



REPUBLIKA E SHQIPËRIE  
MINISTRIA E FINANCËVE  
DHE EKONOMISË

# ANNUAL BUDGET EXECUTION AND MONITORING

## TRAINING MANUAL FOR LOCAL GOVERNMENT OFFICIALS

4

 Schweizerische Eidgenossenschaft  
Confédération suisse  
Confederazione Svizzera  
Confederaziun svizra  
Swiss Agency for Development  
and Cooperation SDC

 **dl dp**  
decentralisation and local  
development programme

 **HELVETAS**  
ALBANIA

OCTOBER 2018



# **ANNUAL BUDGET EXECUTION AND MONITORING**

## **TRAINING MANUAL FOR LOCAL GOVERNMENT OFFICIALS**

**October 2018**

*Published by Decentralization and Local Development Program (dldp), financed by the Swiss Government through the Swiss Agency for Development and Cooperation (SDC), implemented by Helvetas Swiss Intercooperation.*

Prepared by:

PhD. Merita Toska & Anila Gjika  
Co - PLAN, Institute for Habitat Development

Supported by:

Prof. Stefan Pfaeffli, PhD.Valbona Karakaçi and Elvin Hoxha  
Lucerne University of Applied Sciences and Arts together with  
Decentralization and Local Development Programme

*This publication reflects only the views of its authors and not necessarily those of the SDC.*

Published by:

Decentralization and Local Development Programme (DLDP)  
Helvetas Swiss Intercooperation Albania, October 2018

Address: Str. “Ibrahim Rugova”, PLUS Building, 2nd Floor / No. 3. Tirana | Albania

[www.dldp.al](http://www.dldp.al)

Table of contents

<b>Abbreviations</b> .....	<b>4</b>
<b>List of Figures</b> .....	<b>5</b>
<b>List of Examples</b> .....	<b>5</b>
<b>Glossary</b> .....	<b>6</b>
<b>PREFACE</b> .....	<b>11</b>
<b>1. BUDGET EXECUTION</b> .....	<b>13</b>
<b>1.1 Introduction to annual budget execution</b> .....	<b>13</b>
<b>1.2 From preparation to execution</b> .....	<b>16</b>
<b>1.3 Legal framework for budget execution in Albania</b> .....	<b>16</b>
<b>1.4 Budget Execution System</b> .....	<b>21</b>
1.4.1 Budget authorization and apportionment.....	22
1.4.2 Commitments and liquidity management .....	24
1.4.3 Revenues .....	25
1.4.4 Expenditures .....	34
1.4.5 Procurement plan .....	47
<b>1.5 Accounting and financial reporting</b> .....	<b>50</b>
<b>2. BUDGET EXECUTION MONITORING AND AUDIT</b> .....	<b>65</b>
<b>2.1 Introduction</b> .....	<b>65</b>
<b>2.2 Legal framework for budget execution monitoring</b> .....	<b>66</b>
<b>2.3 Monitoring the annual budget execution</b> .....	<b>67</b>
<b>2.4 Audit</b> .....	<b>69</b>
2.4.1 Internal audit .....	70
2.4.2 External audit .....	71
<b>2.5 Inclusiveness in budget execution monitoring</b> .....	<b>72</b>
<b>2.6 Useful indicators of budget execution monitoring</b> .....	<b>73</b>
<b>Exercise 2: Budget execution monitoring</b> .....	<b>74</b>
<b>Bibliography</b> .....	<b>75</b>

## Abbreviations

AB	Annual Budget
ABEM	Annual Budget Execution and Monitoring
AC	Anonymous Company
BRF	Budget Request Form
CIP	Capital Investment Plan
DCM	Decision of the Council of Ministers
FPT	Financial Planning Tool
GLP	General Local Plan
LGU	Local Government Unit
MTBP	Medium Term Budget Program
MoFE	Ministry of Finance and Economy
PMT	Program Management Team
PFM	Public Finance Management
PPA	Public Procurement Agency
SDP	Strategic Development Plan
SMG	Strategic Management Group
TDS	Territorial Development Strategy
UT	Unconditional Transfer

## List of Figures

Figure 1. General framework of the budgeting process.....	15
Figure2.Overview of important stages of budget execution.....	22

