



GEORGIA
Municipality of Martvili

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

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

November 2022



ევროკავშირი
საქართველოსთვის
The European Union for Georgia



WORLD BANK GROUP

CURRENCY AND INDICATIVE EXCHANGE RATES
LOCAL CURRENCY UNIT: GEORGIAN LARI (GEL)
1 US\$ = GEL 3.03

Fiscal Year
1 January – 31 December

Preface

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

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

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

PEFA Secretariat
February 23, 2023

Abbreviations and Acronyms

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

Executive Summary

1. The purpose of this PEFA assessment is to provide an objective analysis of the present performance of the Public Financial Management system in the municipality of Martvili against the PEFA indicators. This assessment provides an update of progress in PFM since the last assessment in 2018 which was the first assessment using the 2016 PEFA methodology. It establishes a new baseline of performance.
2. The assessment covered expenditures by subnational government budgetary units. Revenues are collected by the Georgia Revenue Services on behalf of Martvili; therefore, this subject was considered not applicable. There are no extra-budgetary units and no local government below the municipality level.
3. The full assessment team visited Martvili on its main fact-finding mission 3 to 5 October 2022. Follow up was conducted after the mission with a cut off period of 10 November. The assessment team met with the Mayor, Deputy Mayor, and Head of Finance Department as well as other relevant officials. Prior to the main fact-finding mission there was contact with the Finance Department to discuss the data requirements and ensure that the mission timing was convenient. The financial years covered were 2019 to 2021.
4. Overall, the results of the assessment show that budget execution and accounting systems in Martvili are strong and improved as the PFM Reform Action Plan has been implemented. However, progress in budget planning and preparation is at the early stage of development.
5. Budget reliability in the municipality context depends for the most part on the reliability of information on grants to be received from the national government. The strengths from the distribution of VAT as a grant are offset by weakness on targeted grants which for Martvili amounts to 44% of the grants total. The realization of expenditure in the budget is significantly larger than planned. However, these results have been affected by the uncertainties resulting from COVID-19 and also by the impact of targeted grants and the expenditure they support often not having been included in the original budget. Georgia has an impressive array of information regarding the finances of the budgetary central government which is replicated in Martvili. Information on performance plans and achievements in service delivery outputs and outcomes across the government sectors is good. Public access to fiscal information is good although public consultation is confined to the budget preparation phase.
6. Tentative steps have been made towards a comprehensive medium-term expenditure framework based on a program budgeting for results approach. The budget is presented for the up-coming year with medium-term estimates that include information on expenditures by economic, administrative, and program classifications. The multi-year information on grants from the distribution of VAT assists in this process but this is offset by information on other grants for the budget year only.
7. Revenue administration is carried out by the Georgia Revenue Services. A revenue report is prepared monthly for the municipality management. The municipality works in conjunction with the Georgian Treasury and based on its cash inflows and outflows forecasts, deposits a part of its cash in commercial banks through daily auctions. Budgetary units are able to plan and commit expenditure for one year in advance on the basis of quarterly ceilings, in accordance with the budgeted appropriations and commitment releases. Management of budget releases has been successful in controlling arrears.
8. The payroll system is strong. All government contracts are procured through the Georgian E-Government Procurement System. However, a relatively low, by Georgian standards, sixty-six per cent of the

value of contracts is procured through competitive procurement methods. Internal controls on non-salary expenditure are very high with strong segregation of duties, effective commitment controls and compliance with payment rules and procedures. The internal audit function is strong with a focus on evaluations of the adequacy and effectiveness of internal controls in high risk areas. Accounts reconciliation and financial data integrity are areas of strengths. Consolidated budget execution reports are prepared quarterly and issued to the Sakrebulo (Assembly) and published. The situation with respect to the annual financial reports is positive. Martvili applies the current national accounting standards for its financial statements.

9. While external audit standards are an area of significant strength, annual audit coverage is not mandatory. The timing of audits should take place at least once every three years and is dependent on risk analysis and the State Audit Office's work program given its resources. There was no financial audit during the assessment period. The Sakrebulo is mandated to conduct its own legislative scrutiny of audit reports. In the past this aspect of external scrutiny was left to Parliament.

10. The effectiveness of the internal control framework in Martvili is scrutinized by the Ministry of Finance and State Audit Office. The Central Harmonization Unit in the Ministry of Finance annually collects, consolidates and analyzes the information based on the annual reports. Under financial and compliance audits, the State Audit Office identifies/tests and evaluates the existence/functionality of the internal controls applied for the public expenditures, including salary and non-salary expenses. The State Audit Office does not carry out an audit of Martvili every year, and there was no financial audit in the assessment period. There was one compliance audit.

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

Aggregate Fiscal Discipline

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

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

Strategic Allocation of Resources

14. The Chart of Accounts caters to a multi-dimensional analysis of expenditure. There is a developing link between the medium-term perspective in expenditure budgeting and strategic plans in the program budget approach to achieving results that is consistent with a strategic allocation of resources. The Priorities Document, the medium-term action plan of the municipality is an emerging guide to the allocation of resources over the next 4-years in terms of revenues and expenditures. The management of investment that has been implemented is linked to priority needs. Recurrent cost implication of investment is factored into the aggregate budget. Monitoring of project implementation has ensured that planned activities are being delivered.

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

Efficient Use of Resources for Service Delivery

16. The previous weaknesses in competitive bidding in the procurement system regarding the appeals and dispute process have been addressed which has positive implications for efficiency in service delivery. Martvili's level of competitive bidding is 66% of total. The strengths in the accountability mechanisms make internal and external audits effective as counter checks on inefficient use of resources. The development of and timely consolidation of annual financial statements for the municipality enhances the impact of external audits. Although external audits are not conducted annually (which in turn limits the effectiveness of oversight), no financial audits have been performed in the three assessment years, although there was one compliance audit. Publishing of performance targets and outcomes also supports the efficient use of resources in municipal service delivery units.

Performance Changes since Previous Assessment

17. The 2018 and the current PEFA assessment were performed using the 2016 methodology. However, the PEFA guidance contains some changes to the application of the 2016 methodology regarding subnational government. Annex 1 provides a summary of both 2018 and 2022 scores and changes in scores based on the *May 2022 Guidance for Subnational Government PEFA Assessments*, adjusting the 2018 scores where possible. Across the 87 individual subnational-related dimensions compared, there has been an improvement in 9

dimensions,¹ deterioration in 1, and no change in the score in 77 dimensions. This overall improvement in scoring has been from a relatively high baseline achieved in 2018.

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

Strategic Allocation of Resources

- Improvement - introduction of KPIs. PI-8.1 and PI-8.2
- Improved budget calendar PI-17.1
- Improved used of economic analysis in investment PI-11.1
- Improved recording of nonfinancial assets PI-12.2
- Improved system for monitoring of arrears PI-22.2
- Improved procurement complaints procedures PI-24.4
- Improved coverage of financial reports PI-29.1 and PI-29.3

19. Deterioration occurred in one dimension on competitive tendering (PI-24.2) which can be explained by the impact of COVID-19 and the response to it by the authorities in Georgia in general, as well as the real term decrease in the threshold.

20. These improvements as well as the continuation of the status quo can be attributed to continued strong management of the PFM reform program in Georgia. The government plans to update the reform program on the basis of the 2022 assessment. The Public Sector Financial Management Reform Action Plan 2018 to 2021 had set out a costed plan with targeted results. It also reflected the continued nature of the reform agenda building upon achievements from previous reform activities across the broad PFM agenda. Nevertheless, due to the COVID-19 pandemic, a number of planned reforms were delayed or cancelled. Due to the state of emergency active in the country from late March 2020 to late May 2020, several economic activities were limited, as priority was placed on the expenditures for healthcare and business support. However, there are a number of reform initiatives that did make progress. For example, as a result of the 2018 PEFA findings, the reform achievements in Public Procurement have been significant. Although the reform in this sector had been evolving steadily, the law on State Procurement recently was modified considerably and made compatible with EU legislation and international good practice. Significant changes have been made with respect to the procurement complaints procedures since the 2018 PEFA assessment highlighted a weakness. There have been actions specifically related to municipalities. In 2019, the equalization transfer system in use was replaced by one based on a value-added tax distribution system. This system directs at least 19% of the value-added tax mobilized in the state budget to the municipal budgets. This revenue becomes municipalities' own revenue, which a municipality uses at its discretion. The requirement that municipality audits were to be scrutinized by Parliament was discontinued in 2020. This responsibility was transferred to the Sakrebulo of the municipality. The audit reports of municipalities are no longer discussed in the Parliament.

¹ There has also been an improvement relating to the introduction of an MTEF in Martvili.

TABLE 1: OVERVIEW OF THE SCORES OF THE PEFA INDICATORS

Summary Assessment 2022 ratings for the Municipality of Martvili							
PFM Performance Indicator		Scoring Method	Dimension Ratings				Overall Score
			1	2	3	4	
HLG	Transfers from a higher-level of government	M2	D	D	A	C	C
Pillar I: Budget reliability							
PI-1	Aggregate expenditure outturn		D				D
PI-2	Expenditure composition outturn	M1	D	D	A		D+
PI-3	Revenue outturn	M2	D	D			D
Pillar II: Transparency of public finances							
PI-4	Budget classification		A				A
PI-5	Budget documentation		B				B
PI-6	Subnational government operations outside financial reports	M2	A	A	NA		A
PI-7	Transfers to subnational governments	M2	NA	NA			NA
PI-8	Performance information for service delivery	M2	B	B	A	D	B
PI-9A	Public access to fiscal information		C				C
PI-9B	Public consultation	M2	C	D	D		D+
Pillar III: Management of assets and liabilities							
PI-10	Fiscal risk reporting	M2	NA	NA	NA		NA
PI-11	Public investment management	M2	C	C	C	B	C+
PI-12	Public asset management	M2	B	C	A		B
PI-13	Debt management	M2	C	NA	NA		C
Pillar IV: Policy-based fiscal strategy and budgeting							
PI-14	Medium-term budget strategy	M2	C	NA	C	D	D+
PI-17	Budget preparation process	M2	A	D	C		C+
PI-18	Legislative scrutiny of budgets	M1	B	A	A	A	B+
Pillar V: Predictability and control in budget execution							
PI-19	Revenue administration	M2	NA	NA	NA	NA	NA
PI-20	Accounting for revenue	M1	A	NA	NA		A
PI-21	Predictability of in-year resource allocation	M2	A	B	A	C	B+
PI-22	Expenditure arrears	M1	A	A			A
PI-23	Payroll controls	M1	A	A	A	B	B+
PI-24	Procurement	M2	NA	C	A	A	B+
PI-25	Internal controls on non-salary expenditure	M2	A	A	A		A
PI-26	Internal audit	M1	A	B	A	A	B+
Pillar VI: Accounting and reporting							
PI-27	Financial data integrity	M2	A	NA	A	A	A
PI-28	In-year budget reports	M1	A	A	B		B+
PI-29	Annual financial reports	M1	A	D	B		D+
Pillar VII: External scrutiny and audit							
PI-30	External audit	M1	D	NA	NA	A	D+
PI-31	Legislative scrutiny of audit reports	M2	NA	NA	NA	NA	NA

1. Introduction

1.1 Rationale and Purpose

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

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

1.2 Assessment Management and Quality Assurance

Box 1.2 Assessment Management and Quality Assurance Arrangements

PEFA Assessment Management Arrangements

- Oversight Team Chair & Members:
 - Sebastian Molineus, Regional Director for the South Caucasus, World Bank; and Giorgi Kakauridze, Deputy Minister, Ministry of Finance, Georgia (co-chairs)
 - Assessment Manager Ian Hawkesworth, TTL, Senior Governance Specialist, The World Bank
- Assessment Team Leader Patrick Piker Umah Tete, Sr. Financial Management Specialist and Mariam Dolidze, Sr. Economist and Co-Task Leader, The World Bank; John Short, Lasha Gotsiridze, Papuna Petriashvili, and Tessa Cullen (consultants)

Review of Concept Note

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

Reviewers who provided comments

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

Review of the Assessment Report

- Draft circulated
- Invited reviewers and date they provided comments
 - PEFA Secretariat – (17 December 2022)
 - Aleksandar Crnomarkovic, World Bank – (17 December 2022)
 - Irakli Khmaladze, Project Manager Economics, Regional Development and Public Finance, EU Delegation (6

December 2022)

- Natia Gulua Deputy Head of Budget Department – Head of Budget Policy Unit Ministry of Finance of Georgia – (15 December 2022)
- Bondo Tofuria, Head of Department of Finance, Martvili Municipality - 10 December 2022

PEFA CHECK

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

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

1.3 Assessment Methodology

24. **Coverage of the Assessment:** The assessment covers the municipality of Martvili, its executive, spending units and Assembly (Sakrebulo), as well as the services supplied by the central government agencies that it interacts with on PFM: the State Procurement Agency, State Audit Office, and Ministry of Finance (only regarding delivery of services by the municipality). Service delivery by the central government has been assessed through the central government assessment. There are no extrabudgetary units and there is no local government below the municipality level. There are no deconcentrated units. Martvili does not have any public corporations. The time period covered is fiscal years 2019 to 2021 and the time of assessment is September to October 2022.

25. **The full assessment team** visited Martvili on its main fact-finding mission 1 to 3 October 2022. The assessment team met with the Mayor and Deputy Mayor, the Head and Deputy Head of Finance as well as other relevant officials. This assessment benefited from the continuity of personnel (consultants and municipality staff) from the 2018 PEFA assessment.

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

27. **Other methodological issues for the preparation of the report:** The assessment was performed using the May 2022 *Guidance for Subnational Government PEFA Assessments*. All indicators (and their dimensions) were assessed and followed the methodology without deviation in terms of coverage and application. Those indicators that were not applicable have been scored Not Applicable (NA). The

justification for providing an NA score follows the aforementioned guidelines (see page 11).² Scores for Martvili are reported in Chapter 3. As the previous assessment of 2018 was conducted using the 2016 guidelines, the assessment team was able to use 2018 scores to make a comparison between the two assessments (except for indicators PI-14, PI-9B, and HLG-1.4 which are new indicators since 2018). The optional HLG-2 indicator (Fiscal Rules and Monitoring of Fiscal Position) has not been used as it is not appropriate in the Georgian subnational context.

2. Country Background Information

2.1 Country Economic Situation

28. According to the National Statistics Office of Georgia, as of 1 January 2021, the population of Georgia was 3,728,600.³ The 2021 data indicate that GDP per capita was 5,015 USD.⁴ In the fourth quarter of 2021, the average monthly nominal earnings in Georgia increased by 11.3 percent (GEL 149.1) compared to the same quarter of the previous year and amounted to GEL 1,463.8.⁵ Data from the social service agency indicate that 643,200 people were socially assisted.⁶

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

30. In 2021, the leading role in economic growth was still held by the private sector. In 2021, the turnover volume of the business sector increased by 35.2 percent, and the value of products produced by enterprises increased by 25.8 percent. The number of employees in the business sector increased by 12,600 people on average, and by 51,800 people in the last quarter.⁷

31. In 2021, the annual inflation level was 13.9% compared to 2.6% in the previous year. The formation of annual inflation was mainly influenced by price changes in the following groups: food and non-alcoholic

² In some cases, an indicator or dimension may not be applicable to the government system being assessed. In such cases “NA” is entered instead of a score. In cases where one or more dimensions of a multidimensional indicator are not applicable, the assessor proceeds as if the “not applicable” dimensions did not exist. In some cases, a D rating on an indicator or dimension can lead to NA on others. For example, if there is no internal audit function (PI-26.1), the other dimensions of PI-26 are NA because there will be nothing to assess for those dimensions in the absence of an internal audit function. If the SNG being assessed is not allowed to borrow, PI.13: Debt management will be not applicable.

³<https://www.geostat.ge/en/modules/categories/316/population-and-demography>

⁴<https://www.geostat.ge/en/modules/categories/23/gross-domestic-product-gdp>

⁵<https://www.geostat.ge/en/single-news/2474/average-monthly-nominal-earnings-of-employees-iv-quarter-2021>

⁶http://ssa.gov.ge/index.php?lang_id=&sec_id=1539

⁷<https://www.geostat.ge/en/single-archive/3364>

beverages -- prices increased by 15.6%, which was reflected in the increase of the total index by 5.01%. In the transport group -- prices increased by 17.3%, which was reflected by 2.24 percentage points on the annual index. In housing, water, electricity, and gas -- a 43.5% increase in prices was recorded, which was reflected in annual inflation by 3.64 percentage points; Hotels and restaurants -- prices increased by 14.0%, which was reflected in annual inflation by 0.78 percentage points; in Health Care -- prices rose 7.9%, reflecting a 0.62 percentage point increase in the overall index.⁸

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

33. In 2021, foreign trade turnover in goods in Georgia amounted to USD 14,342.4 million, 25.8% more than the previous year. Of this amount, exports were USD 4,242.7 million (29.6%), and imports USD 10,099.8 million (25.4%). In 2021, Georgia had a negative trade balance of USD 5,857.1 million.⁹

34. Foreign direct investments in Georgia reached USD 1,241.8 million in 2021. The three largest direct foreign investor countries and their shares were: United Kingdom 48.6 % (USD 603.6 million), Netherlands 11.1 % (USD 138.3 million) and Türkiye 8.1 % (USD 100.0 million).¹⁰

35. Table 2.1 provides selected economic indicators.

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

Source: Ministry of Finance

2.1.1 Significant Economic Challenges and Ongoing Reforms

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

⁸ <https://nbg.gov.ge/en/page/inflation-targeting>

⁹ <https://www.geostat.ge/en/single-archive/3373>

¹⁰ <https://www.geostat.ge/en/modules/categories/536/metadata-foreign-direct-investments>

to create a public sector free from corruption, to eradicate vicious practices existing after the collapse of the Soviet Union, and to set a distinctive example in the region.

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

2.1.2 Subnational Government Economic Situation

38. Martvili is a municipality in the Samegrelo-Zemo Svaneti region of Western Georgia and has a population of 30,900 according to the National Statistics Office of Georgia as of 1 January 2022 (0.83% of total population).¹¹ Its main economic activity is agriculture with tourism centered on the Martvili Canyon and its historical monastery. The region that Martvili is located in has the following characteristics compared to Georgia as a whole.

TABLE 2.1.2 SAMEGRELO-ZEMO SVANETI REGIONAL DATA

	Georgia	Samegrelo Zemo Svaneti Region
2021 GDP (GEL million) *	60,232	3,131
2021 GDP (USD million) *USD	18,696	1,007
Region as % of total GDP	---	6.4%
2021 Population (000)	3,728.6	308.4
2021 GDP Per Capita (GEL) *	16,154	10,065
2021 GDP per Capita (USD) *USD	5,015	3,237
2022 Unemployment (%)	20.6%	15.7%
2021 Average Monthly Salary (GEL)	1305	899
Foreign Direct Investment (USD million) USD	1,242	-4.5
Region as % of total FDI	---	-0.36%

* 2020 data

Source : Geostat¹²

2.2 Fiscal and Budgetary Trends

39. Table 2.2.1 shows the relative size of Martvili reflecting that it is a small rural community. Nevertheless, in all of the three years it showed a healthy overall fiscal balance. Grants from central government are crucial to the ability of the municipality to finance its expenditures which are split into recurrent and capital with the latter slightly higher than the former.

¹¹ The main town of Martvili has a population of 4,500.

¹² http://www.geostat.ge/index.php?action=page&p_id=1181&lang=eng

TABLE 2.2.1: AGGREGATE FISCAL DATA MARTVILI MUNICIPALITY

Item	GEL 000			As % GDP		
	2019	2020	2021	2019	2020	2021
Revenues	15,383.4	16,221.2	18,372.8	0.0255%	0.0269%	0.0305%
Taxes	466.6	471.0	500.4	0.0008%	0.0008%	0.0008%
Grants	14,557.8	15,217.7	17,337.3	0.0242%	0.0253%	0.0288%
Other revenues	359.0	532.5	535.1	0.0006%	0.0009%	0.0009%
Expenditures	7,402.0	7,565.6	8,337.7	0.0123%	0.0126%	0.0138%
Labor remuneration	2,166.8	2,148.1	2,138.9	0.0036%	0.0036%	0.0036%
Goods and services	1,346.6	994.7	1,455.3	0.0022%	0.0017%	0.0024%
Interest	106.4	104.7	86.2	0.0002%	0.0002%	0.0001%
Subsidies	2,856.1	2,982.3	3,434.2	0.0047%	0.0050%	0.0057%
Grants	30.0	3.9	30.0	0.0000%	0.0000%	0.0000%
Social security	707.9	926.8	877.7	0.0012%	0.0015%	0.0015%
Other expenditures	188.1	405.1	315.4	0.0003%	0.0007%	0.0005%
Operating balance	7,981.5	8,655.7	10,035.0	0.0133%	0.0144%	0.0167%
Net growth of non-financial assets	7,791.3	8,164.4	8,549.6	0.0129%	0.0136%	0.0142%
Growth	7,860.8	8,254.0	9,288.0	0.0131%	0.0137%	0.0154%
Decrease	69.5	89.6	738.4	0.0001%	0.0001%	0.0012%
Total balance	190.2	491.3	1,485.4	0.0003%	0.0008%	0.0025%
Net growth of financial assets	0.0	0.0	0.0	0.0000%	0.0000%	0.0000%
Growth						
Decrease						
Net increase in liabilities	0.0	0.0	0.0	0.0000%	0.0000%	0.0000%
Growth	0.0	0.0	0.0			
Domestic						
Foreign						
Decrease	0.0	0.0	0.0			
Domestic						
Foreign						
Change of balance of deposits (+ growth)	190.2	491.3	1,485.4	0.0003%	0.0008%	0.0025%
Balance	0.0	0.0	0.0			

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

Source: Martvili Finance Department

40. Table 2.2.2 shows the distribution of actual expenditure by function in Martvili. Spending on economic activity is the largest at over a third of the total. Education, housing and utility services, and recreation, culture, and religion are the next largest types of spending, except for general public services which averages 18% of total expenditure annually over the 2019-2021 period. With the transfer of public order and safety from municipalities to central government in 2015, public order and safety and defense services are not provided by the municipality.

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

Code	Item	2019	2020	2021
701	General public service	18.0%	18.9%	17.2%
702	Defense	0.5%	0.0%	0.0%
703	Public order and safety	0.0%	0.0%	0.0%
704	Economic activity	37.0%	38.4%	37.2%
705	Environmental protection	4.3%	5.0%	4.8%
706	Housing and utility services	11.2%	10.2%	12.7%
707	Healthcare	3.3%	4.3%	3.6%
708	Recreation, culture, and religion	7.4%	7.3%	7.6%
709	Education	15.7%	13.0%	14.2%
710	Social protection	2.5%	2.8%	2.7%
	Total	100.0%	100.0%	100.0%

Source: Martvili Finance Department

41. Table 2.2.3 shows that the functional classification is reflected in the economic classification. Capital spending (increase in non-financial assets) is the biggest consumer of expenditure, followed by subsidies.

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

Item	2019	2020	2021
Labor remuneration	14.2%	13.6%	12.1%
Goods and services	8.8%	6.3%	8.3%
Interest	0.7%	0.7%	0.5%
Subsidies	18.7%	18.9%	19.5%
Grants	0.2%	0.02%	0.2%
Social security	4.6%	5.9%	5.0%
Other expenses	1.2%	2.6%	1.8%
Increase in non-financial assets	51.5%	52.2%	52.7%
Total	100.0%	100.0%	100.0%

Source: Martvili Finance Department

2.3 Legal and Regulatory Arrangements

42. The legal and regulatory arrangements are common to both central government and municipalities. The legal basis for Georgia's public finance management is determined by the Constitution of Georgia, including the principles of fiscal governance and fiscal rules, basic principles for preparing, reporting and controlling the draft budget and responsible persons. The basic principles of fiscal governance and fiscal rules are approved through the Organic Law on Economic Freedom of Georgia. Since 2009 the basic law of the budget system is the Budgetary Code of Georgia, which has unified various existing legislative acts and has identified the budget process for all levels of government in a single system with unified processes and principles (Law on Georgia's Budget System). The code has established general norms of the budget system

as well as specific regulations for the public budget, republican budgets of autonomous republics and budgets of municipalities. Issues regarding the management of public debt, issuance of state guarantees, and transfer of debt are regulated by the Constitution of Georgia and the Law on Public Debt (1998), the Tax Code of Georgia, and Law of Georgia on Revenue Service, as well as various related laws regulate taxation. The Georgian law on State Internal Financial Control (Law of Georgia #5447 dated 9 December 2011) covers Internal Audit. The State Audit Office is independent as stipulated under Article 97 (2) of the Constitution of Georgia and has operational, financial, functional and organisational independence in accordance with Article 3 of the Law of Georgia on State Audit Office.

2.3.1 Legal and Regulatory Arrangements for Decentralisation

43. The legal basis for decentralization is encompassed in the framework for governance as specified above. In 2006 Georgia completely revamped its system of local government. Other than in the five largest cities, genuine self-government was established only at the district level while governance structures (separate budgets, elected public officials, etc.) were completely abolished at the levels below and above districts (i.e., in settlement and regions). As a result, the number of subnational government units in the country dropped from about one thousand to just seventy: five self-governing cities (Tbilisi; Kutaisi; Batumi; Rustavi and Poti), 62 district-wide municipalities, and the autonomous republic of Adjara.

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

45. Adjara because of its status of autonomous republic has a higher level of self-governance than other regions and warrants 2 tiers of subnational levels. The main source of income for the autonomous budget of Adjara (90% in 2021) is the income tax collected in Adjara. Approximately 30% of the budget expenses of Adjara are transferred to its 6 municipalities. 40-50% of the total transfer goes to Batumi, mainly for capital projects. Public health protection and improved infrastructure of public schools’ functions are performed by Adjara for all its municipalities.

46. The system of intergovernmental finances went through major changes as a result of reforms in 2007. The system that existed before 2007 had deconcentrated district branches for all major line ministries (health, education, social welfare), while current local governments did not receive any responsibilities in these sectors other than communal affairs, local roads, kindergartens, and some public health programs and supplementary financing of healthcare. However, in addition to designating a number of specific functions as municipal responsibilities, the organic law on local self-government also contains: (a) a “general competence” clause allowing local governments to perform functions beyond those specifically enumerated in the law as long as they are not explicitly disallowed in the legislation; and (b) a clause that allows for delegation of

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

47. Table 2.3.1 presents an overview of the subnational governance structure. There is a central government, two autonomous republics, and 67 municipalities (including cities). The population of the municipalities varies considerably from as little as 4,000 to over one million (Tbilisi). Municipalities are responsible for providing local roads, water and sewage, refuse collection, parks and cultural amenities such as museums and kindergarten schooling. Municipalities are independent of central government but rely on grants and this reliance varies depending on the size of the municipality.

TABLE 2.3.1. OVERVIEW OF SUBNATIONAL GOVERNANCE STRUCTURE

Level	Corporate body	Own political leadership	Approves own budget	Number of jurisdictions	Average population	% of Public Expenditure	% of Public Revenue	% Funded by Transfers
Central	Yes	Yes	Yes	1	3.728 million	85%	93%	0
State	Yes	Yes	Yes	2	0.24 million to 0.33 million	1%	2%	
Local 1	Yes	Yes	Yes	67	Ranges from 4,000 to 1.2 million	14%	7%	56%
Local 2	NA	NA	NA	0	NA	NA	NA	NA

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

2.3.2 Legal and Regulatory Arrangements for PFM

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

49. Regulations on subnational debt and the issuance of municipal guarantees are stipulated by the Local Self-governance Code (2014). Municipalities may take loans only with the prior consent of the central government. Borrowing must also be approved by the Sakrebulo (Article 68). Loans can only be taken to finance investment (capital) projects. The municipality loan stock may not exceed 10% of the last three years average annual revenue. If this limit is going to be exceeded, a municipality must obtain central government’s approval, and additional borrowing may only be sourced from central government agencies. Mortgaging municipal property is prohibited. Central government’s advance approval is needed to issue municipal guarantees (Article 100).

