex 8 – List of on-going and planned support activities

(Text in bold indicated planned support activities)

Project	Development Partner(s)	Scope	Significant Outcomes	Budget Planning	Budget Execution	Internal Control	Accounting & Reporting	External Scrutiny & Audit
Albania Country Partnership Strategy 2011-2014	**World Bank, IFC**	Accelerating the recovery in Albania's economic growth through improved competitiveness - Multi-dimensional. PFM Component is a contributing factor.	Improved Macro Management, Budget Processes Stronger expenditure management systems, as the foundation for fiscal policy and the implementation of the NSDI. .	**Implement more prudent fiscal policy for macro fiscal management.** **Develop a revised fiscal framework with a fiscal rule to anchor the fiscal framework and increase investor** **Introduce a risk management framework for evaluating the tradeoffs between expected cost and risk,;** **Extension of DMFAS to domestic debt.** **All Bank-finance projects budgeted fully in the MTBP**	**AMoFTA fully implemented across all central government MDAs by 2012-2013** **Implement linkages between the HRMIS, the payroll and the Treasury systems.** **Focus on - strong enforcement of the new budget and PIFC rules & procedures;** **- increased budget transparency;** **- fewer budget execution reallo-cations;** **- more ex-post analysis** **All Bank-finance projects use the TS for financial management**	**The planned development of the AFMIS will improve control over budget execution, link to NSDI objectives and program outcomes and improve the presently weak monitoring of development programs** **Fully functional EU-compliant procurement complaints review mechanism in place** **E-procurement system certified for use in donor-financed projects, including World Bank**	**Detailed and consolidated government in year budget execution reports published monthly on-line by 2012** **All Bank-finance projects are reported on in government financial reports****	
Fiduciary Action Plan		Mitigate and manage fiduciary risks for -investment lending problem projects, - contract	*Reduce fraud and corruption and improve effectiveness of operations*		*Decentralized financial management and procurement staff to bring the two functions closer to their clients.*	*Fiduciary supervision of the World Bank's Albania portfolio, mitigate high procurement risks, bring portfolio*		

		management, -audit compliance, -financial management and procurement practices by the implementing entities.				*management closer to client*		
Integrated Planning System Multi-Donor Trust Fund - IPS – II **(in formulation stage)**	**TBD**		**Continue PFM reform-enabling activities.**	**SWIFT application for revenue reconciliations between TSA, (CBA) and 16 commercial Banks** **Data exchange interface with the tax administration system fully implemented**	**Re-tender AFMIS contract.** **Complete HRMIS system development, testing , certification and implementation**			
Debt Management Strategy (2011)	**World Bank, EU, Austria, Italy, Netherlands, Sweden, Switzerland, UK.**	Component 1: SAA Implementation and EU assistance programming and reporting capacity strengthening Components 2 and 3 (merged): Implement Medium-Term Budget Program and strengthen Public Investment Planning Component 4: Macro-economic Forecasting and Debt Management	CFCU certification for EU funds administration Macroeconomic forecasting: developed a macro forecasting model and trained all professional staff in using state-of-the art analytical tools for macroeconomic and fiscal projections. Improved Debt management	Areas for the decentralized management of EU funds (Government execution of EU assistance with EU ex ante controls A comprehensive training program undertaken for the MoF Macroeconomic, Treasury, Budget Department and line ministry staff on budget planning, analysis, costing, and performance measurement. Sector-specific	**Training in procurement for line departments Contracting Authorities.** AFMIS development: The functioning of the Treasury system provides an adequate basis for expanding the Treasury system into a full AFMIS with linkages to the MTBP and budget preparation system **New payroll module, interfaces between payroll, Treasury system**	**Albania's PFM system complies with the EU Public Internal Financial Control norms** **Development and adoption of a comprehensive debt management strategy and procedures manual**		

		Component 6: NSDI and supporting sector/cross cutting strategies	Ongoing. Develop DSDC capacity to coordinate the IPS process, which integrates the MTBP and annual budget with the National Strategy for Development and Integration (NSDI), the EU accession program, and sector strategies.	guidelines and procedures for line ministry budget preparation	**and HRMIS, and draft regulations for HRMIS and payroll systems to be completed** All TDOs fully on-line for the processing of all payments and recording of public expenditures (April 2010).			
Debt Management Strategy (2011)	**World Bank**	Prepare a comprehensive assessment of government debt management functions by applying the DeMPA methodology	Debt management is particularly strong in governance and strategy development, coordination with fiscal and monetary policy, and domestic market borrowing.	Areas for improvements are: moving to a more operational risk management framework; and systematic tracking of foreign holding of the government securities issued in the domestic market.				
Stabilisation & Association Agreement (2009-on)	**EU**	PFM and Procurement-related components-Acquis Communautaire,	Modified definition of internal audit to clarify the relationship between internal audit, FMC and financial inspection Passed EU compatible - New Law on Internal Audit (2007) -New Law on Financial Inspection (2010).		Customs' migration to ASYCUDA completed in 2009. Risk assessment criteria and profiles revised regularly Further refinement in the risk analysis system, elimination of reference prices is and finalisation of Customs Business and IT strategy. Tax Agency	CHUs established for FMC and IA. IAUs established across majority of government entities. - **develop risk management skills and applications** **- develop audit trails for all PFM processes.** **- reduce the reliance on ex-**		SAI adopted the Strategic Development Plan for 2009-2013

		Procurement Reform	-New Law on Financial Management and Control (2010) 2006 Procurement law revised in 2009 and in 2010 to cover concessions and utilities procurement rules.	PPA restructured and independent PPC created. Mandatory e-procurement laws passed in 2010	restructured, Excise and VAT legislation amended (2008) .	**post inspection activity by line managers**		
Public Administration Reform Project (2003-2010))	**World Bank**	Multi-faceted reforms in Albanian Public Administration, including PFM.	Established the Integrated Planning System IPS multi-donor trust fund (MDTF),	New budget processes aligned the National Strategy for Development and Integration with other sector strategies and the medium term budget plan. Results-based budgeting begun.	Initial implementation of Treasury system completed in 2010.	The internal control and internal audit functions were implemented to conform to EU standards. IA units in most major entities, staffed by internal auditors certified under the Law on Internal Audit	Strategy to update accounting and reporting standards approved, with a target date of 2016 for full IPSAS compliance (cash basis).	Built the institutional, legal and operational framework for external audit
Twinning of High State Control with other SAIs	**EU, UK, NAO Netherlands**	Assist in the SAI development	Increased auditors capacity to conduct international standards audits	Prepared draft amendments to SAI law for future consideration by Parliament.				.Training and assisted in preparing draft SAI legislative amendments (ongoing) Support to the SAI in developing financial and performance auditing manuals and procedures.
Organic Budget Law (2008)	**World Bank, EU**	Redefined the key aspects of the revised budget process, including -medium-term	Firm legislative basis for budgeting that conforms more closely to EU requirements.	Provided for a more integrated medium-term and annual budgeting processes with	Defined of the role and responsibilities of Authorising, Executing and Implementing	Passed new Laws on PIFC, Financial Inspection and Internal Audit , all approved and		

		budget programming and -required an Authorising Officer for each budget unit, located at the level of the highest civil servant		modern standards and a framework for the operation of new budget processes that are linked more closely to plans and to a fiscal framework Revised the budget calendar to allow more time for MDAs to link their budgets to medium-term priorities.	officers clearly established.	implemented (2007-2010)		