## List of Examples

<b>Example 1.</b> Specific transfers and the number of employees of the local government units for the functions transferred from central government.....	30
<b>Example 2.</b> Format of invoice.....	33
<b>Example 3.</b> Example of expenditure order format.....	37
<b>Example 3.</b> Monthly expenditures reporting format.....	41
<b>Example 5.</b> Personnel expenditure reporting format.....	41
<b>Example 6.</b> Report of the wages fund and number of local government employees.....	43
<b>Example 7.</b> Periodic reporting of arrears.....	46
Example 8. Balance sheet – assets 2014 Municipality Bora.....	51
<b>Example 9.</b> Balance sheet – liabilities 2014 Municipality Bora.....	53
<b>Example 11.</b> Financial statement – revenues 2014, Municipality Bora.....	56
<b>Example 12. Financial statement – revenues and investments 2014, Bora Municipality</b> .....	58
<b>Example 13.</b> Financial statement: cash situation 2014, Municipality Bora.....	60
<b>Example 14.</b> Financial statement – assets and inventory changes 2014, Municipality Bora .	61
<b>Example 15.</b> Financial statement – depreciation plan 2014, Municipality Bora.....	61
<b>Example 16.</b> Financial statement – fund movement 2014, Municipality Bora.....	62
<b>Example 17.</b> Financial statement – number of employees and personnel costs 2014, Municipality Bora.....	63

## Glossary

Accounting system	Accounting system is a system for defining, recognizing, measuring, classifying and presenting financial data concerning the activities of a public entity.
Approved fund	Approved fund is the maximum limit approved by the annual budget law or by decision of decision-making bodies of local government units, within which general government units have the right to make expenditure.
Authorizing officer	An ‘authorizing officer’ is an officer of senior management of the public unit responsible for the implementation of financial management and control, in all the structures, programs, activities and processes managed by this officer.
Budget	“Budget” means the entirety of revenues, receipts and expenditures of local self-government units, approved by the council of the local self-government unit.
Budget classification	Budget classifications are approved by the Minister of Finance in accordance with international standards. Budget classifications include, at a minimum: a) administrative classification, representing the classification of general government units up to spending unit level; b) economic classification, representing the classification of transactions by economic nature; c) functional classification, representing a detailed classification in accordance with economic and social functions or objectives that general government units aim to meet / reach; d) classification by program, representing programs, subprograms and projects in accordance with objectives of general government units; e) classification according to financing resources.
Budget commitment	Budget commitment refers to the assumption of financial liabilities, in writing, by entering into a contractual relationship.
Cash plan	Cash plan is the forecast of revenues and expenditures of cash of general government units.
Contingency fund	The <i>contingency fund</i> is used to cope with the effects of unrealized income.
Contingent liability	Contingent liability is the obligation that may arise to general government units in relation to third parties in the future, as a result of potential risks associated with direct or indirect events or initiatives of previous years.
Conditional transfers	Conditional transfers are granted for: a) delegated functions to the local self-government units; b) special projects that serve the national or the regional interest, and require the cooperation with the central government. The annual funds, that are distributed in the form of conditional transfers, must be planned beforehand in the central government’s Medium-Term Budget Program (MTBP). The criteria and the procedures for the distribution of these funds are specified together with the annual budget law.