2.4 Institutional Arrangements for PFM

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

TABLE 2.4.1. STRUCTURE OF MARTVILI MUNICIPALITY - NUMBER OF ENTITIES

	<i>Public Sector (Year: 2021)</i>				
	Government Sub-sector		Social Security Funds	Public Corporation	
	Budgetary Units	Extra-budgetary Units ¹³		Sub-sector	
			Non-Financial Public Corporations	Financial Public Corporations	
Martvili-Budgetary Units	15	0	0	0	0
Spending units	7				
LELP	8				

Source: Martvili Finance Department

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

	<i>Public Sector (Year: 2021)</i>			
	Budgetary Unit	Extra Budgetary Units	Social Security Funds	Total Aggregated
Revenue (including grants)	18,492.8			18,492.8
Transfers to (-) and from (+) other units of general gov't	17,457.3			17,457.3
Expenditure	8,337.7			8,337.7
Liabilities	0.0			0.0
Financial Assets	1,605.4			1,605.4
Non-financial Assets	8,549.6			8,549.6

Source: Martvili Finance Department

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

52. Parties involved in the Martvili budget process are:

¹³ All agencies related to and central government ministries and municipalities are included in the budget. These are accountable to the budget entities and thus are not independent. There is no Social Security Fund.

- **Ministry of Finance of Georgia.** The departments that are relevant to municipality PFM are.
 - **Division of Macroeconomic Analysis and Fiscal Policy Planning:** - Macroeconomic forecasts and measurements of economic development of the country.
 - **Budget Department:** - Determination of the transfers from the central government to municipalities and Basic Direction Document.
 - **Central Harmonization Unit:** CHU ensures coordination of both internal audit and financial management and control. CHU ensures updating of the internal audit strategy and methodology of the state sector; conducting periodic educational/practical seminars and training for employees of internal audit entities and persons responsible for financial management and control, etc.
 - **Treasury and Finance-Analytical Department:** - Operation of the Single Treasury Account and Financial Management System.
- **State Procurement Agency.** All public procurement is administered by the State Procurement Agency.
- **Parliament of Georgia and the Finance and Budget Committee.** At the Plenary Sitting of the Parliament on the discussion of Draft Budget Law, the Parliament of Georgia conducts hearing of the reports of the State Audit Office and the Finance and Budget Committee of the Parliament of Georgia.
- **State Audit Office.** The State Audit Office carries out audits of municipality finance, develops proposals and recommendations on measures to be taken, including measures for elimination and prevention of violations - deficiencies, as well as about the improvement of relevant administrative - legal acts.
- **Georgia Revenue Services.** All taxes, including municipal property tax, are administered by Georgia Revenue Services.
- **Sakrebulo.** The Assembly is the elected governing body of the municipality. It discusses and adopts the municipality budget, makes amendments and additions to it during the year and approves the report on the control of budget implementation within the rules and deadlines provided for in the law of Georgia. It receives and scrutinizes audit reports by the SAO
- **The Budget and Finance Commission.** The Sakrebulo, for the term of its authority, establishes from its own members a budget and finance commission¹⁴ to control the financial activities of the municipality executive bodies. The commission reviews the budget proposals relating to revenues and expenditures and the budget execution reports on the activities implemented on a quarterly basis as well as the final annual budget execution report.
- **The Mayor** is an elected official who is the chief executive of the municipality. The mayor is responsible for budgeting and strategic planning functions across the whole municipality. The plans of the mayor are scrutinized by the Sakrebulo and implemented by the different departments of the municipality.
- **The Finance Department of the Municipality** manages the finances.

¹⁴ Not all municipalities use the term Budget and Finance for the Commission that is responsible for expenditure activities. In some it is Budget and Economy in others an Audit Commission as in the case of Tbilisi.

2.5 Other Important Features of PFM and its Operating Environment

53. The Budget Code provides for a centralized PFM system built around a Treasury Single Account and a PFMIS which incorporates salary and other expenses as well as commitment controls. This covers both central and local government. There are no specific subnational regulations. There are no earmarked revenues or extrabudgetary units in Georgia. External control is exercised by the State Audit Office which reports to Parliament. All of these characteristics have been in place for some time but are continuously improved by ongoing PFM reforms. The Budget Code provides for public hearings on the budget. The audit reports relating to municipalities are scrutinized by the Sakrebulo.

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

55. According to the legislation of Georgia, the authority of self-government units has 2 types: own authority and delegated authority (competence). Public school rehabilitation and public school student transportation functions are specific and distinct from other delegated functions. The delegation of these competencies to municipalities is determined by government decree, and the delegation of all other competencies by law. Every year, the government determines which municipality should be given a transfer for the rehabilitation of schools and in which municipality the Ministry of Education should rehabilitate schools (for example, the Ministry of Education does this in Tbilisi). Transportation of school students is implemented only in those municipalities which have villages. This program is not implemented in the self-governing cities of Tbilisi, Batumi, Kutaisi, Rustavi, and Poti.

56. Martvili performs the following services and functions delegated by the central government:

- Supervision of norms of public health protection; study of epidemiological situation and prevention;
- Conscription and registration in military service;
- Support of guarantees of social protection of Internally Displaced Persons. Among them, provision of housing, and other forms of material and financial assistance;
- Memorial services for war veterans. Includes the costs of funeral services for soldiers, the costs of protection, and beautification of military cemeteries;
- Decisions about granting, terminating, suspending, and restoring the status of persons permanently living in a high-mountainous settlements;
- Development of child rights protection and support programs that ensure promotion of children's social development, promotion of children's education, promotion of health protection, promotion of individual needs of disabled children, etc.
- Funding of relevant measures to improve the infrastructure of public schools, which involves the purchase of goods, services, and works for public schools;
- Provision of public schools with student transportation, which aims to provide free transportation for students living far from school.

3. Assessment of PFM Performance

HLG-1. Transfers from Higher Level of Government

57. This indicator assesses the extent to which transfers to the subnational government from a higher-level government are consistent with original approved high-level budgets and are provided within acceptable time frames. Coverage is budgetary subnational government. The assessment is based on the transfers for the fiscal years 2019, 2020 and 2021.

Indicator/Dimension	Minimum Requirements (Scoring Method M2)		
	2018 Score	2022 Score	Brief Justification for Score
HLG-1: Transfers from a higher level of government	D+	C	
HLG-1.1. Execution of planned transfers from higher level government	A	D	Actual transfers were more than 116% of the original budget estimate in all three years. In 2019 the deviation of actual grants from the original budgeted grants was 189.5%, in 2020, it was 137.0% and in 2021, it was 207.1%.
HLG-1.2. Transfers composition outturn	D	D	Difference between the original budget estimate and actual earmarked grants was greater than 15 percent in two of the last three years: 88.9% in 2019, 44.8% in 2020, and 90.1% in 2021.
HLG-1.3. Timeliness of transfers from higher level government	A	A	There are established procedures for the municipality to receive transfers from high-level governments on time.
HLG-1.4 Predictability of transfers	New Dimension	C	Martvili municipality receives information on the amount of distribution of VAT transfers for the budget year and the two years following. Changes are not explained.

58. The Budget Code of Georgia includes the following types of transfers from higher level government to local self-government units:

- **Special transfer.** Allocated from the state budget of Georgia for municipal budgets or the budget of an autonomous republic in order to eliminate the effects of natural disasters, ecological and other disasters, hostilities, epidemics and other emergency situations (damages), as well as to assist municipalities in the implementation of other activities. This transfer type is allocated only if the reserve fund of the respective municipality budget is not enough to finance the measures to mitigate the aforementioned events.
- **Capital Transfer.** Allocated to municipalities according to the rule approved by government degree #23 which indicates that:
 - A special commission be created which among others includes the Deputy Minister of Finance, Budget Department representative of the MOF, Deputy Minister of Regional Development, and

representatives of respective departments dealing with coordination with municipalities from Ministry of Regional Development and Infrastructure,

- Municipalities submit proposals of different capital projects to the commission;
- Criteria for selecting the projects is defined by the decree;¹⁵
- Municipalities are obliged to co-finance the projects at least by 5%;
- The special commission allocates available funds per specific projects and money is transferred to the municipality according to the contract amount and actual performance.

• **Targeted transfer for delegated competencies.** Municipalities exercise delegated competencies based on various laws. Municipalities perform functions and services delegated by the central government. These functions and services are:

- Supervision of norms of public health protection; study of epidemiological situation and prevention;
- Conscription and registration in military service;
- Support of guarantees of social protection of Internally Displaced Persons. Among them, provision of housing, and other forms of material and financial assistance;
- Memorial services for war veterans. Includes the costs of funeral services for soldiers, the costs of protection, and beautification of military cemeteries;
- Decisions about granting, terminating, suspending, and restoring the status of persons permanently living in highland settlements;
- Development of child rights protection and support programs that ensure promotion of children's social development, promotion of children's education, promotion of health protection, promotion of individual needs of disabled children, etc.
- Funding of relevant measures to improve the infrastructure of public schools, which involves the purchase of goods, services, and works for public schools;
- Provision of public schools with student transportation, which aims to provide free transportation for students living far from school.

▪ **Equalization transfer.** In 2019, the equalization transfer system in use was replaced by one based on a VAT sharing system. This system directs at least 19% of VAT mobilized in the state budget to the municipal budgets. This revenue becomes municipalities' own revenue, which a municipality uses at its discretion. VAT is shared in accordance with Article 71 of the Budget Code of Georgia. It is shared among municipalities according to population characteristics and the area of the municipality in the following percentages:

- 60% - The population of the municipality;
- 15% - Number of children under 6 years old registered in the municipality;
- 10% - Number of adolescents aged 6 to 18 registered in the municipality;
- 5% - Area of the municipality;
- 10% - Number of persons permanently residing in a highland settlement.

¹⁵ Government of Georgia Decree #23 On approval of the Selection procedures and criteria of Local Self-government and Regional projects' to be financed from the Fund of Projects to be implemented in the Regions of Georgia, prescribed by the state budget of Georgia.

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

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

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

60. Total transfers from central government to Martvili are presented in Table HLG 1.1.

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

Grants	2019	2020	2021
Budgeted Grants	7,681.0	11,111.5	8,370.3
Actual Grants	14,557.8	15,217.7	17,337.3
% Deviation	189.5%	137.0%	207.1%

Source: Martvili Finance Department

61. In 2019 the deviation of actual grants from the original budgeted grants was 189.5%, in 2020 it was 137.0%, and in 2021 it was 207.1%. Actual transfers were significantly more than 116% of the original budget estimate in all three years. Score D.

62. The large difference between planned and actually received transfers is related to the capital transfer. The capital transfer is allocated from the central budget after the central budget has been approved. At this time, the budget of the municipality has been developed. Accordingly, this transfer is not reflected in the first approved plan of the municipal budget. The amount of capital transfer for such small municipalities as Martvili is a significant part of the revenues. This is the main reason why there is such a big difference between planned and actual transfers (as well as the total revenues).

HLG-1.2. Transfers Composition Outturn

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

64. The 2022 central government PEFA assessment indicates that 84% of grants to municipalities are rule based. Included in these rule based grants are capital grants under government Decree # 23 issued on 7 February 2013, however, for the purpose of this dimension, they are classified as earmarked as they related to specific projects. Although municipalities record the amount received from the distribution of VAT as tax revenue, for this purpose the revenue received from the distribution of VAT is income from the transfer. It is considered non-earmarked transfers. All grants by type are presented in Annex 4, Tables 12 to 15.

65. The deviation in grants by type was 88.9% in 2019, 44.8% in 2020, and 90.1% in 2021. The difference between the original budget estimate and actual earmarked grants was greater than 15 percent in all three considered years. Score D.

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

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

67. In 2019-2021, Martvili received 4 types of transfers from the central government: targeted transfers for delegated competencies, capital transfers, special transfers and transfers received by distribution of VAT. See detailed information in Annex 4 Tables 16 to 18.

68. Target transfer for delegated competence was allocated to the municipality every month from the central budget, in the amount of 1/12 of the volume provided for in the annual plan.

69. Special and capital transfers were made based on the need in accordance with the justified request of the municipality.

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

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

HLG-1.4 Predictability of transfers

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

73. The central government provides Martvili with information on the volume of transfers.

74. The municipality is informed about the transfer to be received from the distribution of VAT according to the planning year and the 2 years following. Changes are not explained. Changes depend on economic growth and tax administration. In addition, when a capital transfer/grant is agreed for a specific project and that project may take more than one year to implement, the multi-year nature of the project is reflected in the funding profile.

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

76. Information about the amount of capital and special transfers are provided often after the municipality approves the budget.

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

Changes since 2018 PEFA

78. There has been a reduction in dimension HLG-1.1 from A to D due to a change in scoring methodology. The previous methodology scored excess actual relative to planned beyond 5% as an A. The 2022 PEFA methodology uses M2 aggregation and 2018 used M1.

PILLAR ONE: Budget Reliability

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

PI-1. Aggregate Expenditure Outturn

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

Indicator/Dimension	2018 Score	2022 Score	Brief Justification for Score
PI-1 Aggregate expenditure outturn	A	D	
1.1 Aggregate expenditure outturn	A	D	Actual aggregate expenditure deviations from the original budget were significantly more between 85% and 115% in all three assessment years in 2019 – 183.2%, in 2020 – 130.3%, and in 2021 – 190.6%.

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

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

	2019	2020	2021
Approved budget	8,330.2	12,143.8	9,245.3
Actual expenditure	15,262.7	15,819.5	17,625.7
% Deviation	183.2%	130.3%	190.6%

Source: Martvili Finance Department. Annex 4 Tables 1 to 4

82. The table show that deviations between the actual expenditure (current and capital) and the budget were as follows: in 2019 – 183.2%, in 2020 – 130.3%, and in 2021 – 190.6%. Actual aggregate expenditure deviations from the original budget were significantly more -- between 85% and 115% in all three years. Score D.

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

Changes since 2018 PEFA

84. The impact of COVID-19 can be seen as a main cause of deterioration from A to D in the scores from the 2018 assessment. However, the lack of pre-budget information on capital grants significantly affected budget predictability as the resultant expenditure was unplanned.

PI-2. Expenditure Composition Outturn

85. This indicator measures the extent to which reallocations between budget heads during execution have contributed to variance in expenditure composition. The assessment is based on the municipality budget and actual expenditure for the fiscal years 2019, 2020, and 2021. Coverage is budgetary subnational government.

Indicator/Dimension	Minimum Requirements (Scoring Method M1)		
	2018 Score	2022 Score	Brief Justification for Score
PI-2 Expenditure composition outturn	B+	D+	
2.1 Expenditure composition outturn by function	B	D	The deviation between actual and budgeted expenditures by function for all three years was more than 15%: 60.5% in 2019, 27.4% in 2020, and 78.6% in 2021.
2.2 Expenditure composition outturn by economic type	B	D	The deviation between actual and budgeted expenditures by economic category for all three years was more than 15%: 68.8% in 2019, 28.6% in 2020, and 77.0% in 2021.
2.3 Expenditure from contingency reserves	A	A	According to the average of the three years, the actual expenditures of the reserve fund amounted to 0.3% of the total budget expenditures

2.1 Expenditure Composition Outturn by Function

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

87. Actual and budgeted expenditures by function are presented in Annex 4, Tables 1 to 4. The deviation in expenditure structure according to the functional classification is 60.5% in 2019, 27.4% in 2020, and 78.6% in 2021.

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

2.2 Expenditure Composition Outturn by Economic Type

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

90. Actual and budgeted expenditure by economic classification is presented in Annex 4, Tables 5 to 7. The rate of deviation in expenditure structure by economic classification is 68.8% in 2019, 28.6% in 2020, and 77.0% in 2021.

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

2.3 Expenditure from Contingency Reserves

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

93. Under the Martvili municipal budget, the reserve fund is considered within the total public expenditures. According to the Article 67 of the Budget Code of Georgia, the volume of municipal reserve funds shall not exceed 2.0% of the total amount of budget allocations in the annual budget. According to the average of the three considered years, the actual expenditures of the reserve fund amounted to 0.3% of the total budget expenditures. Score A.

Changes since 2018 PEFA

94. The impact of COVID-19 can be seen as a main cause of deterioration from B+ to D+. However, the lack of pre-budget information on capital grants significantly impacted the budget predictability as the resultant expenditure was unplanned.

PI-3. Revenue Outturn

95. This indicator measures the change in revenue between the original approved budget and end of year outturn. The assessment is based on the budget and actual revenue from fiscal years 2019, 2020 and 2021. Coverage is budgetary subnational government.

Indicator/Dimension	Minimum Requirements (Scoring Method M2)		
	2018 Score	2022 Score	Brief Justification for Score
PI-3 Revenue outturn	C+	D	
3.1 Aggregate revenue outturn	B	D	Deviation between budgeted revenue and actual revenues collected in two of the three years was more than between 92% and 116%: in 2019 – 122.3%, in 2020 – 124.2%, and in 2021 – 112.6%.
3.2 Revenue composition outturn	C	D	The deviation was more than 15% in all three assessment years: 2019 was 59.5%, 63.8% in 2020, and in 2021 to 22.9%.

3.1 Aggregate Revenue Outturn

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

97. Actual and budgeted revenue by broad generic type is presented in Annex 4, Tables 8 to 11. They are from taxes on property and income relating to rent from property owned by the municipality, sales of goods and services, and fines and penalties.

TABLE 3.1 ACTUAL REVENUE AS % OF FORECAST REVENUE

Year	Actual as % of Forecast Revenue
2019	122.3%
2020	124.2%
2021	112.6%

Source: Martvili Finance Department, Annex 4 Tables 8 to 11

98. Deviation between budgeted revenue and actual revenues collected in all three years was outside of the range of 92% and 116%. Score D.

3.2 Revenue Composition Outturn

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

100. The deviation rate in revenue structure in 2019 was 59.5%, 63.8% in 2020, and in 2021 to 22.9%.

TABLE 3.2 DEVIATION IN PERFORMANCE STRUCTURE

Year	Deviation Percentage
2019	59.5%
2020	63.8%
2021	22.9%

Source: Martvili Finance Department Annex 4 Tables 8 to 11

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

Changes since 2018 PEFA

102. Own source revenue is difficult to predict given its composition. The impact of COVID made prediction even more problematic resulting in a lowering of the indicator score.

PILLAR TWO: Transparency of Public Finances

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

PI-4. Budget Classification

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

Indicator/Dimension	2018 Score	2022 Score	Brief Justification for Score
PI-4 Budget classification	A	A	Budget formulation, execution, and reporting are based on every level of economic and functional classification (10 functions) using GFS/COFOG standards. Program classification is derived from the administrative classification in Georgia.

105. Article 4 of the Budget Code¹⁶ of Georgia defines the main principles of the budget system, among which is the principle of unity. The existence of a single budget classification is a constituent part of the principles of this unity.

106. In Georgia, the budget classification is uniform for central, autonomous, and municipal governments. The budget classification was approved by order #99 of the Minister of Finance dated 5 April 2019.¹⁷ The classification includes:

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

¹⁶ <https://www.matsne.gov.ge/ka/document/view/91006?publication=51> Budget Code of Georgia, Article 4.

¹⁷ <https://www.matsne.gov.ge/ka/document/view/4530811?publication=0#DOCUMENT:1>; Order N99 of the Minister of Finance of Georgia, 5 April 2019.

107. According to the 2014 Government Financial Statistics Manual, the budget classification must include the economic classification of operations related to revenues, expenditures, non-financial assets, financial assets and liabilities. An example of GFS-compliant economic coding system is given below:

Example of GFS-Compliant Coding System in Georgia

For example: expenditure coding is in line with GFS
Expenses – Code 2:
 - Compensation of employees - Code 21
 - Use of goods and services - Code 22
 - Consumption of fixed capital¹⁸ - Code 23
 - Interest – Code 24
 - Subsidies – Code 25
 - Grants – Code 26
 - Social benefits - Code 27
 - Other expenses – Code 28
Change in non-financial assets – Code 31
Change in financial assets – Code 32
Change of liabilities – Code 33

For example: Expenditure coding:
5-digit economic code: 2.2.3.12.1.
 - Expenditures: 2
 - Goods and services: 2 2
 - Office expenses: 2 2 3
 - Utilities: 2 2 3 12
 - Electricity: 2 2 3 12 1

108. While program classification is not a GFS requirement (or a COFOG one), Georgia has developed a comprehensive program budgeting system with a specific classification. It is a combination of priorities (4-digit), programs (4-digit) and sub-programs (6-digit and more detailed) and the classification is determined by the annual budget. This classification substitutes the GFS organizational classification and provides, at least, the same level of detail as the GFS second and third levels. According to the program classification, the allocations are distributed to the priorities and to the programs and sub-programs to be implemented by the priorities, the detail of which is captured at the cost center (program or sub-program implementer). An example is provided below:

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

Martvili Municipality
Priority - Infrastructure construction, rehabilitation and operation - code 02 00 (first-level budget organization, GFS level)
Program - Road infrastructure construction, rehabilitation and maintenance - code 02 01 (Level 2)
Subprogram - Road infrastructure construction and rehabilitation - code 02 01 01 (Level 3)
Subprogram - Road maintenance - code 02 01 02 (Level 3)

¹⁸ According to the budget classification (Order №99 of the Minister of Finance of Georgia, 05.04.2019), this article is valid only in case of the accrual method.

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

110. The functional classification is COFOG-compliant with the 10 following functions: General Public Services, Defense, Public Order And Safety, Economic Affairs, Environmental Protection, Housing and Community Amenities, Health, Recreation, Culture and Religion, Education, And Social Protection.

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

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

112. The score for this dimension is A.

Changes since 2018 PEFA

113. While the score in 2018 and 2022 remain A as noted above there has been an extension of the classification system.

PI-5. Budget Documentation

114. This indicator assesses the comprehensiveness of the information provided in the annual budget documentation, as measured against a specified list of basic and additional elements. Time period is the last budget submitted to the legislature (Budget 2021) and the coverage is budgetary subnational government.

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

5.1. Budget Documentation

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

No.	Criteria	Achievement (yes / no)	Relevant Justification / Comment
Basic Elements			
1	Forecast of the fiscal deficit or surplus or accrual operating result.	Yes	Budget documentation includes information on fiscal data, including fiscal deficit and surplus, for the last, current and forecast years. These data are presented in Chapter 1, Article 1. ¹⁹
2	Previous year's budget outturn, presented in the same format as the budget proposal. In this element, 'same format as the budget proposal' means that figures should be presented and comparable at the same aggregate level or the same level of relevant detail as in the budget proposal.	Yes	Martvili 2021 budget outturn, presented in the same format as Martvili 2022 budget proposal. The tables presented in the first and third chapters of the Martvili budget contain columns with data on the budget outturn of the 2021 year's budget and the budget proposal is presented. This data is in the same format and can be easily compared.
3	Current fiscal year's budget presented in the same format as the budget proposal. This can be either the revised budget or the estimated outturn.	Yes	Martvili 2022 budget, as well as the 2022 revised budget, is in the same format as the 2022 budget proposal that was submitted to the Sakrebulo. ²⁰
4	Aggregated budget data for both revenue and expenditure according to the main heads of the classifications used, including data for the current and previous year with a detailed breakdown of revenue and expenditure estimates.	Yes	Information about revenues and expenditures is presented in Chapter I according to all main articles of budget classification for all three 2020-2022 years (past, current and planned). Aggregate revenue and expenditure indicators are presented according to the main categories of budget classification. ²¹
Additional Elements			
5	Deficit financing, describing its anticipated composition.	Yes	Sources of deficit financing are presented in Articles 1 and 2 of the budget proposal. ²²
6	Macroeconomic assumptions, including at least estimates of GDP growth, inflation, interest rates, and the exchange rate.	NA	This information is provided in the central government budget documentation and contains three tables of macroeconomic forecast (one for each scenario- basic, optimistic, and pessimistic). Macroeconomic indicators are presented from 2022 to 2026. The macroeconomic indicators are GDP, GDP growth, inflation, interest rates, exchange rates, etc. ²³
7	Debt stock, including details at least for the beginning of the	No	Martvili budget does not provide information about debt stock.

¹⁹ <https://matsne.gov.ge/document/view/5292926?publication=0>

²⁰ <https://matsne.gov.ge/document/view/5292926?publication=0>

²¹ <https://matsne.gov.ge/document/view/5292926?publication=0>

²² <https://matsne.gov.ge/document/view/5292926?publication=0>

²³ https://mof.ge/makroekonomikuri_machveneblebi

No.	Criteria	Achievement (yes / no)	Relevant Justification / Comment
	current fiscal year presented in accordance with GFS or other comparable standard.		
8	Financial assets, including details at least for the beginning of the current fiscal year presented in accordance with GFS or other comparable standard.	No	The 2022 budget proposal (Articles 1, 2 and 11) included information regarding the changes of financial assets for the current and past years as well as the one to be planned. There is no information presented regarding the volume of financial assets for the beginning or end of fiscal year.
9	Summary information of fiscal risks, including contingent liabilities such as guarantees, and contingent obligations embedded in structure financing instruments such as public-private partnership (PPP) contracts, and so on.	NA	There is no fiscal risk report prepared. There are no fiscal risks associated with the municipality as it has no MOES
10	Explanation of budget implications of new policy initiatives and major new public investments, with estimates of the budgetary impact of all major revenue policy changes and/or major changes to expenditure programs.	NA	The 2022 budget proposal of Martvili had no new policy initiatives that could impact the expected major revenue and/or major expenditure programs.
11	Documentation on the medium-term fiscal forecasts. In this element, the content of the documentation on the medium-term forecast should include as a minimum, medium-term projections of expenditure, revenue, and fiscal balance.	No	The municipality prepares a medium-term document (municipality priorities document), but the fiscal data presented in this document do not reflect real data. Revenues do not include the capital grant, which is about 40% of the municipality's total revenue. Mid-term expenditure data is formal, and it changes significantly during the preparation of the annual budget.
12	Quantification of tax expenditures.	NA	Tax expenditures are in the central government's area of competence.

116. Based on the analysis and supporting evidence, out of 8 applicable elements 4 basic and 1 additional element are met. Score B.

Changes since 2018 PEFA

117. The score has remained B with 4 basic elements and 1 additional element covered.

PI-6. Subnational Government Operations Outside Financial Reports

118. This indicator measures the extent to which government revenue and expenditure are reported outside the subnational government financial reports. The assessment of this indicator is based on the information and reports available for fiscal year 2021. The coverage is subnational government. The Georgian legislation and the basic principles of the budget system do not provide for non-budgetary / extra budgetary entities outside the budget structure.

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

6.1 Expenditure outside Financial Reports

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

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

6.2 Revenue outside Financial Reports

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

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

6.3 Financial Reports of Extra-Budgetary Units

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

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

Changes since 2018 PEFA

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

PI-7. Transfers to Subnational Governments

126. This indicator assesses the transparency and timeliness of transfers from central government to subnational governments with direct financial relationships to it. It considers the basis for transfers from central government and whether subnational governments receive information on their allocations in time to facilitate budget planning. In a subnational PEFA assessment, this indicator is applicable if there are such transfers from a municipality that is being assessed to a lower level of government. In the case of Martvili this does not apply.

Indicator/Dimension	Minimum Requirements (Scoring Method M2 AV)		
	2018 Score	2022 Score	Brief Justification for Score
PI-7 Transfers to subnational governments	NA	NA	There are no subnational entities under Martvili in 2022 which has not changed since the 2018 assessment.
7.1 Systems for allocating transfers	NA	NA	
7.2 Timeliness of information on transfers	NA	NA	

PI-8. Performance Information for Service Delivery

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

Indicator/Dimension	Minimum Requirements (Scoring Method M2 AV)		
	2018 Score	2022 Score	Brief Justification for Score
PI-8: Performance Information for Service Delivery	D+	B	
8.1 Performance plans for service delivery	D	B	Information is annually prepared and published according to program objectives of the municipality in the budget documentation. It includes performance indicators, programs about intermediate and final results or outcomes.
8.2. Performance achieved by service delivery	D	B	Information is provided on results of the priority programs /subprograms implemented by municipality spending units. Performance Assessment Indicators are published in the annual budget execution report.
8.3. Resources received by service delivery units	A	A	Information on the resources received by the service providers at spending units is available at least annually.
8.4. Performance evaluation for service delivery	D	D	The Municipality's Internal Audit Unit and the Supreme Audit Office compliance audits cover services delivered by the municipality in the previous three years. However, these are not performance related audits.

128. For central government operations program-based budgeting was introduced in 2010. Program budgeting was introduced for subnational governments in 2013 and since then its quality has been gradually improving. The central government budget and local budgets are prepared in the program budget format.

129. The period, structure and format of budget documents are determined by the Budget Code of Georgia and Order #385 of 2011 of the Minister of Finance "Methodology of Program Budget Compilation." Various changes were made in the state budget part of the order of the Minister of Finance in 2015 and in the part of autonomous republics and self-governing units in 2018.²⁴ Conducting the budget process according to the updated methodology has become mandatory for municipalities since 2019. The updated methodology for drawing up the program budget established many innovations in the budgeting process of municipalities. Among them, it should be noted:

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

²⁴ <https://matsne.gov.ge/ka/document/view/4273795?publication=0> Order #283 of the Minister of Finance of 27 July 2018

130. The preparation of the program budget is based on outputs to be produced (results) and its format includes assessment indicators (basic and targeted indicators, probability of failure and possible risks) of expected interim and final outcomes by programs / subprograms as defined in the framework of priorities in the Municipality Priorities Document and the country's Basic Data and Directions Document (BDD) which includes an annex for each municipality. Annex²⁵ of the program-based budget is attached to the draft municipal budget, which is submitted to the Sakrebulo.

8.1 Performance Plans for Service Delivery

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

132. The current budget framework with programs, subprograms, and cost centers allows for information about service delivery planned by the spending units including districts. This program information covers the complete budget. The presentation of programs together with their objectives at each level, expected interim and final outputs and outcomes measured with performance indicators to assess the achievement of the program's objectives. Descriptions of some programs omit outcomes and outputs are presented as outcomes. Some programs outputs are not measurable. This provides relevant information for service delivery's evaluation, even though improvement is needed to refine key performance indicators. The program-based budget of the municipality's spending units and districts includes all this detailed information. Information, as part of annual budget, is published annually.

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

8.2 Performance Achieved for Service Delivery

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

135. The municipality publishes an annual report on interim and final outputs and/or outcomes of programs and sub-programs of all spending programs. Information on the financial performance of programs is also prepared on a quarterly (3, 6 and 9 months) and on an annual basis; this information is available on the website of the municipality.²⁶

136. The 2021 annual budget performance report outlines the performance of planned outputs and outcomes with indicators. It shows if key objectives are met during the year for the various priority programs including LELPs covering transport, health, and social divisions and pre-school education support units, inter alia. Some program outcomes are not presented or included as outputs. Some indicators are not measurable. Explanation for main divergences or inconsistencies is documented. This annual report of the municipality budget performance is provided to the Sakrebulo no later than 2 months after the end of the fiscal year.

²⁵<http://martvili.gov.ge/page/43>

²⁶ <http://martvili.gov.ge/page/43>

137. The annual budget execution reports are available on the website of the municipality.²⁷ Score B.

8.3 Resources Received by the Service Delivery Units

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

139. In accordance with the Budget Code of Georgia, the budget is consolidated and includes all revenues and expenditures generated or operated by all budgetary units under the Treasury Single Account (TSA) managed by the State Treasury. Revenues, expenditures and balance changes (including the own revenues allowed by the legislation) of all budgetary units, including those that supply services, are fully recorded through the TSA since 2015. All expenditure from own source revenue has also to be channeled through the TSA. Own source revenue has first to be paid into the TSA subaccount before it can be transferred to a deposit account. This information is included in the budget execution reports.

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

141. The score for this dimension is A.

8.4. Performance Evaluation for Service Delivery

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

143. The Municipality's Internal Audit Unit and the Supreme Audit Office compliance audits cover services delivered by the municipality in the previous three years. Audits that have been carried out are not of the performance type and consequently, the rating of the dimension is D. Nevertheless, the SAO has carried out performance audits of a group of municipalities. These are: 1. Audit of activities of regional development associations established by municipalities. 2. Management audit of non-entrepreneurial (non-commercial) legal entities established by municipalities. 3. Management audit of pre-school education institutions established by Tbilisi, Kutaisi, Rustavi and Poti municipalities. These audits are common to all municipalities (pre-school education institutions in 4 municipalities) and the general picture across all municipalities is evaluated. Financial indicators of these organizations, number of employees, compliance with common standards, etc. The recommendations are general and common to all municipalities.²⁸ Score D.

²⁷ <http://martvili.gov.ge/page/43>

²⁸ These audits are published as follows

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

Changes since 2018 PEFA

144. There has been a significant improvement due to the municipality introducing a medium-term budget with KPIs and the accounting system maintaining its ability to track expenditures. Performance assessments are yet to be carried out.

PI-9A. Public Access to Fiscal Information

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

Indicator/Dimension	2018 Score	2022 Score	Brief Justification for Score
PI-9A Public access to fiscal information	B	C	Out of 6 applicable elements 4 basic elements are available to the public

146. **The following elements are made publicly available:**

Basic elements

- (i) **Annual executive budget proposal documentation**²⁹ - The executive budget proposal, together with the supporting documentation (and within the timeframe established by the law) is available on the Martvili website within one week after submission of the proposal by City Hall.
- (ii) **Enacted budget**³⁰ - The annual budget approved by the Sakrebulo is available to the public on the Martvili website on the date of its approval. The approved budget of Martvili is also published on the country's official legislative web portal "Sakanonmdeblo Matsne."³¹ The passing of the budget by the Sakrebulo is publicized 2-3 working days after its approval.
- (iii) **In-year budget execution reports.** Quarterly reports (3, 6 and 9 months) are submitted to the Sakrebulo together with the supporting documentation and materials within one month from the completion of the quarter and are uploaded to the website of the Martvili City Hall after their submission.³²

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

²⁹ <https://martvili.gov.ge/?cat=103>

³⁰ <https://martvili.gov.ge/?cat=103>

³¹ <https://matsne.gov.ge/document/view/5292926?publication=0>

³² <https://martvili.gov.ge/?cat=103>

- (iv) **Annual budget execution report**³³ - The Martvili annual budget report is presented to the Sakrebulo within two months after the end of the year and is available at Martvili City Hall website immediately after presentation to the Sakrebulo. In addition, the state annual budget execution report covers the execution of grants to subnational governments. It is available to the public on the website of the Ministry of Finance immediately after its submission to the legislative body. The presentation of budget execution report to the Sakrebulo is publicized on the website.
- (v) **Audited annual financial report** – The municipality submits financial statements to the Treasury by the end of March of the following year. The State Audit Office is not obliged to audit these annually by law but does periodically based on its work plan. The last audit of Martvili’s City Hall financial statements covered 2016 and was published on the SAO website but not until 2018³⁴. An audited annual financial report for 2021, incorporating or accompanied by the external auditor’s report was not conducted. This element is not applicable.

Additional Elements:

- vi **Pre-budget statement**³⁵ - The preparation of the annual executive budget proposal starts with the preparation of the country's Basic Data and Directions (BDD) Document from 1 March of each year. The BDD is a major plan for development of the country, reflecting information on medium-term macroeconomic and fiscal forecasts (4 years ahead, current and previous years), as well as information on programs with the main priorities and directions of development, and ceilings of budget allocations for spending institutions. It covers the subnational, autonomous republics and local authorities of Georgia. The document is updated annually. The government approves the country's BDD Initial Document up to 10 July of each year and publishes it immediately after (more than 5 months before the start of the fiscal year.) Despite this, the BDD is primarily a central budget document. Although it includes the Municipal Priorities Documents these are attached later, after all local budgets and relevant MPDs have passed the relevant Sakrebulo. So theoretically, the BDD draft (when issued by 10 July) does not include local budget figures. At the same time the MPD is not ready and published before 4 months of the budget year start.
- vii **Other external audit reports**- The State Audit Office prepares a report on spending performance on selected activities in the municipality. It issues the annual report on the activity of the Audit Office. All reports of the State Audit Office are available on its website and are placed there immediately after submission.³⁶ As there were no qualifying reports for Martvili this element is Not Applicable.
- viii **Summary of the budget proposal (often referred to as a “Citizens’ Guide”)** - There was no Citizen's Guide or other document presented in a format understandable by non-budget experts on the 2021 budget proposal.

147. Out of 6 applicable elements 4 basic elements are available to the public.³⁷ Score C.

Changes since 2018 PEFA

³³ <http://Martvili.ge/ge/?page=show&sec=49>

³⁴ <https://sao.ge/files/auditi/auditis-angarishebi/2017/martvilis-municipaliteti.pdf>

³⁵ <https://www.mof.ge/5439>

³⁶ <https://sao.ge/en/reports?isAudit=true>

³⁷ Based on scoring guidance (page 77): elements v and vii not applicable and no additional elements.

148. The scoring guidelines for this indicator have changed. In the 2018 PEFA 4 basic elements and 2 additional elements were accessible as in 2020.

PI-9B. Public Consultation

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

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

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

9B.1: Public consultation in budget preparation

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

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

153. A public consultation of the 2022 budget, in which the Sakrebulo publishes a summary of the inputs received and an explanation of how those inputs have been considered, was not held. Also, the budget proposal was not presented in a reader-friendly and understandable format.

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

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

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

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

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

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

9B.3: Public consultation in investment planning

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

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

Changes since 2018 PEFA

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

PILLAR THREE: Management of Assets and Liabilities

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

PI-10. Fiscal Risk Reporting

163. This indicator measures the extent to which fiscal risks to subnational government are reported. Fiscal risks can arise from adverse macro-economic situations, financial positions of subnational governments (SNG), public corporations, and contingent liabilities from subnational government’s own programs and activities, including extrabudgetary units. They can also arise from other implicit and external risks such as market failure and natural disasters. The assessment is based on the information available for the most recent fiscal year 2022. Coverage for dimension 10.1 is subnational government-Controlled Public Corporations. For dimension 10.2 it is subnational government entities that have direct fiscal relations with the subnational government. For Martvili municipality there are none. For dimension 10.3 it is the central government that carries out such overall risk assessment rather than the municipalities. However, the municipality does have a fiscal risk under hospital admittance, and this is assessed.

Indicator/Dimension	Minimum Requirements (Scoring Method M2 AV)		
	2018 Score	2022 Score	Brief Justification for Score
PI-10 Fiscal risk reporting	NA	NA	
10.1 Monitoring of public corporations	NA	NA	There are no public corporations under the municipality.
10.2 Monitoring of subnational governments	NA	NA	
10.3 Contingent liabilities and other fiscal risks	NA	NA	

10.1 Monitoring of Public Corporations

164. There are no public corporations owned by Martvili municipality. Score NA.

10.2 Monitoring of Subnational Governments

165. Not Applicable to the municipality. Score NA.

10.3 Contingent Liabilities and Other Fiscal Risks

166. There are no contingent liabilities applicable to the municipality. All other fiscal risks in this dimension are the relevant to the central government and are addressed in the annual report on Fiscal Risk by The Fiscal Risk Department of the Ministry of Finance. These do not apply to Martvili. Score NA.

Changes since 2018 PEFA

167. The situation with respect to fiscal risk is the same in 2022 as it was in 2018 – there are none that apply to the municipality.

PI-11. Public Investment Management

168. This indicator assesses the economic appraisal, selection, costing and monitoring of public investment projects by the government, with emphasis on the largest and most significant projects. The assessment is based on the fiscal year 2022 and covers subnational government.

Indicator/Dimension	Minimum Requirements (Scoring Method M2 AV)		
	2018 Score	2022 Score	Brief Justification for Score
PI-11 Public investment management	C	C+	
11.1 Economic analysis of investment proposals	D	C	Economic analyses are conducted to assess some major investment projects but are not independently reviewed or published.
11.2 Investment project selection	C	C	Prior to their inclusion in the budget, the major investment projects are prioritized but not based on standard criteria.
11.3 Investment project costing	C	C	For multi-year projects the total cost is known but only the cost in the budget year is included in the annual budget documentation. If a project has been completed within the budget year, the subsequent operating cost are also included in the budget as part of the spending unit's costs but not broken down by individual project.
11.4 Investment project monitoring	B	B	The monitoring of cost and physical progress of investment projects are outsourced and adequately monitored by the implementing unit. Information on implementation of projects is prepared quarterly and annually and reported to the Sakrebulo.

169. An investment projects management guide was developed in 2016 and was approved by the Decree No.191 of 22 April 2016 for the purpose of establishment of mechanisms for developing and implementing single cycle management of capital / investment projects. Detailed methodology for Investment Projects Management Decree No.165 of 22 July 2016 of the Minister of Finance, was approved on the basis of this guide. The provisions defined by the investment project management guide and methodology apply to those capital projects with value greater than or equal to GEL 5 million.

170. According to the Budget Code, the budget documentation submitted to the Sakrebulo should include information on each capital project financed by the annual budget – the capital budget annex of annual budget. The structure and content of the capital budget annex of the municipal budget is presented in the methodology of program budgeting, updated in 2018.³⁸

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

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

The table shows the 4 largest investment projects that were financed from the 2021 budget and are more than 1 percent of the budget expenditures.

TABLE 11.1 LARGEST INVESTMENT PROJECTS OF THE 2021 BUDGET OF MARTVILI (GEL 000)

#	Project Name	Project Size	% in 2021 budget expenditures
1	Construction of the road connecting Martvili Taleri-Chorotsku and Taleri Lebarde with concrete pavement	250.0	1.4%
2	Paving of the road in Tamakon district and Gizo Tsulaia street with concrete pavement	500.0	2.8%
3	Construction of a road connecting Martvili to Nakhareao (Gwalia district)	700.0	4.0%
4	Arrangement of access road to Nogi Castle in Kitsi administrative unit	800.0	4.5%

11.1 Economic Analysis of Investment Proposals

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

173. The main source of financing capital/investment projects in Martvili is the capital transfer allocated from the central government. The capital transfer is allocated according to the procedures determined by Decree #23 of 2013 of the Government of Georgia. These procedures involve evaluating the

³⁸ <https://matsne.gov.ge/ka/document/view/4273795?publication=0> ; Order #283 of the Minister of Finance of 27 July 2018

capital/investment project with different criteria. Among them, capital/investment projects are evaluated according to their economic usefulness. This is not an assessment where the projects are evaluated according to the international standard of cost-benefit, but this evaluation creates a certain idea about the usefulness of the project. It includes the number of beneficiaries, ongoing costs after the project, etc.

174. The assessment teams assessed the top 10 investment projects. There were only a few major investment projects financed in 2019-2021 (see Table 11.1) on which preliminary assessments, including economic ones, have been made. These 4 projects make up approximately 45% of the budget of investment projects. Accordingly, it meets the condition "Economic analyzes are conducted to assess some major investment projects."

175. Analyses were not reviewed by other than the sponsoring entity and results are not published. Score C.

11.2 Investment Project Selection

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

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

11.3 Investment project costing

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

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

11.4 Investment Project Monitoring

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

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

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

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

Changes since 2018 PEFA

184. There has been better appraisal of projects since 2018 while the practices for selection, costing and monitoring have remained unchanged.

PI-12. Public Asset Management

185. This indicator assesses the management and monitoring of government assets and transparency of asset disposal. The assessment is based on the fiscal year 2021.

Indicator/Dimension	Minimum Requirements (Scoring Method M2 AV)		
	2018 Score	2022 Score	Brief Justification for Score
PI-12 Public asset management	B	B	
12.1 Financial asset monitoring	B	B	The municipality maintains a record of its holdings in all categories of financial assets, which are recognized at their acquisition cost and in rare cases at fair (market) value. Information on the performance of the major categories of financial assets is published annually.
12.2 Non-financial asset monitoring	D	C	The municipality maintains a register of its holdings of fixed assets and collects partial information on their usage and age.

12.3 Transparency of asset disposal	A	A	Procedures and rules for the transfer or disposal of financial and nonfinancial assets are established. The Municipality Property Agency provides detailed information on every transaction. Detailed report each disposed asset is available to the public.
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12.1 Financial Asset Monitoring

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

187. Issues related to financial assets are regulated by the Budget Code of Georgia.³⁹ Financial data on loans according to the Government Finance Statistics Manual 2014 is given in the annual financial statements.

188. Annual financial statements prepared by the municipality include information on financial assets. These are submitted to the municipality management by the end of April following the end of the fiscal year. Major categories of financial assets are recorded in annual budget execution reports. Financial assets are mainly cash in their TSA account and cash equivalents (short term deposits in banks). These reports are available to the public. Score B.

12.2 Non-Financial Asset Monitoring

189. Dimension 12.2 assesses the features of nonfinancial asset monitoring for budgetary subnational government. Reporting on nonfinancial assets should identify the assets and their use.

190. Non-financial assets are recorded in different registers without value. Land and property owned by the municipality currently occupied and used are documented in the national on-line register. For moveable property such as desks, computers and vehicles there is a register which was updated and expanded as a result of the work of the Inventory Commission created in 2019 for this purpose. Electronic bar codes are attached to moveable items.

191. For determination of the value of non-financial assets the cost of acquisition is mainly used, in some cases the real (market) value is used, e.g., for realization purposes, which does not provide comprehensive and accurate information on values. Financial data on non-financial assets (initial cost, accrued depreciation, residual value, etc.) at the municipality level is presented in annual financial statements in accordance with the Government Finance Statistics Manual 2014. The table below shows the classification of non-financial assets and their management according to the GFSM 2014 methodology.

³⁹ Martvili municipality does not have any loans or shares in companies.

TABLE 12.2 MANAGEMENT OF NON-FINANCIAL ASSETS

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

192. Information about assets is presented in different ledgers and registers and their age can be deduced from when they were entered on the ledgers and registers. The public register of non-produced assets does not contain information about values. With respect to vehicles there was an audit report in 2021 which provides valuation and age details. The same applies for vehicles. Records on asset values are based at cost and do not reflect real (market) value. Records are not published. Score C.

12.3 Transparency of Asset Disposal

193. Dimension 12.3 assesses whether the procedures for transfer and disposal of assets are established through legislation, regulation, or approved procedures for financial assets coverage is SNG and for nonfinancial assets budgetary subnational government.

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

195. The annual procedure is as follows: At the first stage, the Department makes a list of properties to be sold during the year. They include both immovable property (land, buildings) and movable (automobile or

other) property. This list is approved by the Sakrebulo. After that, on request from the Department the State Appraisal Bureau values the properties at their market value. After the evaluation, the Department makes a privatization plan, which is also approved by the Sakrebulo. Sale is then carried out electronically through the <https://eauction.ge/> website. An auction is held on the website. The initial value on the price to be sought of the property at the auction is determined by the market price assessed by the State Appraisal Bureau. The auction is public, and any interested person can take part in it and get information. After the end of the year, the Department submits information on the implementation of the privatization plan to the Sakrebulo. First, the report is discussed at the property management commission of the Sakrebulo and then at the session of the Sakrebulo. Detailed information about the initial and final value of the property is on <https://eauction.ge/>.

196. The annual report submitted to the Sakrebulo contain information on:

- How many requests were submitted to the Department during the year, and what did these requests refer to: privatization, leasing, and various current issues;
- How many and which properties did the Department sell. The total cost of property sold. Identification codes of privatized property are specified.
- Information on what property was transferred to the municipality during the year is presented. These are mainly the properties transferred by the central government to the municipality.
- Information about leased properties is presented which covers fulfillment of obligations undertaken by tenants and others.
- Other information related to the property of the municipality.

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

198. Martvili does not have any commercial enterprises so disposal and reporting are centered on land and property to all parties both to the private and public sector.

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

200. The Law on State Property provides comprehensive rules and procedures for the transfer and disposal of assets, and this is available on the website. The Department of Economic Development, Property Management and Statistics sells and leases the largest part of municipality property in the form of electronic auctions according to procedures as defined by the law. The State Appraisal Bureau determines the initial value of the property. Publicity is ensured through the website promoting electronic auctions. Information about significant facilities subject to privatization is publicly available through media outlets as well. Procedures and rules for transfer and disposal are established and transparent practices are followed. Score A.

Changes since 2018 PEFA

201. The register of nonfinancial assets is more reliable since the 2018 assessment given the work of the municipality Inventory Commission and the audit on vehicles. The dimensions pertaining to financial assets and disposal of assets have remained the same.

PI-13. Debt Management

202. This indicator assesses the management of domestic and foreign debt and guarantees. It seeks to identify whether satisfactory management practices, records and controls are in place to ensure efficient and effective arrangements.

Indicator/Dimension	Minimum Requirements (Scoring Method M2)		
	2018 Score	2022 Score	Brief Justification for Score
PI-13 Debt management	C+	C	
13.1 Recording and reporting of debt and guarantees	C	C	Records on debt are complete and accurate. Reconciliation is done annually.
13.2 Approval of debt and guarantees	A	NA	Primary legislation grants authorization to borrow, issue new debt, and issue loan guarantees on behalf of the subnational government to a single responsible debt management entity. Documented policies and procedures provide guidance to borrow, issue new debt and undertake debt-related transactions, issue loan guarantees, and monitor debt management transactions by a single debt management entity. Annual borrowing must be approved by the government or legislature.
13.3 Debt management strategy	D	NA	Martvili does not have any plans to borrow in the medium-term. There is no need for a debt management strategy.

13.1 Recording and Reporting of Debt and Guarantees

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

204. At the time of the assessment the municipality had one historical loan from the central government controlled LEPL “Municipal Development Fund.” Loan agreements are registered. The schedule of payments is recorded by the municipality in a simple database recorded in MS Excel. A report on payments of interest and principal is produced by the municipality as part of the quarterly reporting requirements. Payments are made monthly and semi-annually. Reconciliation is done annually. Score C.

13.2 Approval of Debt and Guarantees

205. Dimension 13.2 assesses the arrangements for the approval and control of the government's contracting of loans and issuing of guarantees, which is crucial to proper debt management performance for SNG in 2021.

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

207. Under the Law of Georgia on Public Debt, the Ministry of Finance of Georgia (through the Minister), with the consent of the government (through Parliament)⁴⁰ and through consultations with the National Bank of Georgia, has the single and exclusive right and responsibility to manage and conclude agreements on the debt in national and other convertible currency, as well as to issue state guarantees for credits to the financial institutions of Georgia and other countries in national and other convertible currencies, which are allocated to Georgian economic agents regardless of ownership and economic activity (Article 2.2). The Ministry of Finance carries out external debt services, makes decisions about attracting foreign loans, negotiates with foreign creditors, signs the relevant documents on loan, and records the uses of the borrowed funds (Article 2.3). In addition, the Ministry of Finance ensures the management of domestic debt through organizing its coverage and recording, determining and paying interest rates, as well as through conducting other operations (Article 13).

208. Additional regulations of subnational debts and issuance of municipal guarantees are stipulated by the Local Self-governance Code (2014). Municipalities may take loans only with in-advance consent of central government. Borrowings must be approved by Sakrebulo (Article 68). Loans could be taken only to finance investment (capital) projects. Municipality loan stock may not exceed 10% of last three years average annual revenue. If this limit is going to be exceeded, the municipality needs central government's approval; additional borrowing may be made only from central government agencies. The law prohibits municipalities from mortgaging municipal property. central government's advance approval is needed to issue municipal guarantees (Article 100).

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

13.3 Debt Management Strategy

210. Dimension 13.3 assesses whether the government has prepared a debt management strategy with the long-term objective of contracting debt within robust cost-risk trade-offs. The time period is at the time of assessment, with reference to the last three completed fiscal years.

⁴⁰ Except for Eurobonds.

211. As the municipality does not have any plans to borrow in the medium-term. The one historical loan is serviced as noted in PI-13.1 and accounted for in the budget and budget execution report. Given these considerations, the dimension does not apply to Martvili as there is no need for a debt management strategy. Score NA.

Changes since 2018 PEFA

212. The change in score since 2018 from C+ to C is a methodological one. Dimension 13.2 has not changed but is now NA rather than A, and dimension 13.3 is NA rather than D as there are no planned borrowings. Dimension 13.1 remains a C in both assessments.

PILLAR FOUR: Policy Based Fiscal Strategy and Budgeting

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

PI-14. Medium-term budget strategy

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

Indicator/Dimension	Minimum requirements (Scoring Method M2)		
	2018 Score ⁴¹	2022 Score	Brief justification for score
PI-14. Medium-term budget strategy		D+	
PI-14.1: Underlying forecasts for medium-term budget		C	Estimates of revenue and expenditure for the budget year are based on information on transfers, revenue, and expenditure assignments.
PI-14.2: Fiscal impact of policy proposals		NA	In 2021, no proposals in Martvili have impacted budget revenues or expenditures.
PI-14.3: Medium-term expenditure and revenue estimates		C	Medium-term estimates include information on expenditures by program classification. The information on revenues and expenditures is not fully complete over the medium-term due to the nature of some grants.
PI-14.4: Consistency of budget with previous year estimates		D	The budget documents do not explain any changes to expenditure estimates between the second year of the last medium-term budget and the first year of the current medium-term budget at the aggregate level

PI-14.1 Underlying forecasts for medium-term budget

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

216. According to the Budget Code of Georgia, the municipal budget should be based on the Priorities Document of the municipality. The Priorities Document is the basic plan of the development of the municipality, which reflects the information about the medium-term action plans. The Priorities Document is updated annually and developed for a period of 4 years – the budget year and 3 years after the budget year. This document includes the municipality's revenues by major sources and expenditures by major programs.

⁴¹ This indicator is an amalgamation of PIs 14 to 16 in the 2018 PEFA assessment.

The Priorities Document is submitted to the Sakrebulo together with the draft budget. In contrast to the budget, the Priorities Document is not approved by the Sakrebulo.

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

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

219. The 2022-2025 Priorities Document was prepared by the executive authority of Martvili. It was presented to the City Council together with the budget project to the Sakrebulo.

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

221. Although the municipality has a 4-year revenue and expenditures plan, it is not updated within the year. Budget revenues and expenditures depend on 1-year forecasts apart from non-earmarked grants and capital grants (where they cover more than one year). Based on the analysis and supporting evidence the score for this dimension is C as estimates of revenue and expenditure for the budget year are based on information on transfers, revenue, and expenditure assignments. Score C.

PI-14.2 Fiscal impact of policy proposals

222. This dimension assesses the capacity of the SNG to estimate the fiscal impact of revenue and expenditure policy proposals developed during budget preparation. The assessment of the fiscal implications of policy changes is critical to ensure that policies are affordable and sustainable. It covers the last budget submitted to the subnational council (in 2021).