Current own source revenues	<i>Current own source revenues</i> include the revenues from the so-called “current” taxes and fees: with the exemption of the temporary taxes, revenues from selling local assets (with a lifespan longer than 1 year), and donations.
Debt	Debt is the sum of loans obtained in the banking, financial market and from third parties, natural persons, legal persons or individuals, on conditional return, with or without interest, to finance specific projects of investment, temporary lack of liquidity and fiscal budget deficit.
Distribution fund	Distribution fund is the fund approved according to the budget classification and made available to the general government unit.
Detailed fund	Detailed fund is the fund distributed according to the budget classification, detailed at the spending unit level.
Economical use	Economical use is the use of a given quantity and quality of inputs in a given time and with the lowest cost.
Effectiveness	Effectiveness is the degree with which a product contributes to the achievement of policy objectives or goals of budgetary policy.
Efficiency	Efficiency is the link between the products of a program and financial and human resources used.
The ceiling of the medium-term budget program	The ceiling of the medium-term budget program is the upper limit of expenditure within which general government units prepare budget requests of this program.
Expenditure	“Expenditure” is the reduction of net assets, which results from with capital or current payments, irrevocable, with or without liability return.
Executing officer	“Executing Officer” is an officer of management level of the unit, who is responsible for implementing the rules related to the financial management, accounting and the preparation of the financial statements in the unit and reports to the authorizing officer of the unit.
Financial and control management	Financial and control management is a set of policies, procedures, activities, and controls, through which the financial resources are planned, directed, and controlled to allow and influence the provision of effective and efficient public services.
Government Financial Information System	Government Financial Information System (GFIS) is the financial system, through which the government of the Republic of Albania fulfills all the procedures regarding the execution and financial reporting of the State’s budget.
Grant	Grant is the income derived in the form of donation for a definite purpose or not, without any return condition and without interest, which is used to finance economic activities.
Internal audit	Internal audit is an independent activity within the general government unit, which ensures the authorizing officers, in a reasonable way, for the effective use of funds and the improvement of performance of functions of these units.
Income	Income is the increase in net assets, which ends with capital or current receipts, with or without liability return.

Local budget	<i>Local budget</i> includes all revenue, expenditure and financing of the local government unit. In addition, the local budget comprises a reserve and an unallocated contingency fund, which is approved by the local government council in its annual budget review, up to 3% of the total value of the approved funds, save conditional transfers. The local budget should be balanced, except in cases when loans are taken out to finance capital expenditures, which ought to serve to a specific function of local government. The fiscal year, for all levels of government, starts on the 1 <sup>st</sup> of January and ends on the 31 <sup>st</sup> of December of each year.
Local self-government units	<i>Local self-government units</i> are the municipalities and regions, as defined by the Constitution and the Local Self-Government law. In this training curriculum, the term “LGU” will refer to all the 61 municipalities in the Republic of Albania.
Local self-government unit’s council	<i>Local self-government unit’s councils</i> are the representative bodies of municipalities and regions, as defined by the Constitution and the Local Self-Government law
Local taxes	The <i>local tax</i> is a mandatory and non-refundable payment in the budget of local self-government units, regulated by law and paid by every person that exercises a public right or benefits from a public service in the territory of the local self-government unit.
Local fees	Local self-government units may impose fees for a service provided, or a right given to individuals, physical and/or juridical persons. The fee should be fixed at such a level that service costs are covered. Local self-government units may impose fees only for those services, whose consumption or benefit is in principle measurable and attributable to users or beneficiaries; at the same time, service access and service quality should be guaranteed at affordable costs from everyone.
Local fees for administrative services	The local self-government unit council may charge fees for the production of official documents from the local self-government unit. If the allowable level of these fees is not specified in other legislation, then these fees must reflect the actual costs of the service for which they are being paid.
Local borrowing	Local self-government units have the right to borrow in the short and long term, in accordance with the legislation governing the budget management system, local borrowing, and local finances. The Ministry of Finance can request an external and independent audit on behalf of the local self-government unit before approving a long-term loan.
Long-term local debt	Long-term local debt is a debt in national or foreign currency of the local government unit, to be repaid over a period of time equal to or longer than one year.
Medium term budget program	Medium term budget program (MTBP) refers to the three-year planning of local expenditures, directly connecting budgetary