223. In 2021, no proposals in Martvili have impacted budget revenues or expenditures. Score NA.

PI-14.3 Medium-term expenditure and revenue estimates

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

225. As mentioned in dimension PI-14.1, Martvili Municipality prepares and submits the Priorities Document to the Sakrebulo together with the annual budget. The Priorities Document is the medium-term action plan of the municipality, which includes the next 4-year plan of the municipality in terms of revenues and expenditures. The information on revenues presents the municipality's own revenues (property tax, other incomes, incomes from the sale of property), and grants from the revenues from the distribution of VAT. The information includes other transfers from high-level government which are only made for 1 year (special and targeted grants) given their justification and objectives. Capital grants may cover projects over their implementation time scale which may be over more than one year. However, in general these are relatively small and are usually implemented within the year. The share of other transfers in total revenues that are not reflected in the document of priorities in 2021 was 44% in Martvili although this may be lower given the capital projects that may be implemented over more than one year.

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

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

TABLE 14.3. MEDIUM-TERM EXPENDITURE ESTIMATES

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

Data source: Priorities Document

228. Medium-term estimates include information on expenditures by administrative and program classification. Information on revenues by major types is also included. However, some are only for 1 year depending on type. Based on the analysis and supporting evidence the score for this dimension is C as information on some of the grants are not available at the budget planning stage.

PI-14.4: Consistency of budget with previous year estimates

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

completed fiscal year 2021, and “the current medium-term budget” relates to the budget approved by the subnational council for the current fiscal year submitted in 2021 covering 2022.

230. The budget documents do not explain any changes to expenditure estimates between the second year of the last medium-term budget and the first year of the current medium-term budget at the aggregate level. Based on the analysis and supporting evidence the score for this dimension is D.

Changes since 2018 PEFA

231. This is a new indicator (amalgamation of previous PI-14 to 16). In the previous assessment Martvili did not have a medium-term view of revenues and expenditure whereas it has now introduced one.

PI-17. Budget Preparation Process

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

Indicator/Dimension	Minimum Requirements (Scoring Method M2 AV)		
	2018 Score	2022 Score	Brief Justification for Score
PI-17: Budget preparation process	D+	C+	
17.1 Budget calendar	C	A	The budget calendar is clear and adhered to. All budgetary units have more than 6 weeks from receipt of the budget circular to meaningfully complete their detailed estimates on time.
17.2 Guidance on budget preparation	D	D	The budget circular is simple and covers total expenditure for the fiscal year. The budgetary units’ ceilings are not reflected in a circular.
17.3 Budget submission to the legislature	C	C	The municipality executive submitted the annual budget proposal six weeks before the end of the year in each of the last three fiscal years.

17.1. Budget Calendar

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

234. The Budget Calendar for local authorities is clearly defined by the Budget Code of Georgia.⁴² The Budget Calendar, which follows the conditions set out in the Budget Code, indicates relevant dates for the municipality. In Martvili the budget calendar is as follows

1. Before 1 March the municipality sets out the activities to prepare the draft budget.
2. By 10 August there is a budget circular based on a template which includes information on staffing levels. There are no ceilings.
3. By 10 September the budgetary units submit proposals, and these are analyzed by the Finance Department. These are discussed by the mayor, finance department and the spending unit.
4. 5 October municipality receives information on its grants and tax revenue from the Ministry of Finance.
5. In case of need and additional financial resources, the budgetary units submit their budget requests to the finance department no later than 5 November.
6. By 15 November municipality finance department prepares draft budget.
7. 15 November budget submitted to Sakrebulo.

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

17.2. Guidance on Budget Preparation

236. There is a simple budget preparation process. Based on revenue forecasts submitted by the Ministry of Finance, the initial budget proposal is reviewed for a second time by the finance department and the Mayor. It is finalized after discussions with the budgetary unit. Budget ceilings are not formally issued to the budgetary unit, which then prepares its budget accordingly. Score D.

17.3. Budget Submission to the Legislature

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

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

TABLE 17.3 DATE OF SUBMISSION OF BUDGET TO THE LEGISLATURE

Year	Date of Submission
2020	15 November 2019
2021	17 November 2020
2022	12 November 2021

Source: Martvili Finance Department

⁴² <https://matsne.gov.ge/ka/document/view/91006?publication=51> Budget Code of Georgia, part IV, Articles 65 to 80

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

Changes since 2018 PEFA

240. There has been an improvement in the budget calendar which has increased the time available to prepare the budget from 2 to more than 6 weeks. However, ceilings are still not provided, and the budget is presented to the Sakrebulo 6 weeks before the start of the financial year; both characteristics were the same in 2018.

PI-18. Legislative Scrutiny of Budgets

241. This indicator assesses the nature and extent of legislative scrutiny of the annual budget. It considers the extent to which the legislature scrutinizes, debates, and approves the annual budget, including the extent to which the legislature’s procedures for scrutiny are well established and adhered to. Time period: Last completed fiscal year (2021) for 18.1, 18.2 and 18.4. For 18.3 last three completed fiscal years (2019, 2020 and 2021). Coverage is budgetary subnational government.

Indicator/Dimension	Minimum Requirements (Scoring Method M1 WL)		
	2018 Score	2022 Score	Brief Justification for Score
PI-18: Legislative scrutiny of budgets	B+	B+	
18.1 Scope of budget scrutiny	B	B	The focus of the Martvili Sakrebulo is expenditure and revenue for the budget year and the resulting fiscal balance. Medium-term fiscal forecasts, medium-term priorities were not discussed in the Sakrebulo
18.2 Legislative procedures for budget scrutiny	A	A	The Sakrebulo’s procedures are approved by the legislature in advance of budget hearings and are adhered to. The procedures include internal organizational arrangements, such as specialized review committees, technical support, and negotiation procedures. They also include arrangements for public consultation.
18.3 Timing of budget approval	A	A	During the last three fiscal years the Sakrebulo approved the annual budget law before the start of the fiscal year.
18.4 Rules for budget adjustments by the executive	A	A	Clear rules exist for in-year budget adjustments by the executive. The rules set strict limits on the extent and nature of amendment and are adhered to.

18.1. Scope of Budget Scrutiny

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

243. The focus of the Martvili Sakrebulo is on what is presented in the budget document which covers expenditure and revenue for the budget year and the resulting fiscal balance. This includes the overall priority statement included in the budget. Medium-term fiscal forecasts, medium-term priorities were not discussed in the Sakrebulo. Score B.

18.2. Legislative Procedures for Budget Scrutiny

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

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

246. The draft budget is reviewed by both the Legal Commission and the Finance and Budget Commission which both have 12 members. These meetings are open to the public. These commissions prepare a report which is discussed in a plenary session of the Sakrebulo. If there are suggestions for revisions, they are transmitted to the Mayor and a final budget is approved following agreement with the Mayor. Score A.

18.3. Timing of Budget Approval

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

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

TABLE 18.3 DATE OF APPROVAL OF BUDGET BY THE LEGISLATURE

Year	Date of Approval
2020	27 December 2019
2021	18 December 2020
2022	26 November 2021

Source: Martvili Sakrebulo website

249. The score for this dimension is A.

18.4. Rules for Budget Adjustments by the Executive

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

251. There are clearly defined rules for making amendments to the budget by the executive government during the year. Rules for making amendments to the budget throughout the year, including the nature and

scope of the distribution are determined by the Budget Code (Article 69). Reallocation of funds between programs and subprograms within a particular priority (function) not exceeding 5% of the annual budget allocation of the priority may be carried out by the Finance Department without requiring approval of the Sakrebulo. All other amendments require Sakrebulo approval. This rule was complied with.

252. The score for this dimension is A.

Changes since 2018 PEFA

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

PILLAR FIVE: Predictability and Control in Budget Execution

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

PI-19. Tax Administration

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

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

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

257. Georgia Revenue Services collects and administers revenues in Georgia.

258. The Martvili municipality does administer and collect local fees and other minor revenue categories which amount to 3 percent of its revenue. PI-12.3 assesses the probity of sales of assets which accounts for a significant part of own non-tax revenue.

Indicator/Dimension	Minimum Requirements (Scoring Method M2 AV)		
	2018 Score	2022 Score	Brief Justification for Score
PI-19 Tax administration	NA	NA	GRS administers and collects all taxes.
19.1 Rights and obligations for tax measures	NA	NA	
19.2 Property tax register and value assessment	NA	NA	
19.3 Tax risk management, audit and investigation	NA	NA	
19.4 Tax arrears monitoring	NA	NA	

PI-20. Accounting for Revenue

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

Indicator/Dimension	Minimum Requirements (Scoring Method M1 WL)		
	2018 Score	2022 Score	Brief Justification for Score
PI-20 Accounting for revenue	A	A	
20.1 Information on revenue collections	A	A	The municipality obtains revenue data at least monthly from the data on revenues administered by Georgia Revenue Services and paid into the Treasury Single Account. This information is broken down by revenue type and is consolidated into a report.
20.2 Transfer of revenue collections	NA	NA	All revenues are transferred directly to the Treasury Single Account daily.
20.3 Revenue accounts reconciliation	NA	NA	Entities collecting most municipal revenue undertake complete reconciliation of assessments, collections, arrears and transfers to Treasury Single Account daily.

20.1 Information on Revenue Collections

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

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

20.2 Transfer of Revenue Collections

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

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

20.3 Revenue Accounts Reconciliation

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

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

Changes since 2018 PEFA

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

PI-21. Predictability of In-Year Resource Allocation

267. This indicator assesses the extent to which the subnational finance unit is able to forecast cash commitments and requirements and to provide reliable information on the availability of funds to budgetary units for service delivery. Time period: at time of assessment for PI-21.1 and for PI-21.2 to 4 the last completed fiscal year. Coverage is budgetary subnational government.

Indicator/Dimension	Minimum Requirements (Scoring Method M2 AV)		
	2018 Score	2022 Score	Brief Justification for Score
PI-21: Predictability of in-year resource allocation	B+	B+	
21.1 Consolidation of cash balances	A	A	The consolidated information about all bank and cash balances is available at the municipality subaccount at the State Treasury Service at the end of the day.
21.2 Cash forecasting and monitoring	B	B	A cash flow forecast is prepared annually for the fiscal year, broken down by quarter and updated quarterly on the basis of actual cash and outflows.

Indicator/Dimension	Minimum Requirements (Scoring Method M2 AV)		
	2018 Score	2022 Score	Brief Justification for Score
21.3 Information on commitment ceilings	A	A	Budgetary units are able to plan and commit expenditure for twelve months in advance in accordance with the budgeted appropriations and commitment releases.
21.4 Significance of in-year budget adjustments	C	C	Adjustments to budget allocations were made 5 times in 2021 and amounted to 102% of the original budget. These were done in a transparent and predictable way.

21.1. Consolidation of Cash Balances

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

269. According to the Budget Code, all revenues of the budget are immediately transferred to the Treasury Single Account (TSA). This includes revenues collected on behalf of the municipality of Martvili. The Treasury, on the basis of its cash inflows and outflows forecasts, deposits a part of its cash in commercial banks through daily auctions. The consolidation of cash balances in TSA and commercial banks is made daily and published on the Treasury website (www.treasury.gov.ge).

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

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

272. All of bank and cash balances are consolidated daily. The score for this dimension is A.

21.2. Cash Forecasting and Monitoring

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

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

275. A cash flow forecast is prepared annually for the year to come and broken-down on a quarterly basis. It is updated on the basis of changes in future expenditures that are based on revenue inflows from grants (actual quarterly releases greater than forecast).⁴³ These changes are implemented through supplementary appropriations. Score B.

21.3. Information on Commitment Ceilings

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

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

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

279. In 2021, budgetary units were able to plan and commit expenditure for one year in advance on the basis of quarterly ceilings, in accordance with the budgeted appropriations and commitment releases. The score for this dimension is A.

21.4. Significance of In-Year Budget Adjustments

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

281. In-year budget adjustments have to comply with article 80 of the Budget Code⁴⁴ which requires that reallocation from a budget unit to another budget unit is to be made through amendments to the annual budget. The 2021 budget was amended five times by the Martvili Sakrebulo. The percentage increase in expenditure resulting from the supplementary votes was 102 percent, reflecting the importance of targeted grants.

TABLE 21.4 SUPPLEMENTARY BUDGETS (GEL MILLION)

	Original Budget	Amended Budget	Difference	
Expenditure	9.2	18.7	9.5	102 %

Source: Martvili Finance Department

⁴³ Annex 4 table 16 to 18

⁴⁴ <https://matsne.gov.ge/ka/document/view/91006?publication=51> . article 80 of the Budget Code of Georgia

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

283. Although the adjustments to the budget were done in a transparent and predictable way the number of changes and size is high (5) in 2021. The score for this dimension is C.

Changes since 2018 PEFA

284. The overall score and dimension scores remain the same although there were 5 supplementary budgets in 2022 compared to 7 in the 2018 assessment.

PI-22. Expenditure Arrears

285. This indicator measures the extent to which there is a stock of arrears, and the extent to which a systemic problem in this regard is being addressed and brought under control. For 22.1 the time period is the last three completed fiscal years (2019, 2020 and 2021) and for 22.2 at the time of assessment. The coverage is budgetary subnational government.

Indicator/Dimension	Minimum Requirements (Scoring Method M1 WL)		
	2018 Score	2022 Score	Brief Justification for Score
PI-22: Expenditure arrears	A	A	
22.1 Stock of expenditure arrears	A	A	The municipality reported that it did not have any expenditure arrears.
22.2 Expenditure arrears monitoring	NA	A	The e- Treasury system allows for the recording and monitoring of arrears in real time.

22.1. Stock of Expenditure Arrears

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

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

288. Arrears are regulated by the Budget Code of Georgia and Martvili annual budget which require their coverage by the subprogram 01 04 (funds for repayment of debt accumulated in previous years and execution of court decisions). They are reported in the annual financial statements. There are no arrears recorded for the municipality in 2019, 2020 and 2021. Score A.

22.2. Expenditure Arrears Monitoring

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

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

291. The e-Treasury system allows for the recording and monitoring of arrears in real time and any arrears are flagged. Score A.

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

Changes since 2018 PEFA

293. Since the introduction of the e-Treasury system in 2018 the monitoring system has been created.

PI-23. Payroll Controls

294. This indicator is concerned with the payroll for municipality employees only: how it is managed, how changes are handled, and how consistency with personnel records management is achieved. Wages for casual labor and discretionary allowances that do not form part of the payroll system are included in the assessment of non-salary internal controls, PI-25. Time period: 23.1, 23.2 and 23.3 at time of assessment; 23.4 last three completed fiscal year (2019, 2020 and 2021). Coverage is subnational government.

Indicator/Dimension	Minimum Requirements (Scoring Method M1 (WL))		
	2018 Score	2022 Score	Brief Justification for Score
PI-23: Payroll controls	B+	B+	
23.1 Integration of payroll and personnel records	A	A	The municipality maintains the personnel databases under the E-Treasury (payroll module) system that is managed by the Treasury. Personnel and payroll records are reconciled at least monthly before salaries are paid to staff bank accounts. There is a validation mechanism built into the payroll module that automatically blocks salary payments of any person that is not reflected in the personnel database of the E-Treasury system.
23.2 Management of payroll changes	A	A	Records are updated monthly in time for the month's payments. Updates are real-time and reflected in the payroll module of the E-Treasury system. In addition, retroactive changes to the existing data in the system are not allowed.
23.3 Internal control of payroll	A	A	Changes to the payroll records, are restricted to only authorized persons in the municipality. The changes are certified by an authorized person and approved by the supervisors. There is an audit trail of payroll changes as supporting documentation are kept, and there are access controls for authorized persons to get into the E-Treasury system that require password and identification. External auditors assess payroll risk as low hence integrity of payroll data is high.
23.4 Payroll audit	B	B	There is a system of annual payroll audits conducted by the State Audit Office that exposes any control weaknesses and accountability issues. This is not carried out annually at the municipality level and one was completed in 2020 covering 2019.

23.1. Integration of Payroll and Personnel Records

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

296. The annual budget provides information on the number of employees and the budget for salaries approved by the Sakrebulo. There are currently 177 staff employed. The municipality (central service departments under the mayor, and municipal N(N)LEs) maintains and recruits' staff within the parameters defined by annual budget and national procedures under the Civil Service Bureau. Staff cannot be hired outside of the approved list. Once a hiring has been approved, a file is opened for that person. Payroll records are maintained by their human resource personnel using the E-Treasury system that has a payroll module. The payroll module has a human resource management system that captures an employee's start date, position, identification number, department name, bank account, salary amount, tax and insurance payments, promotions and salary changes. Payroll records can be accessed and reviewed by the Finance Department and Internal Audit but as read-only access. This restricts alterations to the records. Personnel and payroll

records are reconciled at least monthly, before salaries are paid to staff bank accounts. There is also a validation mechanism built into the payroll module that automatically blocks salary payments of any person that is not reflected in the personnel database of the E-Treasury system. Salary payments are mechanically processed through the “green corridor” which is an automated system that does not require human intervention as the parameters are built in. Transaction processing through the green corridor implies automatic processing of the payment document registered in the Treasury information system by the budgetary organization (without the intervention of the treasury operator) and real-time settlement. More specifically, during the payment of wages within one specific program code (organization), a package consisting of individual requests corresponding to a specific article to be transferred to a specific employee is presented to the Treasury, which is processed through the green corridor, automatically.

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

23.2. Management of Payroll Changes

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

299. The human resource unit in conjunction with municipality departments update the records of employees prior to the monthly payroll payments to check staff payroll against workdays to take into consideration if an employee has been on leave, has been off ill, resigned or been terminated. These updates are reflected in real-time mode in the E-Treasury (payroll module) and taken into consideration in the month’s payroll payments. Retroactive changes to the existing payroll records are not allowed in the E-Treasury system. Score A.

23.3. Internal Control of Payroll

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

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

23.4. Payroll Audit

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

303. In 2020, the State Audit Office auditors conducted an audit of the compliance of the 2018-2019 activities of the Martvili Municipality. The audit was conducted in accordance with International Standards for Supreme Audit Institutions (ISSAI). The compliance audit conducted by SAO was an audit of various activities of the municipality including an audit of salaries. The audit included: efficiency of use of budgetary resources, provision of municipal services, management and disposal of property, maintenance and operation of transport, internal control system and others. In the audit report on salaries, it is stated that salaries were paid to members of Sakrebulo without justification (by law, a member of Sakrebulo does not have a salary, but is reimbursed for the expenses related to his activities, e.g., meetings with residents, etc.). Audit methodology included documentation checking, physical observation, interviews and surveys. Staff movement documentation, ToRs, timesheets, overtime records, and payment files etc. were checked. This audit identifies payroll control weaknesses and accountability issues. Martvili Municipality is too small for SAO resources to be spent only on checking the salary procedures. Score B.

Changes since 2018 PEFA

304. The score for this indicator and its dimensions is the same in 2022 as in 2018.

PI-24. Procurement

305. This indicator examines key aspects of procurement management. It focuses on transparency of arrangements, emphasis on open and competitive procedures, monitoring of procurement results, and access to appeal and redress arrangements. Time period: Last fiscal year. Coverage is subnational government.

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

Indicator/Dimension	Minimum Requirements (Scoring Method M2 AV)		
	2018 Score	2022 Score	Brief Justification for Score
PI-24. Procurement	B	B+	
24.1 Procurement monitoring	NA	NA	Databases or records are maintained for all contracts including data on what has been procured, value of procurement, and who has been awarded contracts. All government contracts are procured through Georgian E-Government Procurement System (Ge-GP).
24.2 Procurement methods	A	C	As per public procurement legislation open competition above GEL 5,000 is the default method. 66% of contracts by value procured in 2021 were conducted through competitive selection.
24.3 Public access to procurement information	A	A	All the key procurement information is made available to the public. These include but are not limited to: (1) Legal and regulatory framework for procurement (2) Government procurement plans

Indicator/Dimension	Minimum Requirements (Scoring Method M2 AV)		
	2018 Score	2022 Score	Brief Justification for Score
			(3) Bidding opportunities (4) Contract awards (purpose, contractor and value) (5) Data on resolution of procurement complaints (6) Annual procurement statistics
24.4 Procurement complaints management	D	A	<p>The Council of Dispute Resolution is an impartial and independent body established under the Public Procurement Law, which aims to resolve disputes in a prompt, efficient and fair manner in accordance with the Law on Public Procurement and relevant by-laws, the Law on "Public and Private Cooperation" and relevant by-laws, and the Rules of Procedure of the Board. The Board consists of 5 members selected by an independent commission on an open competition and appointed for a term of 5 years. One and the same person may be appointed as the Board member only twice. The board member is a public servant. The activities of the Board are carried out on the basis of the equality of all persons involved in the dispute under the law and the Board, as well as in accordance with the principles of publicity and the independence of the members of the Board.</p> <p>The principles of the Board are:</p> <ul style="list-style-type: none"> a) Legality; b) Objectivity and impartiality; c) Professionalism; d) Protection of confidentiality. <p>The Board is separate from all bodies / persons, is independent in its activities and obeys only the law.</p> <p>It is not allowed to influence the Board or a member of the Board in order to influence the decision-making process. The Board is guided in its activities by the Constitution of Georgia, international treaties and agreements of Georgia, the Law on Public Procurement, the Law on Public-Private Partnership, the Rules of Procedure of the Board and other normative acts.</p>

24.1. Procurement Monitoring

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

308. Information on the complete cycle of procurement is kept in the database of the Ge-GP system administered by the Georgia Procurement Agency. This information is transparent and fully accessible for all. The following information is maintained on the system: type of procurement, number of the application, status of procurement, procuring organization, date of procurement announcement, date and time of start of

the bidding, date and time of the end of the bidding, estimated cost of procurement, classifier code and the specific object of procurement, quantity or volume of procurement, date of supply, warranty amount, bidder and their proposals, amount and time of first offer, amount and time of last offer, winner, commission protocols, term of validity of the contract, number and amount, and amendments to the contract.

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

24.2 Procurement Methods

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

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

312. The main determinant of compliance for this dimension is to assess the actual use of competitive methods in the procurement process. Under public procurement legislation, open competition above GEL 5,000 is the default method. However, the rules allow for procurement to be carried out without such open completion. These are: (i) when the procurement is limited in time to be completed; (ii) when it is urgent as in the case of an emergency; (iii) there is just one local supplier;⁴⁵ and (iv) in exceptional cases such as where an adjustment has to be made to an existing tender and the amount is above the threshold. In such instances, the procuring entity has to apply to the SPA for a no objection. The SPA places the request on the procurement portal which allows potential suppliers the opportunity to comment. The SPA, if satisfied that the request is legitimate, issues a no objection and the procurement can then take place outside the normal competitive tendering process.

TABLE 24.2 MARTVILI MUNICIPALITY PUBLIC PROCUREMENT STATISTICS, 2021

Title	All contracts	Contracts procured through use of competitive methods		Contracts procured through use of non-competitive methods	
		Absolute terms	%	Absolute terms	%
Number of contracts	557	133	24%	424	76%
Value of contracts (GEL)	5,634,790.0	3,713,574.0	66%	1,921,216.0	34%

Source State Procurement Agency

313. In 2021, 66% of all contracts by value were procured through competitive methods using the Georgia Procurement Agency system by the Martvili procuring bodies. Score C.

⁴⁵ Or a preferred supplier in cases such as defence procurement.

24.3. Public Access to Procurement Information

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

315. All information related to procurement in the municipality is public and available online (e.g., tender announcements, tender documents, all decisions of the tender commission, etc.). The tender proposal price submitted, and the contracts signed between parties are published through Ge-GP system. Procuring organizations are required to publish an annual plan of procurement through the electronic system at the beginning of fiscal year. Any information related to the municipality’s procurement is available on the website of the SPA - <http://procurement.gov.ge/> even for non-registered users. Thus, the procurement monitoring process may be carried out by any interested person. Different analytical tools have been developed. The website www.stats.spa.ge includes key information on public procurement, including quarterly updates on published tenders, value of tenders, average number of bidders, number of registered users etc.⁴⁶ This SPA’s portal allows and facilitates access and subsequent use of data by different types of users. This allows streamlined and more reliable third-party audits and citizen engagement. Entities such as Supreme Audit Institutions, CSOs, private sector, line ministries, donors and many others will have ability to run evidence based analysis to contribute to improved procurement, governance and overall public finance management.

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

TABLE 24.3 INFORMATION ON PROCUREMENT

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

⁴⁶ As part of the World Bank administered Technical Assistance project “Improving Efficiency and Transparency in Public Procurement” a dedicated website was developed which structures public procurement data following the scheme proposed by the Open Contracting Data Standard and launched dedicated portal (<http://opendata.spa.ge/>) which generates tender information for all public procurement contracts in machine readable format.

TABLE 24.3 INFORMATION ON PROCUREMENT

Publicly Available	Yes / No	Location
Annual Procurement Statistics	Yes	http://procurement.gov.ge/ELibrary/AnalyticalStudiesReports.aspx

317. The score for this dimension is A.

24.4. Procurement Complaints Management

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

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

320. As a result of the implemented changes, the Council is composed of five members. Qualification requirements established for board membership are identical of those established for judges of common courts, with only minor differences. In addition, the list of disputes to be challenged in the Council has been amended, in particular, decisions on entering into a simplified procurement contract may also be appealed to the Council if the estimated value of the goods, services or works to be procured is equal or exceeds the monetary thresholds set by EU directives in the field of public procurement. The amendment allowed the Council to extend the decision-making period by maximum 10 working days, due to several factors, including the fact that the issues subject to appeal have increased and the Council has become a specialized body whose members can no longer perform other remunerative activities. These amendments came into force on 1 January 2021.

321. Data on complaints with respect to Martvili procurement is presented in Table 24.4.1:

TABLE 24.4.1 MARTVILI PROCUREMENT: COMPLAINTS AND RESOLUTION

Total amount of received complaints	of which fully satisfied by Dispute Resolution Board	was not satisfied	Partially satisfied by Dispute Resolution Board	was considered inadmissible	complaint was dismissed
2	1 (50%)	0 (0%)	1 (50%)	0 (0%)	0 (0%)

Source: State Procurement Agency

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

TABLE 24.4.2 PROCUREMENT RELATED COMPLAINT CRITERIA

Procurement Related Complaint Criteria	Achieved	Proof / Comment
(1) Is not involved in procurement transactions or decision-making processes.	Yes	<p>The Law of Georgia №6730-RS on Amendments to the Law of Georgia on State Procurement was adopted by the Parliament of Georgia on 2 July 2020. Under the Law, a new Institutionally Independent Council of Dispute Resolution was established and new regulations for appealing a number of public procurement decisions were defined. According to the amendment, the Court or the Council established for this purpose has the right to review public procurement disputes. The Procuring Entity (administratively) itself is no longer considered as one of the dispute resolution bodies under the Law</p> <p>As a result of the implemented changes, the Council is composed of five members. Qualification requirements established for board membership are identical of those established for judges of common courts, with only minor differences.</p>
(2) Does not impose fees for disputing parties.	Yes	Submission of complaints is free of charge. Article 2, paragraph 1 of the Rule for Operations of the Procurement Related Dispute Review approved by the Decree №1 of 27 February 2015, of the Chairman of the State Procurement Agency.
(3) Processes after submitting and solving complaints are clearly defined and publicly available.	Yes	Article 6, paragraph 2 and Article 9, paragraph 8 of the Rule for Operations of the Procurement Related Dispute Review approved by the Decree №1 of 27 February 2015 of the Chairman of the State Procurement Agency.
4) Uses the power to suspend the procurement process.	Yes	<p>Article 7, subparagraph “d2” of paragraph 2 and Article 23, paragraphs 22 and 11 of the Law of Georgia on State Procurement.</p> <p>Article 6, subparagraph “c” of paragraph 2 and paragraph 6 of the same Article of the Rule for Operations of the Procurement Related Dispute Review approved by the Decree №1 of 27 February 2015, of the Chairman of the State Procurement Agency.</p>
(5) Issues rules / regulations in the specified timeframes.	Yes	Article 7, paragraph 4 of the Rule for Operations of the Procurement Related Dispute Review approved by the Decree №1 of 27 February 2015 of the Chairman of the State Procurement Agency.

TABLE 24.4.2 PROCUREMENT RELATED COMPLAINT CRITERIA

Procurement Related Complaint Criteria	Achieved	Proof / Comment
(6) Issues decisions which are mandatory for all parties (without access of external upper body).	Yes	Article 10 of the Rule for Operations of the Procurement Related Dispute Review approved by the Decree №1 of 27 February 2015, of the Chairman of the State Procurement Agency. Article 23, paragraph 14 of the Law of Georgia on State Procurement.

323. The score for this dimension is A.

Changes since 2018 PEFA

324. The most significant change since 2018 has been the creation of an independent complaints review body which has changed the dimension from D to A. The coverage of contracts procured by competitive tendering has fallen from 88% in 2018 to 66% in 2021. This can be explained by from the effects of COVID but also by a very low procurement threshold which has not increased since 2010.

PI-25. Internal Controls on Non-Salary Expenditure

325. This indicator measures the effectiveness of general internal controls for non-salary expenditures. Specific expenditure controls on public service salaries are considered in PI-23. The time period is at time of assessment and coverage is subnational government.

Indicator/Dimension	Minimum Requirements (Scoring Method M2 AV)		
	2018 Score	2022 Score	Brief Justification for Score
PI-25: Internal controls on non-salary expenditure	A	A	
25.1 Segregation of duties	A	A	Segregation of duties is prescribed throughout the expenditure process with responsibilities clearly laid out at different levels in the PFMIS, in accordance with an Order of the Minister of Finance of 6 July 2012, on the approval instructions for the Treasury Electronic Service System.
25.2 Effectiveness of expenditure commitment controls	A	A	Commitment control applies to all payments made from the Treasury Single Account. Actual expenditures incurred are in line with approved budget allocations and do not exceed committed amounts and projected available cash resources.
25.3 Compliance with payment rules and procedures	A	A	Compliance with payment rules and procedures is very high.

326. Effectiveness of internal controls for non-salary expenditures is ensured by the established PFMIS. The system covers the whole process of non-salary expenditures and sets the levels of assumption in the system according to the functions of different employees. Payment procedures for non-salary expenditures are determined by the Order №424 of 31 December 2014, of the Minister of Finance on the approval of instruction about the rule of payments by organizations of State Treasury Service, which is executed by all spending units at the central and municipality governments.

25.1. Segregation of Duties

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

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

329. Access to the Treasury Electronic System consists of three types:

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

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

25.2. Effectiveness of Expenditure Commitment Controls

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

332. Payments of the municipality are processed through the E-Treasury System, within the quarterly allocation (PI-21.3) under the approved budget and are paid from the Treasury Single Account. Payment procedures in the E-Treasury System are determined by the Order №424 of 31 December 2014, of the Minister of Finance of Georgia on the approval of instruction about the rule of payments by organizations of

the State Treasury Service, which is executed by all spending units (central and municipality)⁴⁷. The commitment control applies to all payments made from the Treasury Single Account. The annual spending plan broken down by quarter is reflected in the Treasury system from the Budget Planning and Assignments Management Module.

333. The municipality operates under the centralized system that covers all central and municipality expenditures that is managed by the State Treasury. It does not have any autonomy in managing or controlling the system except to input its own relevant information. Actual expenditures incurred must be in line with the approved budget allocations and cannot exceed the committed amounts and projected available cash resources. Score A.

25.3. Compliance with Payment Rules and Procedures

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

335. As part of the reform implemented on 1 January 2019, the modules of contracts and commitments by the municipality have been integrated in the e-treasury. This is to ensure that all payments are compliant with regular payment procedures and exceptions, if any, are properly authorized in advance and justified. Exceptions to these procedures apply to grants and credits received from international donor organizations where there is a special agreement between the two parties involved. Such agreements usually include specific rules for spending the received funds that are outside of normal procedures. Martvili municipality did not have the kind of grant/credit that would warrant such exceptions during the assessment period.

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

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

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

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

Changes since 2018 PEFA

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

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

PI-26. Internal Audit

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

Indicator/Dimension	Minimum Requirements (Scoring Method M1 WL)		
	2018 Score	2020 Score	Brief Justification for Score
PI-26: Internal Audit	B+	B+	
26.1 Coverage of internal audit	A	A	There is an Internal Audit Unit that covers the whole of the activities of Martvili.
26.2 Nature of audits and standards applied	B	B	Internal audit activities are focused on evaluations of the adequacy and effectiveness of internal controls, and they focus on high risk areas. Internal audit activities are guided by the Internal Audit Methodology and System Audit Manual/Instruction that complies with the International Professional Practices Framework issued by the Institute of Internal Auditors.
26.3 Implementation of internal audits and reporting	A	A	Annual audit programs exist, and they are monitored by the Center for Harmonization Unit at the Ministry of Finance. All of the programmed audits in 2021 were completed and their reports distributed to appropriate parties.
26.4 Response to internal audits	A	A	Data supplied by management show that all of internal audit recommendations are implemented in a timely manner.

26.1. Coverage of Internal Audit

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

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

342. The Martvili Internal Audit Unit has 5 staff (and one vacant position). It undertakes compliance and financial inspection audits focusing on controls on expenses. Internal audit covers the whole of the municipality's operation. Score A.

26.2. Nature of Audits and Standards Applied

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

344. Article 22 of the Georgian law on State Internal Financial Control defines 5 types of internal audit engagements that include: financial audit, compliance audit, system audit, performance audit and information technology audit. However as noted, only compliance and financial (inspection) audits are carried out in Martvili at the time of the assessment. The law clearly defines the process of internal audit report preparation and its issuance to relevant parties. The main findings and recommendations are discussed with the auditee, whose view is expressed in the final internal audit report. This law is applied in Martvili.

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

346. Internal audit is guided by the Internal Audit Methodology and System Audit Manual/Instruction in accordance with Article 19 of the Georgian law on State Internal Financial Control. The manual broadly covers system, compliance and financial audits. A manual for IT audit exists. Internal audit methodology complies with the International Professional Practices Framework (IPPF) issued by the Institute of Internal Auditors that ensures compliance with international standards for internal auditing. The IPPF has been fully adopted. Code of ethics is adopted in accordance with Decree of Government of Georgia #1836 dated 18 September 2011, that all internal auditors should comply with. A draft performance audit manual has been prepared to be used by internal auditors. These manuals ensure that internal audit activities are focused on evaluations of the adequacy and effectiveness of internal controls, and they focus on high risk areas.

347. The core principles and specific procedures for quality assurance are defined in the manual for the Internal Auditors, issued by CHU. The municipality Internal Audit Unit has developed its own guidebook for its operations based on risk assessment and risk management. There is an ongoing training program supported by CHU.

348. Internal audit activities are focused on high risk areas. The municipality carried out compliance and financial audits focusing on adequacy and effectiveness. Internal audit activities are guided by the Internal Audit Methodology and System Audit Manual/Instruction that complies with the International Professional Practices Framework issued by the Institute of Internal Auditors. Score B.

26.3. Implementation of Internal Audits and Reporting

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

350. In accordance with the requirements of international standards, all internal auditors in budgetary units, based on risk assessment and with consideration of the goals and mission of the institution, prepare strategic and annual plans and submit them to the Head of the Institution for approval. These annual audit plans are also sent to the CHU at the Ministry of Finance and monitored. If a budgetary unit does not execute the annual audit plan, an explanation has to be provided to the institution's management and CHU.

351. The municipality Internal Audit Unit has an annual plan. In 2021 the annual plan, broken down by month, provided for 5 audits based on risk assessment and all were completed.

352. The PEFA Assessment team examined the 2021 Annual Report, and the report on LLEP "Amenity Center" compliance audit. This examination shows that the audit reports are well structured and cover all the relevant areas such as cause of audit, who involved, audit procedures, risk assessment, interviews, conclusions with recommendations and key findings.

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

26.4. Response to Internal Audits

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

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

356. The Internal Audit Department employs the follow process:

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

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

TABLE 26.4 MARTVILI MUNICIPALITY INTERNAL AUDIT INFORMATION

	2019	2020	2021	Sum	
				Number	%
Number of Audits Carried out	13	5	5	23	
Number of Recommendations	30	7	11	48	
Number implemented completely	30	7	7	44	92%
Number implemented but ongoing	0	0	4	4	8%
Number ignored	0	0	0	0	0%

Source: Martvili Internal Audit Unit

358. Over the period covered, 92% of recommendations were implemented and 8% partially implemented. Data supplied by management show that all of internal audit recommendations are implemented in a timely manner. Score A.

Changes since 2018 PEFA

359. The indicator B+ score assessed in 2018 has been maintained in 2022.

PILLAR SIX: Accounting and Reporting

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

PI-27. Financial Data Integrity

361. This indicator assesses the extent to which Treasury bank accounts, suspense accounts, and advance accounts are regularly reconciled and how the processes in place support the integrity of financial data. It contains four dimensions and uses the M2 (AV) method for aggregating dimension scores. The time period for dimensions 27.1, 27.2, and 27.3 is at time of assessment covering the preceding fiscal year, and for 27.4 at time of assessment. Coverage for 27.1 is subnational government, and for 27.2, 27.3, and 27.4 budgetary subnational government.

Indicator/Dimension	Minimum Requirements (Scoring Method M2 AV)		
	2018 Score	2022 Score	Brief Justification for Score
PI-27: Financial data integrity	A	A	
27.1 Bank account reconciliation	A	A	The Finance Department of the municipality is able to access daily all its balances with the TSA sub-accounts and other bank accounts in the National Bank of Georgia.
27.2 Suspense accounts	NA	NA	There are no expenditure suspense accounts operated by the municipality.
27.3 Advance accounts	A	A	Reconciliation of advance accounts takes place monthly (within 20 days after the end of each month). All advance accounts are cleared in a timely manner.
27.4 Financial data integrity processes	A	A	Access and changes to records is restricted and recorded, and results in an audit trail. Financial data integrity is done by Treasury, which reviews financial information from budgetary units and its IT department monitors unauthorized systems access. Internal auditors and the State Audit Office also conduct audits to verify financial data integrity.

27.1. Bank Account Reconciliation

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

363. The municipality Finance Department is able to access daily all its balances with the TSA sub-accounts and other bank accounts in the National Bank of Georgia. TSA is maintained in Lari, the national currency of Georgia. Account turnovers and daily account balances are monitored through the Real-Time Gross Settlement System (RTGS), and this allows aggregated and detail levels of analysis for reconciliation. The RTGS is fully automated. It works in real time and data transfers are instant. Score A.

27.2 Suspense Accounts

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

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

27.3. Advance Accounts

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

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

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

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

27.4. Financial Data Integrity Processes

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

371. Records cannot be created or modified without leaving an audit trail. Audit trails enable individual accountability, intrusion detection and problem analysis. Audit trails generated from the TSA provide information on who accessed the data, who initiated the transaction, who approved the transaction, the time of day and date of entry, the type of entry, what fields of information it contained, and what files it updated.

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

Changes since 2018 PEFA

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

PI-28. In-Year Budget Reports

374. This indicator assesses the comprehensiveness, accuracy and timeliness of information on budget execution. The time period is last completed fiscal year. Coverage is budgetary subnational government.

Indicator/Dimension	Minimum Requirements (Scoring Method M1 WL)		
	2018 Score	2022 Score	Brief justification for score
PI-28: In-year budget reports	B+	B+	
28.1 Coverage and comparability of reports	A	A	Coverage and classification of data allows direct comparison to the original budget. Information includes all municipality expenditure and revenues.
28.2 Timing of in-year budget reports	A	A	Consolidated budget execution reports are prepared monthly within 10 days of the end of the preceding month. Quarterly reports are issued to the Sakrebulo and are published.
28.3 Accuracy of in-year budget reports	B	B	There are no material concerns regarding data accuracy. Information on expenditure is covered at the payment stage in the e-Treasury system.

28.1. Coverage and Comparability of Reports

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

376. The classification in the e-Budget system is based on GFSM 2014. The e-Budget system has been integrated with the e-Treasury system since 1 January 2015 where budgeted expenditure is captured and

accounted for. These integrated systems enable the consolidation and preparation of in-year monthly, quarterly, and annual reports and comparison with the initial budget. There are no deconcentrated units in Martvili.

377. Coverage and classification of data allows direct comparison to the original budget and covers all municipality revenue and expenditure including N(N)LEs expenditure made through the TSA. Score A.

28.2. Timing of In-Year Budget Reports

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

379. Budget execution reports have been prepared monthly in 2021 within 10 days after the end of the month even though the regulations allow for a longer time of up to 14 days. Quarterly reports are prepared within one month after the end of the quarter and are issued to the Sakrebulo in accordance with Budget Code (Articles 84 and 85). Score A.

28.3. Accuracy of In-Year Budget Reports

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

381. Monthly and quarterly budget execution reports are based on TSA reports. Quarterly reports provide an analysis of budget execution against budget. There are no material concerns regarding data accuracy of the monthly and quarterly budget execution reports. In addition, the information in the quarterly budget execution reports form the basis of the annual execution report of the municipality which is reviewed and approved by the Sakrebulo. Information on expenditure in the budget execution reports is covered just at payment stages in the e-Treasury system, although the system has the capacity to include commitments.⁴⁸ Score B.

Changes since 2018 PEFA

382. The dimension scores of the 2018 PEFA have been maintained in 2022. The production of monthly budget execution scores has gone from 14 to 10 days.

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

PI-29. Annual Financial Reports

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

Indicator/Dimension	Minimum Requirements (Scoring Method M1 WL)		
	2018 Score	2022 Score	Brief Justification for Score
PI-29: Annual financial reports	D+	D+	
29.1 Completeness of annual financial reports	C	A	The financial reports for the municipality are prepared annually and are comparable with the approved budget. They contain full information on revenue, expenditure, financial and tangible assets, liabilities, guarantees and long-term obligations. There is a reconciled cash flow statement.
29.2 Submission of reports for external audit	D	D	Auditing by the State Audit Office is not mandatory annually. Audit of reports is carried out on a periodic basis by the SAO based on its annual work program determined by risk assessment criteria and coverage. The municipality financial statements are published by 31 March. These however are not submitted to the SAO.
29.3 Accounting standards	C	B	Municipalities are required to prepare financial statements that comply with the standards established by the Ministry of Finance which are based on international standards,

29.1. Completeness of Annual Financial Reports

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

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

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

- a) Balance Sheet of the Budget by budget classifiers;
- b) Comparison of actual budget revenues and expenditures by budget classifiers with projections of the respective period;
- c) Opening and closing balances kept at the budget accounts;

- d) Clarifications on the inconsistencies between the adjusted budget allocations and actual spending by programs, if such inconsistencies exceed 30%;
- e) Information on the budget allocations from the Reserve Funds for Stock of Arrears Arising in Previous Years and Funds for Execution of Court Rulings (if applicable);
- f) Description and results attained by Budgetary Organizations through programs/sub-programs carried out within the priorities set within their Annual Budgets; and
- g) Annual indicators of budget execution of LEPLs or N(N)LEs.

387. Financial statements of the municipality are prepared annually by the Finance Department. The financial statements are compared with the approved budget. They contain full information on revenue, expenditure, financial and tangible assets, liabilities, guarantees and long-term obligations. There is a reconciled cash flow statement. Standards are disclosed in the published financial statements. The financial statements are consolidated for all of the operations of the municipality. Score A.

29.2 Submission of Reports for External Audit

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

389. Auditing by the State Audit Office is not mandatory annually. There is no requirement for the municipality's annual reports (both financial statements and execution reports) to be submitted for audit by law. The Budget Code states that "Audit Opinion on the budget of the Local self-government body and Annual Report on Budget Execution are categorized as public documents and made available to general public under the rules defined in the legislation of Georgia."⁴⁹ Audit of reports is carried out periodically by the SAO based on its annual work program determined by risk assessment criteria and coverage. If the municipality is selected for audit the SAO will request the financial statements and plan field visits for the inspection and audit. The municipality submitted its 2021 financial statement to the Treasury on 31 March 2022 which is then posted on the Treasury website. At the same time the municipality posted the financial statements on its own website. By dint of these postings, the financial statements were made available to the State Audit Office should it have selected the municipality for audit.

390. The financial statements are not sent directly to the SAO even though they are completed within 3 months. Score D.

29.3. Accounting Standards

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

392. Organizations funded by the budgets of the central and local governments are guided by the following instructions approved by the orders of the Minister of Finance of Georgia:

⁴⁹ Article 88.2

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

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

Changes since 2018 PEFA

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

PILLAR SEVEN: External Scrutiny and Audit

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

PI-30. External Audit

396. This indicator examines the characteristics of external audit.

Indicator/Dimension	Minimum Requirements (Scoring Method M1 WL)		
	2018 Score	2022 Score	Brief Justification for Score
PI-30: External audit	D+	D+	
30.1 Audit coverage and standards	D	D	There has not been a financial audit for the municipality during the assessment period.
30.2 Submission of audit reports to the legislature	D	NA	No financial statements were submitted for audit. As such, no audit reports were submitted to the legislature.
30.3 External audit follow-up	C	NA	There were no external audit reports to follow up.
30.4 Supreme Audit Institution independence	A	A	The State Audit Office is independent from the executive with respect to procedures for appointment and removal of the Auditor General, the planning of audit engagements, arrangements for publicizing reports, and the approval and execution of the SAO’s budget. The SAO has unrestricted and timely access to records, documentation and information from auditees (budgetary units). The independence of the SAO is assured by the Constitution of Georgia and the Law of Georgia on State Audit Office.

30.1. Audit Coverage and Standards

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

398. There were no audits of financial statements for the municipality covering 2019 to 2022. In Georgia there is no requirement for financial audits to be conducted annually for municipalities. Selection of a municipality for audit is based on perceived risk and the SAO’s work program. The PEFA guidance states that “different kinds of audits satisfy this requirement as long as they imply that the financial reports are covered by the audit: financial audits, compliance audits and jurisdictional controls.” The assessment team reviewed the only qualifying audit in the assessment time frame: Compliance audit of Martvili municipality activities for 2018-2019. This audit followed the coverage of compliance audits which focused on whether the law and regulations have been followed and applied and not on expenditures and revenues. Score D.

30.2. Submission of Audit Reports to the Legislature

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

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

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

402. There was no qualifying audit report in this instance.⁵⁰ Score NA.

30.3. External Audit Follow-Up

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

404. The SAO has an effective system for monitoring and follow up of recommendations. According to the Organic Law on the State Audit Office, within 30 calendar days after the approval of the audit report, the auditee submits to the State Audit Office an action plan on the measures already taken and / or to be taken for implementation of recommendation (relevant activities, deadlines and responsible persons). Continuous monitoring of the implementation of the recommendations is carried out through the State Audit Office's electronic system. Information on the status of implementation of the recommendations is provided through the annual reports on the activities of the SAO and the implementation of the recommendations.

405. This dimension scores A in the central government assessment, however, for Martvili there is no qualifying audit report. Score NA.

⁵⁰ In some cases, an indicator or dimension may not be applicable to the government system being assessed. In such cases “NA” is entered instead of a score. In cases where one or more dimensions of a multidimensional indicator are not applicable, the assessor proceeds as if the “not applicable” dimensions did not exist. In some cases, a D rating on an indicator or dimension can lead to NA on others. For example, if there is no internal audit function (PI-26.1), the other dimensions of PI-26 are NA because there will be nothing to assess for those dimensions in the absence of an internal audit function.

30.4. Supreme Audit Institution Independence

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

407. The SAO is independent as stipulated under Article 97 (2) of the Constitution of Georgia. The SAO has operational, financial, functional and organizational independence in accordance with Article 3 of the Law of Georgia on State Audit Office. The Auditor General is appointed⁵¹ for a term of 5 years by Parliament after nomination by the Chairperson of the Parliament and winning a majority vote by members of Parliament from a list of nominated candidates. The Auditor General may be removed through impeachment by the Parliament, in accordance with Article 64 of the Constitution. The Auditor General can appoint or dismiss employees of the SAO.⁵²

408. The Law of Georgia on the SAO ensures that it operates independently from the executive with respect to the planning of audit engagements;⁵³ arrangements for publicizing reports;⁵⁴ and the approval and execution of the SAO's budget.⁵⁵ The SAO also has unrestricted and timely access to records, documentation and information.⁵⁶ Score A.

Changes since 2018 PEFA

409. There was a financial audit during the previous PEFA assessment period and the scoring requirement covered all three years which affected the coverage and score. This has been changed to at least one audit during the assessment period but it was not completed during the current assessment.

⁵¹ Article 9 paragraph 1 of the Law of Georgia on State Audit Office, Auditor General.

⁵² Article 10 paragraph d of the Law of Georgia on State Audit Office, Authority of the Auditor General.

⁵³ Article 17 paragraph 3 of the Law of Georgia on State Audit Office, Audit Authority of the State Audit Office.

⁵⁴ Article 25 of the Law of Georgia on State Audit Office, International Standards on Auditing.

⁵⁵ Article 34 of the Law of Georgia on State Audit Office, Funding of the State Audit Office.

⁵⁶ Article 23 paragraph 2 and 3 of the Law of Georgia on State Audit Office, Rights and responsibilities of an auditee.

PI-31. Legislative Scrutiny of Audit Reports

410. This indicator focuses on legislative scrutiny of the audited financial reports of subnational government, including institutional units, to the extent that either (a) they are required by law to submit audit reports to the legislature or (b) their parent or controlling unit must answer questions and act on their behalf. The time period is last three completed fiscal year. Coverage is subnational government.

Indicator/Dimension	Minimum Requirements (Scoring Method M2 AV)		
	2018 Score	2022 Score	Brief Justification for Score
PI-31: Legislative scrutiny of audit reports	D	NA	
31.1 Timing of audit report scrutiny	D	NA	The Martvili Sakrebulo did not scrutinize any audit reports during the assessment period.
31.2 Hearing of audit findings	D	NA	There were not any audit reports to have hearings of audit findings.
31.3 Recommendations on audit by the subnational council	D	NA	There were not any audit reports to make related recommendations
31.4 Transparency of legislative scrutiny of audit reports	D	NA	There were not any audit reports during the assessment period

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

412. The SAO has confirmed that it sends audit reports to be scrutinized by the Sakrebulo.⁵⁷ The SAO sends municipal audit report to the Mayor and the Sakrebulo as the Mayor is the supervisor body of an audited entity. Sending audit reports by SAO directly to Sakrebulo is not mandatory but is optional and is done. Parliament reviews only central government audit reports (all of them) but also receives and sends municipal reports to a municipality (normally both to Sakrebulo and Mayor).

31.1. Timing of Audit Report Scrutiny

413. Dimension 31.1 assesses the timeliness of the subnational government council's scrutiny, which is a key factor in the effectiveness of the accountability function.

⁵⁷ Only one audit report did not go to a Sakrebulo, and this was because the Sakrebulo was not functioning due to political issues.

414. The Martvili Sakrebulo did not scrutinize any audit reports during the assessment period as there were no audit reports. Score NA.⁵⁸

31.2. Hearing on Audit Findings

415. Dimension 31.2 measures the extent to which the subnational council conducts hearings on the findings of subnational audit reports. It assesses the level of legislative scrutiny of audits performed by a SAI or local audit office.

416. There were not any audit reports to conduct hearings on. Score NA.

31.3. Recommendations on Audit by the subnational council

417. Dimension 31.3 measures the extent to which the subnational council conducts hearings on the findings of subnational audit reports. It assesses the level of legislative scrutiny of audits performed by a SAI or local audit office.

418. There were not any audit reports considered by the Sakrebulo to make related recommendations. Score NA.

31.4. Transparency of Legislative Scrutiny of Audit Reports

419. Dimension assesses the transparency of the scrutiny functions in terms of public access.

420. There were not any audit reports during the assessment period. Score NA.

Changes since 2018 PEFA

421. Since the previous PEFA audit reports, if any, are now scrutinized by Sakrebulo rather than Parliament which was the previous practice.

⁵⁸ This differs from the guidance that if audit reports are scrutinized by the national legislature, dimension 31.1 will be scored D as there are no audit reports to be scrutinized.

4. Conclusions of the Analysis of PFM Systems

4.1 Integrated Assessment across the Performance Indicators

Budget Reliability

422. Budget reliability in the municipality context depends for the most part on the reliability of information on grants to be received from the central government. This indicator scored D in terms of outturn relative to budgeted grants and scored A with respect to their timely distribution, but with weakness on targeted grants (Score D), which is not an insignificant element of the grants total at 44%. The challenges in producing accurate municipality own revenue projections have not been met in recent years both in total and composition (both scored D). The aggregate expenditure side of the budget has scored D as did the expenditure composition by administrative type and by economic type score. These results have been affected by the uncertainties that resulted from COVID-19 but also the impact of targeted grants and the expenditure that they support often not being in the original budget. Nevertheless, the strengths in virement (Score A) and the existence of supplementary budgets (Score C) have ensured that due process has been followed. The process of controlling budget allocations to match the availability of cash has been supported by good cash forecasting (Score A) with budgetary units having certainty in the availability of funds to execute their budgets as planned (Score A). There are no arrears (Score A) which reflects the strong commitment control.

Transparency of Public Finances

423. Georgia has an impressive array of information regarding the finances of the budgetary central government, and this is replicated in Martvili. The Chart of Accounts, which underpins budget preparation, execution and reporting, is comprehensive and consistent with GFS standards (Score A). Information is included in the budget timely. As a result, the budget documents include most of the basic, and much of the supplementary information, required to support a transparent budget process (Score B) which reflects the budget preparation process covered in the pillar relating to the budget process. There is complete data regarding operations for public bodies as these are included in the budget documentation. Taken together with estimates of revenue and expenditure for spending units and their supported agencies, the whole of the municipality government is included in the budget documents. Performance plans and achievements in service delivery is a recent innovation in Martvili and the specification and measurement of outputs and outcomes are good (Score B). Public access to fiscal information is good (Score C) reflecting the accounting and reporting pillar with most of required basic elements made available but lacking a citizen's (summary) budget. Public consultation is carried out at the budget preparation stage. (Score C).

Management of Assets and Liabilities

424. A comprehensive and inclusive process is lacking in managing the public investment program. Basic economic analysis is conducted for the projects (Score C). Project costing and selection meet the basic requirements (Score C). Monitoring of investment implementation is rated higher (Score B). There are good records on financial (Score A) and nonfinancial assets (Score C) and procedures about disposition are transparent (Score A). Debt management is commensurate with need (Score C).

Policy-Based Fiscal Strategy and Budgeting

425. There is a detailed budget calendar (Score A) with at least 6 weeks for budget preparation based on information on ceilings. The legislature has adequate time to carry out its scrutiny function. Martvili has made tentative steps towards a comprehensive medium-term expenditure framework based on a program budgeting for results approach which is also reflected in Pillar II regarding transparency of public finances. The detailed budget is presented for the up-coming year (Score C) with medium-term estimates that include information on expenditures by administrative and program classification (Score C). The multi-year information on grants from the distribution of VAT and multi-year projects assists in this process but this is offset by information on other grants for the budget year only which represent 44% of grants. There is no explanation of any changes from previous expenditure estimates (Score D).

Predictability and Control in Budget Execution

426. Revenue administration is carried out by the Georgia Revenue Services. A revenue report is prepared monthly for the municipality management (Score A). The municipality works in conjunction with the Treasury, and based on its cash inflows and outflows forecasts, deposits a part of its cash in commercial banks through daily auctions. The consolidation of cash balances in TSA and commercial banks is made daily and published on the Treasury website (Score A). The municipality prepares cash flow forecast annually for the year to come and broken-down by quarter. It is updated on the basis of actual inflows and outflows, particularly for supplementary budgets (Score B). Budgetary units are able to plan and commit expenditure for one year in advance on the basis of quarterly ceilings, in accordance with the budgeted appropriations and commitment releases (Score A). Management of budget releases has been successful in controlling arrears (Score A). These strengths are reflected in the accounting and reporting pillar.

427. The combined elements of the payroll system score B+. The budgetary units maintain their respective personnel databases under the E-Treasury (payroll module) system that is managed by State Treasury (Score A). Personnel and payroll records are reconciled at least monthly, before salaries are paid to staff bank accounts (Score A). Reconciliation between payroll records in E-Treasury and the personnel records takes place once an employee is appointed and registered in the system in the municipality. Personnel records are updated monthly in time for the month's payments. Updates are real-time and reflected in the payroll module of the E-Treasury system. Changes to the payroll records, are restricted to authorized persons in the budgetary units. The changes are certified by an authorized person and approved by the head of the unit (Score A), Payroll audits are conducted by the State Audit Office as part of the financial and compliance audits, and this exposes any control weaknesses and accountability issues (Score B).

428. All government contracts are procured through the Georgian E-Government Procurement System. Databases or records are maintained for all contracts including data on what has been procured, value of procurement, and who has been awarded contracts. The data are accurate and complete for all procurement methods for goods, services and works. As this is not specific to the municipality it is deemed Not Applicable. Only 66% of the value of contracts is procured through competitive procurement methods (Score C) which is low in the Georgian context. All the key procurement information relating to the municipality is made available to the public (Score A). The appeals process is independent of the State Procurement Agency (Score A).

429. Internal controls on non-salary expenditure scores an A in all dimensions with strong segregation of duties, effective commitment controls and compliance with payment rules and procedures. This achievement

is ensured by the established PFMIS which reflects the accounting and reporting system. The internal audit function is strong (Score B+). Internal audit activities are focused on evaluations of the adequacy and effectiveness of internal controls, and they focus on high risk areas but have yet to be extended to systems audits. Internal audit activities are guided by the Center for Harmonization Unit, a department of the Ministry of Finance which ensures consistency of all internal audit activities. Management implemented all internal audit recommendations made over fiscal years 2019 to 2022 (Score A).

Accounting and Reporting

430. The strengths in the predictability and control in budget execution pillar feeds into accounting and reporting. Accounts reconciliation and financial data integrity are areas of strengths. The bank reconciliation for all active central government bank accounts takes place daily through Real-Time Gross Settlement System (Score A). There are no active expenditure suspense accounts (Score NA). Advances are reconciled in a timely manner (Score A). Data integrity is good (Score A) as access and changes to records is restricted and recorded, and results in a sufficient audit trail.

431. With respect to in-year budget reports, coverage and classification of data allows for direct comparison to the original budget. Information includes all budget estimates for the budgetary units. Consolidated budget execution reports are prepared quarterly and issued to the Sakrebulo as well as published within 10 days from the end of the quarter (Score A). There are no material concerns regarding data accuracy. Information on expenditure is provided at the payment stage (Score B).

432. The situation with respect to the annual financial reports is positive. The consolidated budget execution report for the municipality budgetary units are prepared annually and are comparable with the approved budget. There is also detailed analysis of performance. The financial statements contain full information on revenue, expenditure, financial and tangible assets, liabilities, guarantees and long-term obligations and are consolidated with other spending units that operate under the municipality (Score A). The annual budget execution reports and financial statements are published on the municipality and State Treasury websites which makes them available for external audit if selected by the SAO for audit but they are not routinely submitted (Score D). The municipality applies the current national accounting standards for its financial statements (Score B).

External Scrutiny and Audit

433. While accounts are prepared annually, they are not audited on a regular basis. While external audit standards are an area of significant strength, annual audit coverage is not mandatory. The timing of audits should take place at least once every three years and is dependent on risk analysis and the State Audit Office's work program given its resources. No financial audits have taken place but there has been a compliance audit. (Score D). The independence of the SAO is assured by the Constitution of Georgia and the Law of Georgia on State Audit Office (Score A).

434. The Sakrebulo now has the mandate to conduct its own legislative scrutiny of audit reports. In the past this aspect of external scrutiny was left to Parliament.

4.2 Effectiveness of the Internal Control Framework

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

435. The effectiveness of the internal control framework in the municipality is scrutinized by the Ministry of Finance and State Audit Office. The Central Harmonization Unit in the Ministry of Finance annually collects, consolidates and analyzes the information based on the annual reports. Under financial and compliance audits, the State Audit Office identifies/tests and evaluates the existence/functionality of the internal controls applied for the public expenditures, including salary and non-salary expenses. In order to understand the process and to have assurance that the entity has strong internal controls aimed to eliminate the risks of fraud, error or corruption, the State Audit Office evaluates the managerial internal control system, performs tests on the types of expenditures and tests if the key controls are in place. Also, the State Audit Office evaluates the clear delimitation and segregation of duties existent in the spending units. This assessment guides the application of substantive testing. While the State Audit Office does not carry out an audit of the municipality each and every year, it conducted an audit of the compliance of the 2018-2019 activities of the Martvili Municipality in 2020.

436. The internal control environment, as set out in Annex 2, is generally sound with respect to 1 Control Environment, 2 Risk Assessment, 3 Control Activities, 4 Information and Communication and 5 Monitoring. The PEFA scores in related indicators and dimensions relating to these 5 components reinforce that controls associated with the day-to-day transaction of the budgetary central government are functioning and result in good data integrity regarding the activities of these entities. The laws and regulations provide the legal framework, and allow for specific roles and responsibilities, segregation of duties, and operating processes. The system embeds access controls and audit trails that support the internal control framework.

437. The current compliance based approach supports continuous improvement in the control environment given the strengths in commitment controls and associated compliance with rules and procedures. The risk based approach supports a strong internal and external audit and oversight function. Risk assessment is an important part of the control framework that applies to both external and internal audit and analysis. Similarly, certain activities, such as advances, and payroll, receive a level of attention in the ex-ante control process. Control activities are generally strong, in particular with regard to segregation of duties and reconciliation of accounts. Budget rules for supplementary estimates and virement have been met even during the COVID-19 pandemic.

438. In addition to these controls on financial transactions, the budget execution reporting system provides information on key performance indicators relating to service delivery, which enhances the overall control environment. In addition, the State Audit Office conducts financial, compliance and performance audits, and makes recommendations on service delivery performance, although this was not done for Martvili.

439. Information and communication of internal control awareness is continuously promoted through targeted and cross-cutting training. Monitoring is strong through the processes of internal and external audit, with strong follow-up embedded in the system. Internal and external auditors have made considerable contributions to assessment of the internal control systems at the central level through their individual

engagement and annual reporting. The management response to the internal audit recommendations in the assessed period shows good performance. Parliamentary scrutiny of external audit reports, if carried out, would have provided support for the monitoring process.

440. Budget execution reporting system that provides information on performance relating to service delivery is very good. While internal and external audits are mainly financial and compliance focused, there is a significant expansion of the auditing process to performance audits, and these provide independent evaluation and make recommendations on service delivery performance.

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

4.3 Strengths and Weaknesses of PFM

442. An overriding feature of PFM during the assessment period covering the years 2019 to 2021 has been the maintenance and development of processes in Georgia in budget preparation, budget execution (accounts, commitment control, and cash management), personnel and payroll, revenue services, and procurement. This has been at both the central government and subnational levels where applicable. This has been achieved even with the impact of the COVID-19 pandemic on the country. This achievement has continued the application of the IT that has been developed in-country based on business processes in each of the subject areas (redefined as necessary) and not on the reconfiguration of business practices to suit particular software. This adoption of IT solutions combined with the internet as a vehicle for its implementation by competent and trained personnel (with appropriate control) has been fundamental to the development of strengths in PFM. The continued integration and roll out of IT, internet and personnel enhanced skills through training, has resulted in PFM's positive effectiveness and efficiency.

Aggregate Fiscal Discipline

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

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

Strategic Allocation of Resources

445. The Chart of Accounts caters to a multi-dimensional analysis of expenditure. There is a strong link between the medium-term perspective in expenditure budgeting and strategic plans in the program budget approach to achieving results that is consistent with a strategic allocation of resources. The Priorities Document, the medium-term action plan of the municipality guides the allocation of resources over the next 4-years in terms of revenues and expenditures. The management of investment that has been implemented has impacted on the strategic allocation of resources. Recurrent cost implication of investment is factored into the budget process and investments are also selected to meet the municipality's strategy. Monitoring of project implementation has ensured that planned activities are being delivered.

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

Efficient Use of Resources for Service Delivery

447. The previous weaknesses in competitive bidding in the procurement system with respect to the appeals and dispute process has been addressed which has positive implications for efficiency in service delivery. Martvili's level of competitive bidding is relatively low at 66% of total. The strengths in the accountability mechanisms make internal and external audits effective as counter checks on inefficient use of resources. The development of and timely consolidated annual financial statements for the municipality enhances the impact of external audits. These are not conducted annually which in turn limits the effectiveness of oversight. None have been carried out in the three assessment years. Publishing of performance targets and outcomes also supports the efficient use of resources in municipal service delivery units.

4.4 Performance Changes since Previous Assessment

448. The 2018 and the current PEFA assessment were performed using the 2016 methodology. However, the PEFA guidance contains some changes to the application of the 2016 methodology regarding subnational government. Annex 1 provides a summary of both 2018 and 2022 scores and changes in scores based on the *May 2022 Guidance for Subnational Government PEFA Assessments*, adjusting the 2018 scores where possible. Across the 87 individual SN related dimensions compared, there has been an improvement in 9 dimensions, deterioration in 1 and no change in the score in 77 dimensions. This overall improvement in scoring has been from a relatively high baseline achieved in 2018.

449. The comparison of the assessments indicates that between the two PEFAs that the following dimensions have improved or deteriorated in relation to PFM strengths and weakness relating to fiscal and budgetary outcomes.⁵⁹ The comparison of the 2018 and 2022 assessments indicates that the following dimensions have changed:

⁵⁹ Although not directly comparable there has been the introduction in the municipality of an MTEF which would have improved PIs-14.1 and 14.3.

Strategic Allocation of Resources

- Improvement - introduction of KPIs. PI-8.1 and PI-8.2
- Improved budget calendar PI-17.1
- Improved used of economic analysis in investment PI-11.1
- Improved recording of nonfinancial assets PI-12.2
- Improved system for monitoring of arrears PI-22.2
- Improved procurement complaints procedures PI-24.4
- Improved coverage of financial reports PI-29.1 and PI-29.3

450. There was deterioration in relation the strategic allocation of resources in competitive tendering (PI-24.2). This can be explained by the impact of COVID-19 and the response to it by the authorities in Georgia in general but also the decreasing threshold relating to competitive tendering in real terms.

451. These improvements as well as the continuation of the status quo can be attributed to continued strong management of the PFM reform program in Georgia which the government has undertaken and plans to update on the basis of the 2022 PEFA assessment.

5. Government PFM Reform Process

5.1 Approach to PFM Reforms

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

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

454. The second PEFA assessment, published in 2013, showed significant improvements in the PFM situation of the country. Again, the PEFA report was used as a basis for the next generation of reforms, the PFM Reform Strategy 2014-2017. The third PEFA assessment in 2018 (along with subnational assessments) was used to draft the Public Financial Management Reform Strategy 2018 – 2021. This reform strategy aimed at central and local governments. The reform strategy targeted the following areas:

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

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

- The development of the system of local self- government started in 1991 and was legally formalized in 1997 by adopting the Organic Law on Local Self-Government and Government. The Law on the Budgets of Local Self-government Unit (2006) was replaced by the new Budget Code of 2009, unifying the budget process and procedures for all layers of government, and specifying that:
 - Each local self-government body has its own independent budget.
 - The independence of the local self-government bodies in budgetary matters is safeguarded by: (i) own revenues and (ii) earmarked transfers from the central government for implementation of authorities delegated to the SNGs' and special transfers, which are mostly targeted towards investments in infrastructure.
 - Central and autonomous republic authorities cannot interfere in the budgetary powers of the SNGs.
- According to the Budget Code, own-revenues of the budgets of SNGs include local taxes and duties, and other revenues as provided by the legislation of Georgia to the local self-government bodies.
- The Budget Code of 2009 also specifies the budget calendar, system, and budget process for SNG units. The calendar, system, and process for SNGs resemble the one for the central government, though the dates in the calendar differ. In particular, the two-staged budget process of central government is applied by SNGs: the first stage is the preparation of the Municipal Priority Document (the pre-Budget statement, like the central government BDD) and the second stage is the preparation of the SNG budget.
- Program budgeting for SNGs was formalized in 2011 by the amendment of Budget Code and was fully implemented starting from 2013. In 2018, the methodology of program budget preparation was approved by the Minister of Finance. The rules for preparation, execution and reporting of the program budget are presented in detail in the methodology. The methodology regulates issues related to program budgeting for both central and local government.

456. To improve the accuracy of local budget operations another major reform was the extension of the e-Treasury system to include all the local government and public entities budgets. This also included budget planning at the local level which is done through the eBudget.

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

458. The formula for calculation of the equalization transfers had been defined in detail by the Order of the Minister of Finance #904, dated 30 December 2009. The formula calculates equalization transfers based on the trend of the own revenues of the municipalities and projections of expenditure based on different coefficients related to the population, demography, and geographical location. In 2019, the equalization transfer system in use was replaced by one based on a value-added tax distribution system. This system directs at least 19% of the value-added tax mobilized in the state budget to the municipal budgets. This revenue becomes municipalities' own revenue, which a municipality uses at its discretion to exercise its powers. Value added tax is distributed in accordance with Article 71 of the Budget Code of Georgia to municipalities according to population characteristics registered in the municipality. The Ministry of Finance of Georgia reflects the percentage of the share of each municipality in the value added tax determined for the

municipalities in the budget proposal. Special transfers, targeted transfers and capital transfers continued to be implemented. These are described in HLG-1.

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

5.2 Recent and On-Going Reform Actions

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

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

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

463. These overall PFM reform achievements have also been recognized in the results of the Open Budget Survey 2021⁶⁰ published by the International Budget Partnership, Georgia ranked first among 120 countries in the world. In the previous two evaluations in 2017 and 2019, Georgia took 5th place among 117 countries in the group of completely transparent countries. The past and ongoing public finance management reform in Georgia has been stated as the catalyst for this achievement. The results of the measures enacted and carried out have been central to this achievement with the results of 2021 emanating from the measures taken within the framework of the public finance management reform. The OBI report specifies the improvement of

⁶⁰ <https://internationalbudget.org/open-budget-survey/rankings>

medium-term planning, the introduction of a program budget, increasing the comprehensiveness of reporting, the introduction and improvement of electronic systems of public finance management, the publication and publicity of budget documentation, the preparation of citizen's guides and development of citizen engagement mechanisms, *inter alia*.

464. All of the above indicates the ongoing commitment to reform in terms of its continuation and deepening across the whole range of the PFM cycle building on achievements and success to date. Reform is seen as an ongoing rather than a one-off activity. The 2022 central government and SN PEFA's are to be used as the basis of an updated PFM Action Plan for the near future.

5.3 Institutional considerations

465. The PFM reform program has been implemented by successive governments and its institutions as well as local governments. The Ministry of Finance and its many implementing departments – budget, treasury, accounts, debt, internal audit, and revenue has been the driving and coordinating force behind overall reform showing considerable leadership irrespective of which political party is leading the Government of Georgia. State Audit, the Procurement Agency as well as the Parliament have also actively participated in the reform process. These reforms have been applied at both local and central level given the commonality of processes and systems as described in Chapter 3.

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

Annex 1: Performance Indicator Summary

Indicator/Dimension	2018 Score	Explanation	2022 Score	Explanation	Reason for difference
HLG-1: Transfers from a higher level of government	D+		C		The 2018 aggregation was M1 which changed to M2 in 2022 with the addition of HLG-1.4
HLG-1.1. Execution of planned transfers from higher level government	A	In 2015 the deviation of actual grants from the original budgeted grants was 183%, in 2016 it was 169% and in 2017 it was 162%.	D	Actual transfers were more than 116% of the original budget estimate in all three considered years. In 2019 the deviation of actual grants from the original budgeted grants was 189.5%, in 2020, it was 137.0% and in 2021, it was 207.1%.	The impact of COVID influenced the predictability of transfers. The scoring criteria changed from 2018 which would have been D using 2022 scoring.
HLG-1.2. Variance of intergovernmental transfers	D	Difference between the original budget estimate and actual earmarked grants was greater than 10 percent in two of the last three years.	D	Difference between the original budget estimate and actual earmarked grants was greater than 15 percent in two of the last three years: 88.9% in 2019, 44.8% in 2020, and 90.1% in 2021	No change in score. The scoring criteria changed from 2018.
HLG-1.3. Timeliness of transfers from higher level government	A	Actual transfers have been distributed evenly across the year in each of the last three years.	A	There are established procedures for the municipality to receive transfers from high-level governments on time.	No change in score
HLG-1.4 Predictability of transfers			C	Martvili municipality receives information on the amount of distribution	This is a new dimension

Indicator/Dimension	2018 Score	Explanation	2022 Score	Explanation	Reason for difference
				of VAT transfers for the budget year and the two years following. Changes are not explained	
PI-1 Aggregate expenditure outturn	D		D		
1.1 Aggregate expenditure outturn	D	In all of the 3 years the deviation was greater than 50%.	D	Actual aggregate expenditure deviates from the original budget were significantly more between 85% and 115% in all three considered years in 2019 – 183.2%, in 2020 – 130.3%, and in 2021 – 190.6%.	No change. The impact of COVID influenced the predictability of aggregate expenditures. However, the unpredictability of targeted grants was the major factor in both assessments.
PI-2 Expenditure composition outturn	D+		D+		
2.1 Expenditure composition outturn by function	D	In all of the 3 years the deviation greater than 50%.	D	The deviation between actual and budgeted expenditures by function for all three years was more than 15%: 60.5% in 2019, 27.4% in 2020, and 78.6% in 2021.	The impact of COVID influenced the predictability of expenditures by function. However, the unpredictability of targeted grants was the major factor in both assessments
2.2 Expenditure composition outturn by economic type	D	In all of the 3 years the deviation was greater than 50%.	D	The deviation between actual and budgeted expenditures by economic category for all three years was more than 15%: 68.8% in 2019, 28.6% in 2020,	The impact of COVID influenced the predictability of expenditures by economic categories. However, the unpredictability of targeted grants was the major factor in both

Indicator/Dimension	2018 Score	Explanation	2022 Score	Explanation	Reason for difference
				and 77.0% in 2021.	assessments
2.3 Expenditure from contingency reserves	A	Actual expenditure charged to the contingency fund vote 0% in all three years and was less than 0.1% in the budget.	A	According to the average of the three considered years, the actual expenditures of the reserve fund amounted to 0.3% of the total budget expenditures	No change in score but contingency as % of budget increased.
PI-3 Revenue outturn	D		D		
3.1 Aggregate revenue outturn	D	Aggregate deviation was above 117% in all of the three years.	D	Deviation between budgeted revenue and actual revenues collected in two of the three years was more than between 92% and 116%: in 2019 – 122.3%, in 2020 – 124.2%, and in 2021 – 112.6%.	The impact of COVID influenced the predictability of aggregate revenues
3.2 Revenue composition outturn	D	Variance in revenue collection was greater than 15 per cent in two of the three years. In 2015 24.8%, 28.9% in 2016, and 44.2% in 2017.	D	The deviation was more than 15% in all three assessment years: 2019 was 59.5%, 63.8% in 2020, and in 2021 to 22.9%.	The impact of COVID influenced the predictability of revenues by type
PI-4 Budget classification	A		A		
4.1 Budget classification	A	Budget formulation, execution, and reporting are based on every level of economic and functional classification (10 functions) using GFS/COFOG standards.	A	Budget formulation, execution, and reporting are based on every level of economic and functional classification (10 functions) using GFS/COFOG standards.	

Indicator/Dimension	2018 Score	Explanation	2022 Score	Explanation	Reason for difference
		Program classification is derived from the administrative classification in Georgia.		Program classification is derived from the administrative classification in Georgia.	
PI-5 Budget documentation	B		B		
5.1 Budget documentation	B	Budget documentation fulfills five out of the 10 applicable elements, including the four basic elements and one additional element.	B	Budget documentation fulfills five out of the eight applicable elements, including the four basic elements and one additional element.	There has been an increase in the number of non-applicable items
PI-6 Subnational government operations outside financial reports	A		A		
6.1 Expenditure outside financial reports	A	All expenditures are included in financial reports.	A	All expenditures are included in financial reports.	No change
6.2 Revenue outside financial reports	A	All revenues are included in financial reports.	A	All revenues are included in financial reports.	
6.3 Financial reports of extra-budgetary units	NA	There are no extra-budgetary units.	NA	There are no extra-budgetary units.	
PI-7 Transfers to subnational governments	NA		NA		There are no lower tiers.
7.1 Systems for allocating transfers	NA		NA		No Change
7.2 Timeliness of information on transfers	NA		NA		
PI-8 Performance information for service delivery	D+		B		Martvili introduced KPIs into the budget process.
8.1 Performance plans for service delivery	D	There are no detailed performance plans relating to service	B	Information is annually prepared and published according to program	

Indicator/Dimension	2018 Score	Explanation	2022 Score	Explanation	Reason for difference
		delivery.		objectives of the municipality in the budget documentation. It includes performance indicators, programs about intermediate and final results or outcomes.	
8.2 Performance achieved for service delivery	D	There is no reporting on performance achieved.	B	Information is provided on results of the priority programs /subprograms implemented by municipality spending units. Performance Assessment Indicators are published in the annual budget execution report.	
8.3 Resources received by service delivery units	A	Information on the resources received by the service providers at spending units is available at least annually.	A	Information on the resources received by the service providers at spending units is available at least annually.	
8.4 Performance evaluation for service delivery	D	The Internal Audit Department carries out inspections related to controls on spending in relation to their operations. It does not focus on systems.	D	The municipality's Internal Audit Unit and the Supreme Audit Office compliance audits cover services delivered by the municipality in the previous three years. However, these are not performance related audits.	
PI-9A Public access to fiscal information	B		C		

Indicator/Dimension	2018 Score	Explanation	2022 Score	Explanation	Reason for difference
9A.1 Public access to fiscal information	B	The municipality provides access to 6 elements, including 4 of the 5 applicable basic elements of listed information.	C	Out of 6 applicable elements 4 basic elements are available to the public.	The scoring guidance has changed with respect to non-applicable elements
PI-9B Public consultation		New indicator	D+		
9B.1: Public consultation in budget preparation			C	Consultation in budget preparation is conducted prior to approval of the budget by Sakrebulo.	
9B.2: Public consultation in the design of service delivery programs			D	Public consultation for service delivery programs was not conducted.	
9B.3: Public consultation in investment planning			D	Public consultation for some major investment projects was not conducted.	
PI-10 Fiscal risk management	NA		NA		No Change
10.1 Monitoring of public corporations	NA	There are no public corporations under the municipality.	NA	There are no public corporations under the municipality.	
10.2 Monitoring of subnational government (SNG)	NA		NA		
10.3 Contingent liabilities and other fiscal risks	NA		NA		
PI-11 Public investment management	C		C+		
11.1 Economic analysis of investment proposals	D	Economic analyses have not been conducted to assess investment projects.	C	Economic analyses are conducted to assess some major investment projects.	Economic analysis related to the investment process has been carried out.
11.2 Investment project selection	C	Prior to their inclusion in	C	Prior to their inclusion in	

Indicator/Dimension	2018 Score	Explanation	2022 Score	Explanation	Reason for difference
		the budget, the major investment projects are prioritized but not on the basis of standard criteria.		the budget, the major investment projects are prioritized but not based on standard criteria.	
11.3 Investment project costing	C	For multi-year projects the total cost is known but only the cost in the budget year is included in the annual budget documentation. If a project has been completed within the budget year, the subsequent operating cost are also included in the budget as part of the spending unit's costs but not broken down by individual project.	C	For multi-year projects the total cost is known but only the cost in the budget year is included in the annual budget documentation. If a project has been completed within the budget year, the subsequent operating cost are also included in the budget as part of the spending unit's costs but not broken down by individual project.	
11.4 Investment project monitoring	B	The monitoring of cost and physical progress of investment projects are outsourced and adequately monitored by the implementing unit. Information on implementation of projects is prepared quarterly and annually and reported to the Sakrebulo.	B	The monitoring of cost and physical progress of investment projects are outsourced and adequately monitored by the implementing unit. Information on implementation of projects is prepared quarterly and annually and reported to the Sakrebulo.	
PI-12 Public asset management	B		B		
12.1 Financial asset monitoring	B	The municipality maintains a record of its holdings in all categories	B	The municipality maintains a record of its holdings in all categories	

Indicator/Dimension	2018 Score	Explanation	2022 Score	Explanation	Reason for difference
		of financial assets, which are recognized at their acquisition cost and in rare cases at fair (market) value. Information on the performance of the major categories of financial assets is published annually.		of financial assets, which are recognized at their acquisition cost and in rare cases at fair (market) value. Information on the performance of the major categories of financial assets is published annually.	
12.2 Non-financial asset monitoring	D	The municipality maintains a register of its holdings of fixed assets, but it is not comprehensive, and collects partial information on their usage and age.	C	The municipality maintains a register of its holdings of fixed assets and collects partial information on their usage and age.	Audits on nonfinancial assets have improved the quality of the registry.
12.3 Transparency of asset disposal	A	Procedures and rules for the transfer or disposal of financial and nonfinancial assets are established. The municipality Property Agency provides detailed information on every transaction. Detailed report each disposed asset is available to the public.	A	Procedures and rules for the transfer or disposal of financial and nonfinancial assets are established. The municipality Property Agency provides detailed information on every transaction. Detailed report each disposed asset is available to the public.	
PI-13 Debt management	C+		C		
13.1 Recording and reporting of debt and guarantees	C	Records on debt are complete and accurate. Reconciliation is done annually.	C	Records on debt are complete and accurate. Reconciliation is done annually.	
13.2 Approval of debt and	A	Primary legislation grants	NA	Primary legislation grants	Due to change in

Indicator/Dimension	2018 Score	Explanation	2022 Score	Explanation	Reason for difference
guarantees		authorization to borrow, issue new debt, and issue loan guarantees on behalf of the subnational government to a single responsible debt management entity. Documented policies and procedures provide guidance to borrow, issue new debt and undertake debt-related transactions, issue loan guarantees, and monitor debt management transactions by a single debt management entity. Annual borrowing must be approved by the government or legislature.		authorization to borrow, issue new debt, and issue loan guarantees on behalf of the subnational government to a single responsible debt management entity. Documented policies and procedures provide guidance to borrow, issue new debt and undertake debt-related transactions, issue loan guarantees, and monitor debt management transactions by a single debt management entity. Annual borrowing must be approved by the government or legislature.	guidance
13.3 Debt management strategy	D	The municipality does not have a debt strategy and lenders make the assessment.	NA	The Martvili Municipality does not have any plans to borrow in the medium term. There is no need for a debt management strategy.	
PI-14. Medium-term budget strategy	D	This indicator is an amalgamation of 14. 15 and 17 of the previous methodology.	D+		The introduction of an MTEF has improved this indicator.
14.1: Underlying forecasts for medium-term budget	D		C	Estimates of revenue and expenditure for the budget year are based on information on transfers,	

Indicator/Dimension	2018 Score	Explanation	2022 Score	Explanation	Reason for difference
				revenue, and expenditure assignments.	
14.2: Fiscal impact of policy proposals	NA		NA	In 2021, no proposals in Martvili Municipality have impacted budget revenues or expenditures.	
14.3: Medium-term expenditure and revenue estimates	D		C	Medium-term estimates include information on expenditures by program classification. The information on revenues and expenditures is not fully complete over the medium-term due to the nature of some grants.	
14.4: Consistency of budget with previous year estimates	D		D	The budget documents do not explain any changes to expenditure estimates between the second year of the last medium-term budget and the first year of the current medium-term budget at the aggregate level	
PI-17 Budget preparation process	D+		C+		
17.1 Budget calendar	C	The budget calendar is clear and adhered to. It allows budgetary units only 2 weeks from receipt of the budget circular to meaningfully complete their detailed estimates on time.	A	The budget calendar is clear and adhered to. All budgetary units have more than 6 weeks from receipt of the budget circular to meaningfully complete their detailed estimates on time.	The introduction of the MTEF and a timelier budget circular has given more time for budget preparation.
17.2 Guidance on budget	D	The budget circular is	D	The budget circular is	

Indicator/Dimension	2018 Score	Explanation	2022 Score	Explanation	Reason for difference
preparation		simple and covers total expenditure for the fiscal year. The spending units' ceilings are not reflected in a circular.		simple and covers total expenditure for the fiscal year. The budgetary units' ceilings are not reflected in a circular.	
17.3 Budget submission to the legislature	C	The municipality executive submitted the annual budget proposal six weeks before the end of the year in each of the last three fiscal years.	C	The municipality executive submitted the annual budget proposal six weeks before the end of the year in each of the last three fiscal years.	
PI-18 Legislative scrutiny of budgets	B+		B+		
18.1 Scope of budget scrutiny	B	The Sakrebulo reviews expenditure and revenue as well the implicit fiscal policy and overall statement of priorities.	B	The focus of the Martvili Sakrebulo is expenditure and revenue for the budget year and the resulting fiscal balance. Medium-term fiscal forecasts, medium-term priorities were not discussed in the Sakrebulo	
18.2 Legislative procedures for budget scrutiny	A	The Sakrebulo's procedures are approved by the legislature in advance of budget hearings and are adhered to. The procedures include internal organizational arrangements, such as specialized review committees, technical support, and negotiation procedures. They also	A	The Sakrebulo's procedures are approved by the legislature in advance of budget hearings and are adhered to. The procedures include internal organizational arrangements, such as specialized review committees, technical support, and negotiation procedures. They also include arrangements for	

Indicator/Dimension	2018 Score	Explanation	2022 Score	Explanation	Reason for difference
		include arrangements for public consultation.		public consultation.	
18.3 Timing of budget approval	A	During the last three fiscal years the Sakrebulo approved the annual budget law before the start of the fiscal year.	A	During the last three fiscal years the Sakrebulo approved the annual budget law before the start of the fiscal year.	
18.4 Rules for budget adjustments by the executive	A	Clear rules exist for in-year budget adjustments by the executive. The rules set strict limits on the extent and nature of amendment and are adhered to.	A	Clear rules exist for in-year budget adjustments by the executive. The rules set strict limits on the extent and nature of amendment and are adhered to.	
PI-19 Tax Administration	NA	The administration of revenues in Georgia for the municipalities is that the Georgia Revenue Services collects revenues and there is a sharing arrangement with the central government and Tiers 1 and 2.	NA	The administration of revenues in Georgia for the municipalities is that the Georgia Revenue Services collects revenues and there is a sharing arrangement with the central government and Tiers 1 and 2.	
19.1 Rights and obligations for tax measures	NA		NA		
19.2 Property tax register and value assessment	NA		NA		
19.3 Tax risk management, audit and investigations	NA		NA		
19.4 Tax arrears Monitoring	NA		NA		
PI-20 Accounting for revenue	A		A		
20.1 Information on revenue	A	The municipality obtains	A	The municipality obtains	

Indicator/Dimension	2018 Score	Explanation	2022 Score	Explanation	Reason for difference
collections		revenue data at least monthly from the data on revenues administered by Georgia Revenue Services and paid into the Treasury Single Account. This information is broken down by revenue type and is consolidated into a report.		revenue data at least monthly from the data on revenues administered by Georgia Revenue Services and paid into the Treasury Single Account. This information is broken down by revenue type and is consolidated into a report.	
20.2 Transfer of revenue collections	NA	All revenues are transferred directly to the Treasury Single Account on the daily basis by GRS.	NA	All revenues are transferred directly to the Treasury Single Account on the daily basis by GRS.	
20.3 Revenue accounts reconciliation	NA	Entities collecting most municipal revenue undertake complete reconciliation of assessments, collections, arrears and transfers to Treasury Single Account daily by GRS.	NA	Entities collecting most municipal revenue undertake complete reconciliation of assessments, collections, arrears and transfers to Treasury Single Account daily by GRS.	
PI-21 Predictability of in-year resource allocation	B+		B+		
21.1 Consolidation of cash balances	A	The consolidated information about all bank and cash balances is available at the municipality subaccount at the State Treasury Service at the end of the day.	A	The consolidated information about all bank and cash balances is available at the municipality subaccount at the State Treasury Service at the end of the day.	
21.2 Cash forecasting and	B	A cash flow forecast is	B	A cash flow forecast is prepared annually for the	

Indicator/Dimension	2018 Score	Explanation	2022 Score	Explanation	Reason for difference
monitoring		prepared annually for the fiscal year, broken down by quarter and updated quarterly on the basis of actual cash and outflows.		fiscal year, broken down by quarter and updated quarterly on the basis of actual cash and outflows.	
21.3 Information on commitment ceilings	A	Budgetary units are able to plan and commit expenditure for twelve months in advance in accordance with the budgeted appropriations and commitment releases.	A	Budgetary units are able to plan and commit expenditure for twelve months in advance in accordance with the budgeted appropriations and commitment releases.	
21.4 Significance of in-year budget adjustments	C	Adjustments to budget allocations were made 7 times in 2017 and amounted to 62% of the original budget. These were done in a transparent and predictable way.	C	Adjustments to budget allocations were made 5 times in 2021 and amounted to 102% of the original budget. These were done in a transparent and predictable way.	
PI-22 Expenditure arrears	A		A		
22.1 Stock of expenditure arrears	A	The municipality reported that it did not have any expenditure arrears.	A	The municipality reported that it did not have any expenditure arrears.	No change
22.2 Expenditure arrears monitoring	NA	The financial statements produced by the municipality Finance Department provide information on the stock and composition of expenditure arrears. The Financial Information	A	The e- Treasury system allows for the recording and monitoring of arrears in real time.	The e-Treasury system in place allows for real time monitoring automatically whereas previously the system would need to be interrogated.

Indicator/Dimension	2018 Score	Explanation	2022 Score	Explanation	Reason for difference
		System is capable of monitoring whether arrears have been generated and a report can be produced if required.			
PI-23 Payroll controls	B+		B+		
23.1 Integration of payroll and personnel records	A	The municipality maintains the personnel databases under the E-Treasury (payroll module) system that is managed by State Treasury. Personnel and payroll records are reconciled at least monthly before salaries are paid to staff bank accounts. There is a validation mechanism built into the payroll module that automatically blocks salary payments of any person that is not reflected in the personnel database of the E-Treasury system.	A	The municipality maintains the personnel databases under the E-Treasury (payroll module) system that is managed by State Treasury. Personnel and payroll records are reconciled at least monthly before salaries are paid to staff bank accounts. There is a validation mechanism built into the payroll module that automatically blocks salary payments of any person that is not reflected in the personnel database of the E-Treasury system.	
23.2 Management of payroll changes	A	Records are updated monthly in time for the month's payments. Updates are real-time and reflected in the payroll module of the E-Treasury system. In addition,	A	Records are updated monthly in time for the month's payments. Updates are real-time and reflected in the payroll module of the E-Treasury system. In addition,	

Indicator/Dimension	2018 Score	Explanation	2022 Score	Explanation	Reason for difference
		retroactive changes to the existing data in the system are not allowed.		retroactive changes to the existing data in the system are not allowed.	
23.3 Internal control of payroll	A	Changes to the payroll records, are restricted to only authorized persons in the municipality. The changes are certified by an authorized person and approved by the supervisors. There is an audit trail of payroll changes as supporting documentation are kept, and there are access controls for authorized persons to get into the E-Treasury system that require password and identification. External auditors assess payroll risk as low hence integrity of payroll data is high.	A	Changes to the payroll records, are restricted to only authorized persons in the municipality. The changes are certified by an authorized person and approved by the supervisors. There is an audit trail of payroll changes as supporting documentation are kept, and there are access controls for authorized persons to get into the E-Treasury system that require password and identification. External auditors assess payroll risk as low hence integrity of payroll data is high.	
23.4 Payroll audit	B	There is a system of payroll audits conducted by the State Audit Office that exposes any control weaknesses and accountability issues. This is not carried out annually at the municipality level and one was completed in 2016.	B	There is a system of payroll audits conducted by the State Audit Office that exposes any control weaknesses and accountability issues. This is not carried out annually at the municipality level and one was completed in 2020 covering 2019.	

Indicator/Dimension	2018 Score	Explanation	2022 Score	Explanation	Reason for difference
PI-24 Procurement	B		B+		
24.1 Procurement monitoring	NA	Databases or records are maintained for all contracts including data on what has been procured, value of procurement, and who has been awarded contracts. All government contracts are procured through Georgian E-Government Procurement System.	NA	Databases or records are maintained for all contracts including data on what has been procured, value of procurement, and who has been awarded contracts. All government contracts are procured through Georgian E-Government Procurement System (Ge-GP).	
24.2 Procurement methods	A	As per public procurement legislation open competition above GEL 5,000 is a default method. 88% of contracts by value procured in 2017 were conducted through competitive selection.	C	As per public procurement legislation open competition above 5,000 is a default method. 66% of contracts by value procured in 2021 were conducted through competitive selection.	There was a reduction in the value of contracts procured through competitive bidding from 88% to 66%.
24.3 Public access to procurement information	A	All the key procurement information is made available to the public. These include but are not limited to: (1) legal and regulatory framework for procurement (2) government procurement plans (3) bidding opportunities (4) contract awards	A	All the key procurement information is made available to the public. These include but are not limited to: (1) legal and regulatory framework for procurement (2) government procurement plans (3) bidding opportunities (4) contract awards	

Indicator/Dimension	2018 Score	Explanation	2022 Score	Explanation	Reason for difference
		(purpose, contractor and value) (5) data on resolution of procurement complaints (6) annual procurement statistics		(purpose, contractor and value) (5) data on resolution of procurement complaints (6) annual procurement statistics	
24.4 Procurement complaints management	D	Procurement system meets all criteria except N1. According to Article 3, Subparagraph 1 and 2 of the Rule for Operations of the Procurement related Dispute Review approved by the Decree №1 of 27 February 2015, of the Chairman of the State Procurement Agency, dispute review board consists of 6 persons on a parity principle. 3 members are from CSOs/NGOs and 3 are from State Procurement Agency. Chairman of State Procurement Agency is at the same time Chairman of the dispute review board, with prevailing vote. State Procurement Agency is also a clearing/reviewing body for Simplified Procurement (aka Direct	A	The Council of Dispute Resolution is an impartial and independent body established under the Public Procurement Law, which aims to resolve disputes in a prompt, efficient and fair manner in accordance with the Law on Public Procurement and relevant by-laws, the Law on "Public and Private Cooperation" and relevant by-laws, and the Rules of Procedure of the Board. The Board consists of 5 members selected by an independent commission on an open competition and appointed for a term of 5 years. One and the same person may be appointed as the Board member only twice. The board member is a public servant. The activities of the Board are carried out on the basis of the equality	Since the previous PEFA an independent complaints resolution mechanism has been put in place

Indicator/Dimension	2018 Score	Explanation	2022 Score	Explanation	Reason for difference
		<p>Contracting requests from implementing agencies).</p> <p>The involvement of the state procurement agency in specific procurement procedure for simplified procurement procedures (direct contracting) makes it part of the procurement transactions and procurement decision-making process leading to contract award, which creates conflicts with its oversight function and its role in the review of procurement complaints.</p>		<p>of all persons involved in the dispute under the law and the Board, as well as in accordance with the principles of publicity and the independence of the members of the Board.</p> <p>The principles of the Board are:</p> <ul style="list-style-type: none"> a) legality; b) objectivity and impartiality; c) professionalism; d) protection of confidentiality. <p>The Board is separate from all bodies / persons, is independent in its activities and obeys only the law.</p> <p>It is not allowed to influence the board or a member of the board in order to influence the decision-making process.</p> <p>The Board is guided in its activities by the Constitution of Georgia, international treaties and agreements of Georgia, the Law on Public Procurement, the Law on Public-Private Partnership, the Rules of Procedure of the Board</p>	

Indicator/Dimension	2018 Score	Explanation	2022 Score	Explanation	Reason for difference
				and other normative acts.	
PI-25 Internal controls on non-salary expenditure	A		A		
25.1 Segregation of duties	A	Segregation of duties is prescribed throughout the expenditure process with responsibilities clearly laid out at different levels in the PFMIS, in accordance with Order of the Minister of Finance of 6 July 2012, on the approval instructions for the State Treasury Electronic Service System.	A	Segregation of duties is prescribed throughout the expenditure process with responsibilities clearly laid out at different levels in the PFMIS, in accordance with Order of the Minister of Finance of 6 July 2012, on the approval instructions for the State Treasury Electronic Service System.	
25.2 Effectiveness of expenditure commitment controls	A	Commitment control applies to all payments made from the Treasury Single Account. Actual expenditures incurred are in line with approved budget allocations and does not exceed committed amounts and projected available cash resources.	A	Commitment control applies to all payments made from the Treasury Single Account. Actual expenditures incurred are in line with approved budget allocations and does not exceed committed amounts and projected available cash resources.	
25.3 Compliance with payment rules and procedures	A	Compliance with payment rules and procedures is very high.	A	Compliance with payment rules and procedures is very high.	

Indicator/Dimension	2018 Score	Explanation	2022 Score	Explanation	Reason for difference
PI-26 Internal audit	B+		B+		
26.1 Coverage of internal audit	A	There is an Internal Audit Unit that covers the whole of the activities of Martvili Municipality.	A	There is an Internal Audit Unit that covers the whole of the activities of Martvili Municipality.	
26.2 Nature of audits and standards applied	B	Internal audit activities are focused on evaluations of the adequacy and effectiveness of internal controls, and they focus on high risk areas. Internal audit activities are guided by the Internal Audit Methodology and System Audit Manual/Instruction that complies with the International Professional Practices Framework issued by the Institute of Internal Auditors.	B	Internal audit activities are focused on evaluations of the adequacy and effectiveness of internal controls, and they focus on high risk areas. Internal audit activities are guided by the Internal Audit Methodology and System Audit Manual/Instruction that complies with the International Professional Practices Framework issued by the Institute of Internal Auditors.	
26.3 Implementation of internal audits and reporting	A	Annual audit programs exist, and they are monitored by the Center for Harmonization Unit at the Ministry of Finance. All of the programmed audits in 2017 were completed and their reports distributed to appropriate parties.	A	Annual audit programs exist, and they are monitored by the Center for Harmonization Unit at the Ministry of Finance. All of the programmed audits in 2021 were completed and their reports distributed to appropriate parties.	
26.4 Response to internal audits	A	Data supplied by	A	Data supplied by	

Indicator/Dimension	2018 Score	Explanation	2022 Score	Explanation	Reason for difference
		Management show that all of internal audit recommendations are implemented in a timely manner.		Management show that all of internal audit recommendations are implemented in a timely manner.	
PI-27 Financial data integrity	A		A		
27.1 Bank account reconciliation	A	The Finance Department of the municipality is able to access daily all its balances with the TSA sub-accounts and other bank accounts in the National Bank of Georgia.	A	The Finance Department of the municipality is able to access daily all its balances with the TSA sub-accounts and other bank accounts in the National Bank of Georgia.	
27.2 Suspense accounts	NA	There are no expenditure suspense accounts operated by the municipality.	NA	There are no expenditure suspense accounts operated by the municipality.	
27.3 Advance accounts	A	Reconciliation of advance accounts takes place monthly (within 20 days after the end of each month). All advance accounts are cleared in a timely manner.	A	Reconciliation of advance accounts takes place monthly (within 20 days after the end of each month). All advance accounts are cleared in a timely manner.	
27.4 Financial data integrity processes	A	Access and changes to records is restricted and recorded, and results in an audit trail. Financial data integrity is done by Treasury, which reviews financial information from budgetary units and its IT department	A	Access and changes to records is restricted and recorded, and results in an audit trail. Financial data integrity is done by Treasury, which reviews financial information from budgetary units and its IT department	

Indicator/Dimension	2018 Score	Explanation	2022 Score	Explanation	Reason for difference
		monitors unauthorized systems access. Internal auditors and the State Audit Office do also conduct audits to verify financial data integrity.		monitors unauthorized systems access. Internal auditors and the State Audit Office do also conduct audits to verify financial data integrity.	
PI-28 In-year budget reports	B+		B+		
28.1 Coverage and comparability of reports	A	Coverage and classification of data allows direct comparison to the original budget. Information includes all municipality expenditure and revenues.	A	Coverage and classification of data allows direct comparison to the original budget. Information includes all municipality expenditure and revenues.	
28.2 Timing of in-year budget reports	A	Consolidated budget execution reports are prepared monthly. Quarterly reports are issued to the Sakrebulo and are published.	A	Consolidated budget execution reports are prepared monthly within 10 days of the end of the preceding month. Quarterly reports are issued to the Sakrebulo and are published.	
28.3 Accuracy of in-year budget reports	B	There are no material concerns regarding data accuracy Information on expenditure is covered at the payment stage in the e-Treasury system.	B	There are no material concerns regarding data accuracy Information on expenditure is covered at the payment stage in the e-Treasury system.	
PI-29 Annual financial reports	D+		D+		
29.1 Completeness of annual financial reports	C	The financial reports for the municipality are prepared annually and are comparable with the approved budget. They	A	The financial reports for the municipality are prepared annually and are comparable with the approved budget. They	Consolidated financial reports are now produced.

Indicator/Dimension	2018 Score	Explanation	2022 Score	Explanation	Reason for difference
		contain full information on revenue, expenditure, financial and tangible assets, liabilities, guarantees and long-term obligations. However, these reports are not consolidated for the whole of the municipality's operations.		contain full information on revenue, expenditure, financial and tangible assets, liabilities, guarantees and long-term obligations. There is a reconciled cash flow statement.	
29.2 Submission of reports for external audit	D	Auditing by the State Audit Office is not mandatory annually. Audit of reports is carried out on a periodic basis by the SAO based on its annual work program determined by risk assessment criteria and coverage. Scoring is in line with the PEFA guidance even though the legal timeframe for their completion is met.	D	Auditing by the State Audit Office is not mandatory annually. Audit of reports is carried out on a periodic basis by the SAO based on its annual work program determined by risk assessment criteria and coverage. The municipality financial statements are published by 31 March. These however are not submitted to the SAO.	The publication of the financial statements now makes them accessible to the SAO should it wish to audit them. However, they are submitted as a matter of course.
29.3 Accounting standards	C	Municipalities are required to prepare financial statements that comply with the national standards established by the Ministry of Finance.	B	Municipalities are required to prepare financial statements that comply with the standards established by the Ministry of Finance which are based on international standards,	There has been an increase in the number of IPSAS standards applied
PI-30 External audit	D+		D+		
30.1 Audit coverage and standards	D	The financial statements	D	There has not been a	

Indicator/Dimension	2018 Score	Explanation	2022 Score	Explanation	Reason for difference
		of the municipality include revenue, expenditure, assets and liabilities. They are audited using International Standards of Supreme Audit Institutions (ISSAI) in accordance with Article 26 of the Law of Georgia on State Audit Office. Audit coverage in financial year of 2016 was the full audit of the municipality. The audits highlighted relevant material issues and systemic and control risks.		financial audit for the municipality during the assessment period.	
30.2 Submission of audit reports to the legislature	D	There is no mandatory requirement by law for the financial statements or the budget execution report of a municipality to be audited annually. Audits are carried out by the SAO based on its work program as determined by risk assessment but also to ensure that municipalities are audited as frequently as feasible. They are submitted to the Parliament rather than the Sakrebulo.	NA	No financial statements were submitted for audit. As such, no audit reports were submitted to the legislature.	

Indicator/Dimension	2018 Score	Explanation	2022 Score	Explanation	Reason for difference
30.3 External audit follow-up	C	In line with the Article 24 of the Law of Georgia on the State Audit Office, audit recommendations for budgetary units are followed up, monitored once every six months and annually reported on by the State Audit Office. The implementation rate for Martvili is 20% over for the past three years.	NA	There were no external audit reports to follow up.	
30.4 Supreme Audit Institution (SAI) independence	A	The State Audit Office is independent from the executive with respect to procedures for appointment and removal of the Auditor General, the planning of audit engagements, arrangements for publicizing reports, and the approval and execution of the SAO's budget. The SAO has unrestricted and timely access to records, documentation and information from auditees (budgetary units). The independence of the SAO is assured by the Constitution of Georgia and the Law of Georgia on State Audit	A	The State Audit Office is independent from the executive with respect to procedures for appointment and removal of the Auditor General, the planning of audit engagements, arrangements for publicizing reports, and the approval and execution of the SAO's budget. The SAO has unrestricted and timely access to records, documentation and information from auditees (budgetary units). The independence of the SAO is assured by the Constitution of Georgia and the Law of Georgia	

Indicator/Dimension	2018 Score	Explanation	2022 Score	Explanation	Reason for difference
		Office.		on State Audit Office.	
PI-31 Legislative scrutiny of audit reports	D		NA		The scrutiny system has changed from central to local government which has impacted on the scoring methodology
31.1 Timing of audit report scrutiny	D	The Sakrebulo has not undertaken the scrutiny of audit reports.	NA	The Martvili Sakrebulo did not scrutinize any audit reports during the assessment period.	
31.2 Hearings on audit findings	D	The Sakrebulo has not undertaken the scrutiny of audit reports.	NA	There were not any audit reports to have hearings of audit findings.	
31.3 Recommendations on audit by the legislature	D	The Sakrebulo has not undertaken the scrutiny of audit reports.	NA	There were not any audit reports to make related recommendations	
31.4 Transparency of legislative scrutiny of audit reports	D	The Sakrebulo has not undertaken the scrutiny of audit reports.	NA	There were not any audit reports during the assessment period	

Annex 2: Summary of Observations on the Internal Control Framework

Internal Control Components and Elements	Summary of Observations
1. Control Environment	
1.1 The personal and professional integrity and ethical values of management and staff, including a supportive attitude toward internal control constantly throughout the organization	Legal basis for internal control is established and is implemented through the Central Harmonization Unit which promotes the establishment and development of public internal financial control systems and carries out coordination and harmonization policies and procedures. This includes developing and promoting the personal and professional integrity and ethical values of management and staff, including a supportive attitude toward internal control constantly throughout the organization.
1.2 Commitment to competence	The existence of the Central Harmonization Unit in the Ministry of Finance that also covers municipalities indicates a commitment to competence in implementing internal controls and is evidence by the positive scores in PIs 23, 25, and 26.
1.3 The ‘tone at the top’ (i.e., management’s philosophy and operating style)	There is a positive approach to implementing internal controls as evidenced by the organisational structure. This is continuously strengthened by ensuring that there is greater response to recommendations. The oversight and scrutiny of Sakrebulo with respect to Audit Reports also provides a strong leadership tone.
1.4 Organizational structure	<p>The roles of the various parties involved in the financial management control system are established in the Law on Public Internal Financial Control. The Ministry of Finance of Georgia is an authorized body which, through the Central Harmonization Unit promotes the establishment and development of public internal financial control systems and carries out coordination and harmonization policies and procedures.</p> <p>The government is taking practical steps towards the development of the management accountability and delegation of tasks in accordance with the Law. Full implementation of the requirements of this legislation and alignment with international good practices will take time. Public sector units must establish an organizational structure that enables the achievement of the objectives and compliance with the functions assigned by legislation. It must be presented in documentary form, clearly stating the rules for determining and segregating tasks, duties, and responsibilities, as well as hierarchy and appropriate reporting lines.</p>

Internal Control Components and Elements	Summary of Observations
1.5. Human resource policies and practices	A cadre of professional in internal audit and financial control is in place and follows standard public sector policies and practices.
2. Risk Assessment	
2.1 Risk identification	<p>Several PIs are related to the extent to which risks are identified, notably:</p> <p>Economic Analysis of Investment Proposals is rated C in 11.1 – Economic analyses are conducted to assess some major investment projects, but these are not published</p> <p>Macrofiscal sensitivity analysis is rated A in 14.3 in the central government PEFA. The central government prepares the scenarios of fiscal forecasts on the basis of alternative macroeconomic assumptions, and these scenarios are reflected in the published budget documentation together with forecasts.</p> <p>Revenue Risk Management is rated A in 19.2 in the central government PEFA but this is considered Not Applicable at the municipality level – Entities collecting most revenues use a comprehensive, structured and systematic approach for assessing and prioritizing compliance risks for all categories of revenue and, as a minimum for their large and medium revenue payers.</p> <p>Cash Flow Forecasting and Monitoring is rated B in 21.2 - A cash flow forecast is prepared annually for the fiscal year, broken down by quarter months and updated quarterly on the basis of actual cash inflows and outflows.</p>
2.2 Risk assessment (significance and likelihood)	See risk identification (2.1 above)
2.3 Risk evaluation	Based on the information from the Internal Audit Unit the annual audit plan has been implemented. Internal auditor submits reports to the Mayor and the head of the public entity audited (Implementation of internal audits and reporting – 26.3 rated A). However, the scope of Internal Audit Activities is not yet beyond the compliance type. (Nature of internal audits and standards applied – 26.2 rated B).
2.4 Risk appetite assessment	The development and implementation of identification and assessment of risk indicates a positive risk appetite across expenditure and revenue aspects of public financial management. This is evidenced by the selection process for Internal Audit and External Audit covering both revenue and expenditure.
2.5 Responses to risk (transfer, tolerance, treatment, or termination)	Standard public sector HR policies are in place throughout the areas of control.
3 Control Activities	
3.1 Authorization and approval procedures	Financial data integrity processes are rated A in 27.4. Access and changes to records is restricted and recorded,

Internal Control Components and Elements	Summary of Observations
	<p>and results in audit trail.</p> <p>Recording and reporting of debt and guarantees are rated C in 13.1. Domestic and foreign debt and guaranteed debt records are complete, accurate, updated, and reconciled quarterly. Comprehensive management and statistical reports covering debt service, stock, and operations are produced monthly.</p> <p>Approval of debt and guarantees is rated NA in 13.2. as it is carried out at the central government level and is scored A in the related PEFA. Primary legislation grants authorization to borrow, issue new debt, and issue loan guarantees on behalf of the subnational government to a single responsible debt management entity. Documented policies and procedures provide guidance to borrow, issue new debt and undertake debt-related transactions, issue loan guarantees, and monitor debt management transactions by a single debt management entity. Annual borrowing must be approved by the government or legislature.</p> <p>Effectiveness of expenditure commitment controls is rated A in 25.2. Commitment control applies to all payments made from the Treasury Single Account. Actual expenditures incurred are in line with approved budget allocations and does not exceed committed amounts and projected available cash resources.</p> <p>Integration of payroll and personal records is rated A in 23.1. The budgetary units maintain their respective personnel databases under the E-Treasury (payroll module) system that is managed by State Treasury. Personnel and payroll records are reconciled at least monthly before salaries are paid to staff bank accounts. Reconciliation between payroll records in E-Treasury (Payroll module) and Civil Registry database records (managed by the Ministry of Justice), takes place once an employee is appointed and registered in the system. There is a validation mechanism built into the payroll module that automatically blocks salary payments of any person that is not reflected in the personnel database of the E-Treasury System.</p> <p>Management of payroll changes is rated A in 23.2. Personal records are updated monthly in time for the month's payments. Updates are real-time and reflected in the payroll module of the E-Treasury system. In addition, retroactive changes to the existing data in the system are not allowed.</p> <p>Compliance with payroll payment rules and procedures is rated A in 23.3. Changes to the payroll records, are restricted to only authorized persons in the budgetary units in accordance with the Labor legislation. The changes are certified by an authorized person and approved by the head of the unit. In addition, for remuneration changes, these must be approved by the State Treasury. There is an audit</p>

Internal Control Components and Elements	Summary of Observations
	trail of payroll changes as supporting documentation are kept, and there are access controls for authorized persons to get into the E-Treasury system that require password and token numbers to be used. Internal and external auditors assess payroll risk as low hence integrity of payroll data is high.
3.2 Segregation of duties (authorizing, processing, recording, reviewing)	Segregation of duties is rated A in 25.1. Segregation of duties is prescribed throughout the expenditure process with responsibilities clearly laid out at different levels in the IFMIS, in accordance with Order of the Minister of Finance of 6 July 2012, on the approval instructions for the State Treasury Electronic Service System.
3.3 Controls over the access to resources and records	Compliance with payment rules and procedures is rated A in 25.3. Compliance with payment rules and procedures is very high. Financial data integrity processes are rated A in 27.4. Access and changes to records is restricted and recorded, and results in audit trail.
3.6 Verifications	Accuracy of in-year budget reports is rated B in 28.3. There are no material concerns regarding data accuracy Information on expenditure is covered at the payment stage in the e-Treasury system.
3.5 Reconciliations	Banks account reconciliations is rated A in 27.1. Bank reconciliations for all active subnational government bank accounts take place at least on monthly basis, at aggregate and detailed levels and usually within one week from the end of the month. Suspense account reconciliations is rated NA in 27.2. There are no suspense accounts.
3.7 Reviews of operating performance	Revenue audit and investigations are rated A in 19.3 in the central government PEFA and are not applicable for municipalities Entities collecting most revenue undertake audits and fraud investigations managed and reported on according to a documented compliance improvement plan and complete all planned audits and investigations.
3.7 Reviews of operations, processes and activities	Procurement monitoring is rated A in 24.1 in the central government PEFA but is considered not applicable for municipalities. Databases or records are maintained for all contracts including data on what has been procured, value of procurement, and who has been awarded contracts. The data are accurate and complete for all procurement methods for goods, services and works. All government contracts are procured through Georgian E-Government Procurement System (Ge-GP).
3.8 Supervision (assigning, reviewing, and approving, guidance and training)	The audit trail in place indicates a supervisory focus. Personnel development through mentoring and training is in place.
4. Information and Communication	The management information systems for financial and non-financial information are across central government

Internal Control Components and Elements	Summary of Observations
	<p>organizations and are fully functioning and comprehensive. All organisations are included in the Single Treasury Account. There is a monthly budget execution report that is published. The procurement information system is centralised and covers all government entities.</p>
5. Monitoring	
5.1 Ongoing monitoring	<p>The Assessment highlighted a number of areas related to ongoing monitoring activities:</p> <p>Resources received by service delivery units is rated A in 8.3. The information on the resources received by the service providers is collected and recorded in case of programs implemented by municipalities. This information is prepared at least annually.</p> <p>Contingent liabilities and other fiscal risks are rated NA in 10.3. Subnational government entities quantify the significant contingent liabilities in their financial reports.</p> <p>Investment project monitoring is rated B in 11.4. The total cost and physical progress of major investment projects is adequately monitored by the implementing municipality. Information on implementation of major investment projects is prepared annually.</p> <p>Procurement monitoring is rated NA in 24.1. Databases or records are maintained for all contracts including data on what has been procured, value of procurement, and who has been awarded contracts. The data are accurate and complete for all procurement methods for goods, services and works. All government contracts are procured through Georgian E-Government Procurement System (Ge-GP).</p> <p>Implementation of internal audits and reporting is rated A in 26.3. All of the audit plans have been implemented. Internal auditor submits their reports to the Mayor and the head of the public entity audited.</p>
5.2 Evaluations	<p>Performance evaluation for service delivery is rated D in 8.4. Investment project selection is rated C in 11.2.</p>
5.3 Management responses	<p>Response to internal audits is rated A in 26.4. Management provides a response to audit recommendations for all entities audited within twelve months of the report being produced.</p>

Annex 3: Sources of Information by Indicator

Annex 3A: List of related surveys and analytical work

No	Institution	Document Title	Date	
6	Martvili Municipality	Martvili PEFA Assessment 2018	October 2018	
7	MOF	Georgia 2022 central government PEFA Assessment	October 2022	

Annex 3B: List of People Interviewed

Tornike Janashia	Mayor
Givi Eliava	Vice Mayor
Bondo Topuria	Head of Finance and budget department
Ketevan Bachilava	Head of budget division
Nugzar Tsanava	Head of Infrastructure, urban development and architecture department
Zviad Beria	Specialist of Economic development, property management and statistics department
Tamar Tsivtsivadze	Head of HR unit
Vano Kudava	Head of Internal audit department
David Todua	Director of LEPL Martvili municipal amenities service
Irma Gabisonia	Director of LEPL Martvili Kindergartens center
Levan Surmava	Speaker of Martvili Sakrebulo
Zurab Meliava	Chair of Sakrebulo Finance and budget commission
Gocha Tsotsoria	Head of staff of Sakrebulo
Natia Gulua	Director of Budget Department MOF
Nata Mokverashvili	Head of Division, Budget Department MOF
Giorgi Kakauridze	Deputy Minister, Ministry of Finance

Annex 3C: Sources of Information by Indicator

List of Documents/Reports Consulted	
Indicator	Evidence
HLG-1: Transfers from a higher level of government	<ul style="list-style-type: none"> Data from Martvili Department of Finance
1. Aggregate expenditure outturn	<ul style="list-style-type: none"> Data from Martvili Department of Finance
2. Expenditure composition outturn	<ul style="list-style-type: none"> Data from Martvili Department of Finance
3. Revenue outturn	<ul style="list-style-type: none"> Data from Martvili Department of Finance
4. Budget classification	<ul style="list-style-type: none"> Data from Ministry of Finance
5. Budget documentation	<ul style="list-style-type: none"> https://matsne.gov.ge/document/view/5292926?publication=0 https://mof.ge/makroekonomikuri_machveneblebi
6. Subnational government operations outside financial reports	<ul style="list-style-type: none"> Information from Martvili Department of Finance
7. Transfers to subnational governments	<ul style="list-style-type: none"> NA
8. Performance information for service delivery	<ul style="list-style-type: none"> Martvili Priorities Document
9A. Public access to fiscal information	<ul style="list-style-type: none"> https://matsne.gov.ge/document/view/5292926?publication=0 https://martvili.gov.ge/?cat=103 http://Martvili.ge/ge/?page=show&sec=49 https://sao.ge/files/auditi/auditis-angarishebi/2017/martvilis-municipaliteti.pdf https://www.mof.ge/5439 https://sao.ge/en/reports?isAudit=true
9B. Public consultation	<ul style="list-style-type: none"> Discussion with Martvili Department of Finance
10. Fiscal risk reporting	<ul style="list-style-type: none"> Discussion with and information from municipality Property Management Agency
11. Public investment management	<ul style="list-style-type: none"> Discussion with and information from municipality Infrastructure Department
12. Public asset management	<ul style="list-style-type: none"> Discussion with and information from municipality Property Management Agency
13. Debt management	<ul style="list-style-type: none"> Discussion with Martvili Department of Finance Budget Code of Georgia

List of Documents/Reports Consulted	
Indicator	Evidence
14. Medium-term budget strategy	<ul style="list-style-type: none"> • Discussion with Martvili Department of Finance • Annual Budget Document • Martvili Priorities Document
17. Budget preparation process	<ul style="list-style-type: none"> • Discussions with Martvili Department of Finance • Budget Code • Martvili Priorities Document
18. Legislative scrutiny of budgets	<ul style="list-style-type: none"> • Discussions with Martvili Sakrebulo Finance and Budget Commission
19. Revenue administration	<ul style="list-style-type: none"> • NA
20. Accounting for revenue	<ul style="list-style-type: none"> • Discussion and Data from Martvili Department of Finance
21. Predictability of in-year resource allocation	<ul style="list-style-type: none"> • Discussion with Martvili Department of Finance • Data from Martvili Department of Finance • Analysis of TSA • Analysis of IFMIS modules • Supplementary Budgets
22. Expenditure arrears	<ul style="list-style-type: none"> • Data from Martvili Department of Finance. Annual financial statements
23. Payroll controls	<ul style="list-style-type: none"> • Discussion with Martvili Human Resources Department
24. Procurement management	<ul style="list-style-type: none"> • Discussion and data from the State Procurement Agency
25. Internal controls on non-salary expenditure	<ul style="list-style-type: none"> • Discussion and Data from Martvili Department of Finance
26. Internal audit	<ul style="list-style-type: none"> • Discussion and information from Internal Audit Department • 2021 Annual Report • Report on LLEP "Amenity Center" compliance audit
27. Financial data integrity	<ul style="list-style-type: none"> • Discussion and information from Martvili Department of Finance
28. In-year budget reports	<ul style="list-style-type: none"> • Monthly and quarterly budget reports Discussion and information from Martvili Department of Finance
29. Annual financial reports	<ul style="list-style-type: none"> • Budget execution reports and annual financial statement. Discussion and information from Martvili Department of Finance
30. External audit	<ul style="list-style-type: none"> • Discussion and data from State Audit Office of Georgia
31. Legislative scrutiny of audit reports	<ul style="list-style-type: none"> • Discussion with Martvili Budget and Finance Commission

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

Table #1 - Results Matrix

Year	for PI-1	for PI-2.1	for PI-2.2	for PI-2.3
	total exp. deviation	composition variance by FC	composition variance by EC	contingency share
2019	183.2%	60.5%	68.8%	0.3%
2020	130.3%	27.4%	15.3%	
2021	190.6%	78.6%	77.0%	

Table #2

(GEL 000)

2019						
Functional classification	budget	actual	adjusted budget	deviation	absolute deviation	Percent
701 General public service	2,729.5	2,642.0	5,044.2	-2,402.2	2,402.2	47.6%
702 Defense	85.8	81.4	158.6	-77.2	77.2	
703 Public order and safety	0.0	0.0	0.0	0.0	0.0	
704 Economic activity	1,075.0	5,613.3	1,986.6	3,626.6	3,626.6	182.6%
705 Environmental protection	635.2	656.1	1,173.9	-517.8	517.8	44.1%
706 Housing and utility services	482.1	1,702.3	890.9	811.3	811.3	91.1%
707 Healthcare	455.0	504.6	840.9	-336.3	336.3	40.0%
708 Recreation, culture and religion	1,095.9	1,131.4	2,025.3	-893.8	893.8	44.1%
709 Education	1,228.0	2,401.8	2,269.4	132.4	132.4	5.8%
710 Social protection	395.5	387.8	730.9	-343.1	343.1	46.9%
Sum	8,182.0	15,120.6	15,120.6	0.0	9,140.8	
Interest	108.2	106.4				
Reserve funds	40.0	35.7				
Total expenditures	8,330.2	15,262.7				

total expenditures deviation for indicator PI-1 183.2%
 composition variance for indicator PI-2.1 60.5%
 contingency share for indicator PI-2.3 0.4%

Table #3

(GEL 000)

2020						
Functional classification	budget	actual	adjusted budget	deviation	absolute deviation	percent
701 General public service	3,106.2	2,888.1	4,060.7	-1,172.5	1,172.5	28.9%
702 Defense	0.0	0.0	0.0	0.0	0.0	
703 Public order and safety	0.0	0.0	0.0	0.0	0.0	
704 Economic activity	3,868.7	6,052.8	5,057.5	995.3	995.3	19.7%
705 Environmental protection	810.2	797.5	1,059.2	-261.6	261.6	24.7%
706 Housing and utility services	400.2	1,619.0	523.2	1,095.9	1,095.9	209.5%
707 Healthcare	477.4	685.1	624.1	61.0	61.0	9.8%
708 Recreation, culture and religion	1,190.0	1,151.9	1,555.7	-403.7	403.7	26.0%
709 Education	1,688.0	2,053.5	2,206.7	-153.2	153.2	6.9%
710 Social protection	462.6	443.7	604.7	-161.1	161.1	26.6%
Sum	12,003.3	15,691.7	15,691.7	0.0	4,304.3	
Interest	100.5	104.7				
Reserve funds	40.0	23.1				
Total expenditures	12,143.8	15,819.5				

total expenditures deviation for indicator PI-1 130.3%

composition variance for indicator PI-2.1 27.4%

contingency share for indicator PI-2.3 0.2%

Table #4

(GEL 000)

2021						
Functional classification	budget	actual	adjusted budget	deviation	absolute deviation	percent
701 General public service	3,514.1	2,938.9	6,750.3	-3,811.5	3,811.5	56.5%
702 Defense	0.0	0.0	0.0	0.0	0.0	
703 Public order and safety	0.0	0.0	0.0	0.0	0.0	
704 Economic activity	610.0	6,537.4	1,171.8	5,365.6	5,365.6	457.9%
705 Environmental protection	605.0	842.8	1,162.2	-319.4	319.4	27.5%
706 Housing and utility services	375.0	2,236.5	720.3	1,516.1	1,516.1	210.5%
707 Healthcare	657.1	636.5	1,262.2	-625.7	625.7	49.6%
708 Recreation, culture and religion	1,225.1	1,344.2	2,353.3	-1,009.1	1,009.1	42.9%
709 Education	1,703.0	2,503.0	3,271.3	-768.3	768.3	23.5%
710 Social protection	431.0	480.2	827.9	-347.7	347.7	42.0%
Sum	9,120.3	17,519.4	17,519.4	0	13,763.5	
Interest	85.0	86.2				
Reserve funds	40.0	20.1				
Total expenditures	9,245.3	17,625.7				

total expenditures deviation for indicator PI-1 190.6%

composition variance for indicator PI-2.1 78.6%

contingency share for indicator PI-2.3 0.2%

Table #5

(GEL 000)

2019						
Economic head	budget	actual	adjusted budget	deviation	absolute deviation	Percent
Labor remuneration	2,173.2	2,166.8	3,981.8	-1,814.9	1,814.9	45.6%
Goods and services	737.7	1,346.6	1,351.6	-5.0	5.0	0.4%
Interest	108.2	106.4	198.2	-91.9	91.9	46.4%
Subsidies	2,978.9	2,856.1	5,458.0	-2,601.9	2,601.9	47.7%
Grants	0.0	30.0	0.0	30.0	30.0	0
Social security	674.5	707.9	1,235.8	-527.9	527.9	42.7%
Other expenses	215.6	188.1	395.0	-206.9	206.9	52.4%
Increase in non-financial assets	1,442.1	7,860.8	2,642.2	5,218.5	5,218.5	197.5%
Total expenditures	8,330.2	15,262.7	15,262.7	0.0	10,497.0	

composition variance for indicator PI-2.2 68.8%

Table #6

(GEL 000)

2020						
Economic head	budget	actual	adjusted budget	deviation	absolute deviation	percent
Labor remuneration	2,280.4	2,148.1	2,970.6	-822.6	822.6	27.7%
Goods and services	825.3	994.7	1,075.1	-80.4	80.4	7.5%
Interest	100.5	104.7	130.9	-26.2	26.2	20.0%
Subsidies	3,235.0	2,982.3	4,214.2	-1,231.9	1,231.9	29.2%
Grants	34.2	3.9	44.6	-40.6	40.6	91.2%
Social security	757.7	926.8	987.0	-60.3	60.3	6.1%
Other expenses	289.6	405.1	377.3	27.8	27.8	7.4%
Increase in non-financial assets	4,621.1	8,254.0	6,019.8	2,234.1	2,234.1	37.1%
Total expenditures	12,143.8	15,819.5	15,819.5	0.0	4,523.9	

composition variance for indicator PI-2.2 28.6%

Table #7

(GEL 000)

2021						
Economic head	budget	actual	adjusted budget	deviation	absolute deviation	percent
Labor remuneration	2,280.6	2,138.9	4,347.9	-2,209.0	2,209.0	50.8%
Goods and services	844.0	1,455.3	1,609.0	-153.7	153.7	9.6%
Interest	85.0	86.2	162.0	-75.9	75.9	46.8%
Subsidies	3,448.1	3,434.2	6,573.6	-3,139.4	3,139.4	47.8%
Grants	0.0	30.0	0.0	30.0	30.0	0
Social security	870.8	877.7	1,660.1	-782.4	782.4	47.1%
Other expenses	390.3	315.4	744.1	-428.7	428.7	57.6%
Increase in non-financial assets	1,326.5	9,288.0	2,528.9	6,759.1	6,759.1	267.3%
Total expenditures	9,245.3	17,625.7	17,625.7	0.0	13,578.1	

composition variance for indicator PI-2.2 77.0%

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

Table #8 - Results Matrix

year	for PI-3.1	for PI-3.2
	total revenue deviation	composition variance
2019	122.3%	59.5%
2020	124.2%	63.8%
2021	112.6%	22.9%

Table #9

(GEL 000)

Data for year 2019						
classification head	budget	actual	adjusted budget	deviation	absolute deviation	percent
Tax revenues	200.0	466.6	244.6			
Taxes on property	200.0	466.6	244.6	222.0	222.0	90.8%
Taxes on goods and services			0.0	0.0	0.0	
Other revenues	475.0	359.0	581.0			
Property income	350.0	182.3	428.1	-245.8	245.8	57.4%
Sales of goods and services	35.0	44.3	42.8	1.5	1.5	3.5%
Fines, penalties and forfeits	80.0	109.5	97.9	11.6	11.6	11.9%
Transfers not elsewhere classified	10.0	22.9	12.2	10.6	10.6	87.0%
Total revenue	675.0	825.6	825.6	-	491.5	

overall variance for indicator PI-3.1 122.3%
 composition variance for indicator PI-3.2 59.5%

Table #10

(GEL 000)

Data for year 2020						
classification head	budget	actual	adjusted budget	deviation	absolute deviation	percent
Tax revenues	300.0	471.0	372.7			
Taxes on property	300.0	471.0	372.7	98.2	98.2	26.4%
Taxes on goods and services			0.0	0.0	0.0	
Other revenues	507.7	532.5	630.8			
Property income	300.0	149.7	372.7	-223.1	223.1	59.9%
Sales of goods and services	67.7	243.6	84.1	159.5	159.5	189.6%
Fines, penalties and forfeits	130.0	64.7	161.5	-96.9	96.9	60.0%
Transfers not elsewhere classified	10.0	74.6	12.4	62.2	62.2	500.7%
Total revenue	807.7	1,003.5	1,003.5	0.0	639.9	

overall variance for indicator PI-3.1 124.2%
 composition variance for indicator PI-3.2 63.8%

Table #11

(GEL 000)

Data for year 2021						
classification head	Budget	actual	adjusted budget	deviation	absolute deviation	percent
Tax revenues	400.0	500.4	450.2			
Taxes on property	400.0	500.4	450.2	50.2	50.2	11.1%
Taxes on goods and services			0.0	0.0	0.0	
Other revenues	520.0	535.1	585.3			
Property income	270.0	316.9	303.9	13.0	13.0	4.3%
Sales of goods and services	140.0	38.8	157.6	-118.8	118.8	75.4%
Fines, penalties and forfeits	100.0	123.1	112.6	10.5	10.5	9.3%
Transfers not elsewhere classified	10.0	56.4	11.3	45.1	45.1	400.9%
Total revenue	920.0	1,035.5	1,035.5	-	237.6	

overall variance for indicator PI-3.1 112.6%

Table #12 - Results Matrix

Year	for HLG-1.1	for HLG-1.2
	total exp. deviation	composition variance by FC
2019	189.5%	88.9%
2020	137.0%	44.8%
2021	207.1%	90.1%

Table #13

(GEL 000)

2019						
Functional classification	budget	actual	adjusted budget	deviation	absolute deviation	percent
701 General public service			0.0	0.0	0.0	0
702 Defense	67.7	67.7	128.3	-60.6	60.6	47.2%
703 Public order and safety			0.0	0.0	0.0	0!
704 Economic activity		4,171.1	0.0	4,171.1	4,171.1	0
705 Environmental protection			0.0	0.0	0.0	0
706 Housing and utility services		1,080.8	0.0	1,080.8	1,080.8	0
707 Healthcare	85.0	84.9	161.1	-76.2	76.2	47.3%
708 Recreation, culture and religion			0.0	0.0	0.0	0
709 Education		1,217.6	0.0	1,217.6	1,217.6	0
710 Social protection	2.3	2.3	4.4	-2.1	2.1	47.2%
non earmarked transfers	7,526.0	7,933.4	14,264.0	-6,330.6	6,330.6	44.4%
Sum of transfers	7,681.0	14,557.8	14,557.8	-	12,939.0	

total expenditures deviation for indicator HLG-1.1 189.5%

composition variance for indicator HLG-1.2 88.9%

Table #14

(GEL 000)

2020						
Functional classification	budget	actual	adjusted budget	deviation	absolute deviation	percent
701 General public service			0.0	0.0	0.0	0
702 Defense	64.0	64.0	87.7	-23.7	23.7	27.0%
703 Public order and safety			0.0	0.0	0.0	0
704 Economic activity	2,644.8	5,263.5	3,622.1	1,641.3	1,641.3	45.3%
705 Environmental protection			0.0	0.0	0.0	0
706 Housing and utility services		1,125.6	0.0	1,125.6	1,125.6	0
707 Healthcare	90.0	89.0	123.3	-34.3	34.3	27.8%
708 Recreation, culture and religion			0.0	0.0	0.0	0
709 Education		644.5	0.0	644.5	644.5	0
710 Social protection	1.0		1.4	-1.4	1.4	100.0%
non earmarked transfers	8,311.7	8,031.1	11,383.3	-3,352.2	3,352.2	29.4%
Sum of transfers	11,111.5	15,217.7	15,217.7	-	6,823.0	

total expenditures deviation for indicator HLG-1.1 137.0%

composition variance for indicator HLG-1.2 44.8%

Table #15

(GEL 000)

2021						
Functional classification	budget	actual	adjusted budget	deviation	absolute deviation	percent
701 General public service			0.0	0.0	0.0	0
702 Defense	71.9	71.9	148.9	-77.0	77.0	51.7%
703 Public order and safety			0.0	0.0	0.0	0
704 Economic activity		5,420.0	0.0	5,420.0	5,420.0	0
705 Environmental protection			0.0	0.0	0.0	0
706 Housing and utility services		1,593.1	0.0	1,593.1	1,593.1	0
707 Healthcare	83.1	83.0	172.1	-89.1	89.1	51.8%
708 Recreation, culture and religion			0.0	0.0	0.0	0
709 Education		795.9	0.0	795.9	795.9	0
710 Social protection			0.0	0.0	0.0	0
non earmarked transfers	8,215.3	9,373.4	17,016.3	-7,642.8	7,642.8	44.9%
Sum of transfers	8,370.3	17,337.3	17,337.3	-	15,617.9	

total expenditures deviation for indicator HLG-1.1 207.1%

composition variance for indicator HLG-1.2 90.1%

Table #16

(GEL 000)

Data for year 2019										
Transfer	budget	actual	QI budget	QI actual	QII budget	QII actual	QIII budget	QIII actual	QIV budget	QIV actual
Sum of transfers	7,681.0	14,557.8	2,533.8	2,996.3	2,329.0	3,379.6	1,525.6	3,817.3	1,292.6	4,364.5
Target transfer for delegated competence	155.0	793.0	43.1	697.8	39.8	38.7	39.7	17.6	32.4	38.9
Target transfer for capital projects	0.0	5,801.5	0.0	637.9	0.0	1,523.0	0.0	1,477.8	0.0	2,162.7
Non earmarked transfers	7,526.0	7,963.3	2,490.7	1,660.6	2,289.2	1,817.9	1,485.9	2,322.0	1,260.2	2,162.9
Total performance %		189.5%		118.3%		145.1%		250.2%		337.7%
Target transfer for delegated competence performance %		511.6%		1619.1%		97.2%		44.2%		120.1%
Target transfer for capital projects performance %										
Special transfer performance %										
Non earmarked transfers performance %		105.8%		66.7%		79.4%		156.3%		171.6%

Table #17

(GEL 000)

Data for year 2020										
Transfer	budget	actual	QI budget	QI actual	QII budget	QII actual	QIII budget	QIII actual	QIV budget	QIV actual
Sum of transfers	11,111.4	15,217.7	4,276.8	2,768.8	3,571.5	2,056.5	1,902.6	3,903.2	1,360.5	6,489.3
Target transfer for delegated competence	155.0	451.5	43.1	214.2	39.8	38.7	39.7	38.7	32.4	160.0
Target transfer for capital projects	2,644.7	7,060.4	1,644.7	692.2	1,000.0	655.0	0.0	1,804.1	0.0	3,909.0
Special transfer	0.0	300.0								300.0
Non earmarked transfers	8,311.7	7,405.8	2,589.0	1,862.4	2,531.7	1,362.8	1,862.9	2,060.4	1,328.1	2,120.3
Total performance %		137.0%		64.7%		57.6%		205.2%		477.0%
Target transfer for delegated competence performance %		291.3%		496.9%		97.2%		97.5%		493.7%
Target transfer for capital projects performance %		267.0%		42.1%		65.5%				
Special transfer performance %										
Non earmarked transfers performance %		89.1%		71.9%		53.8%		110.6%		159.7%

Table #18

(GEL 000)

Data for year 2021										
Transfer	budget	actual	QI budget	QI actual	QII budget	QII actual	QIII budget	QIII actual	QIV budget	QIV actual
Sum of transfers	8,370.3	17,337.3	2,566.6	3,316.2	2,841.2	4,214.3	1,539.5	4,904.0	1,423.0	4,902.8
Target transfer for delegated competence	155.0	676.4	41.9	215.2	41.9	246.7	41.9	38.7	29.3	175.7
Target transfer for capital projects	0.0	7,387.5	0.0	1,255.5	0.0	1,700.1	0.0	2,336.9	0.0	2,094.9
Special transfer	0.0	0.0								
Non earmarked transfers	8,215.3	9,273.4	2,524.7	1,845.4	2,799.3	2,267.5	1,497.6	2,528.4	1,393.7	2,632.2
Total performance %		207.1%		129.2%		148.3%		318.5%		344.6%
Target transfer for delegated competence performance %		436.4%		513.6%		588.8%		92.4%		599.8%
Target transfer for capital projects performance %										
Special transfer performance %										
Non earmarked transfers performance %		112.9%		73.1%		81.0%		168.8%		188.9%