	programs with activities, products, objectives and purposes of the budgetary policies.
Own source revenues	<i>Own-source revenues</i> are all types of revenues generated and administered at the local level, under the authority of the local self-government units, following the applicable legislation. Local self-government units collect revenues from (i) local taxes, (ii) fees, (iii) assets and various economic activities, and (iv) donations.
Program budget	“Program budget” is a set of activities of the general government unit, which are administered effectively and contribute together in the production of identifiable and measurable products, that help directly or indirectly in achieving the objectives and goals of budgetary policy thereof.
Public internal financial control	Public Internal Financial Control is the overall internal control system performed by public units aiming to ensure that the financial management and control of the public units comply with the relevant legislation, budget requests, and the principles of sound financial management with transparency, efficiency, effectiveness, and economy. Public Internal Financial Control comprises all activities aiming control of revenues, expenditures, activities and, liabilities of public units. It also includes central harmonization and coordination of financial management and control as well as the internal audit.
Reserve fund	The <i>reserve</i> fund is a fund created to finance non-permanent and contingent expenditures in the budget preparation stage. This fund may be used with the approval of the local government unit’s council.
Revenues from assets and economic activities	Local Governments may raise revenues from the rental or lease of locally-owned assets as prescribed by the applicable legislation. Revenues from the rental of municipal properties are considered current revenue and may be spent on any authorized expenditure in the budget. Revenue from the economic activity of local self-government units, as well as dividends pertaining to the local self-government unit from publicly owned but commercially run enterprises, with the exception of revenues from the waste collection and disposal and water supply, are transferred to the general budget of the local self-government unit.
Revenues from shared taxes	Shared taxes are national taxes, whose revenues are divided, fully or partly, with the central government, according to the relevant legislation. The following national taxes are shared with local self-government units: a) 97% of revenues from the property transfer tax imposed on individuals and natural persons and legal entities; b) 25% of revenues from the used vehicle circulation tax; c) 5% of revenues from the mineral rent as sanctioned in the law “On National Taxes”; d) 2% of the yield of the Personal Income Tax.
Revenues from intergovernmental and other transfers	Local self-government units receive from the central government: (i) unconditional transfers, (ii) conditional transfers, and (iii) revenues generated from the shared taxes. Local self-government units have full

	autonomy in using the unconditional transfer and revenues from shared taxes, while the conditional transfer is used for the purpose and in the manner determined by the entity that gives the transfer.
Specific transfers	Specific transfers provide local self-government units with funding for: a) financing new functions transferred to local self-government units for a transitory period until the determination of an equivalent and stable funding scheme; b) financing services in cases of emergencies or similar situations which present a national interest and require the cooperation with local self-government units. Local self-government units may carry over to the next year's budget the unspent resources from specific transfers.
Spending unit	Spending unit is the smallest organizational unit of general government units, for whom budget funds are detailed.
Sum authorized for expenditure	Sum authorized for expenditure is the periodic maximum limit of expenditure at the spending unit level.
Treasury system	"Treasury System" is a set of rules and procedures, as well as the relevant organizational structure in charge of budget execution, cash management, accounting and financial reporting of the general government. Treasury system includes the Treasury Directory at the Ministry of Finance and Treasury district branches.
Total revenues	<i>Total revenues</i> are the sum of the revenues collected from all sources: own-source revenues, revenues from intergovernmental transfers, and revenues from the interest income of the local loans.
Utility fees	Local self-government units propose or approve fees for solid waste collection and disposal, and for water supply and sewage treatment. The fees for local utility services shall be fixed at a cost recovery level; the fee amount shall be directly proportional to the consumption by individuals, physical and/or juridical persons. The regulations that determine the fee level are prescribed by the council of the local self-government unit. The authorities of the central government in charge of the national policy for these functions, may recommend more detailed guidelines for the determination of fees.
Unconditional transfers	The unconditional transfer from the state budget is given to local self-government units to finance their functions and competencies as defined by law together with their own revenues. The annual size of the unconditional grant to be allocated to local self-government units shall be no less than 1% of the Gross Domestic Product, as projected in the Report on Macroeconomic Forecasts and Estimations adopted by the Council of Ministers, following article 23 of the law no. 9936/2008 "On management of budgetary system in the Republic of Albania," as amended. In every case the size of the unconditional transfer cannot be smaller than the sum allocated the previous budget year.

## PREFACE

The manual on Annual Budget Execution and Monitoring (ABEM) for Local Government Officials is part of a series of training modules designed to respond to training needs of local government officials on public financial management practices. It is the result of intensive efforts of several authors coming from different backgrounds. This manual together with the manual on “*Annual Budget Preparation (ABP)*” and “*Strategic Development Planning and Performance Based Budgeting in the Medium-Term (SDPeMTBP)*” is based on an initiative undertaken by HELVETAS Swiss InterCooperation in Albania, under the Decentralization and Local Development Program (dldp). The preparation of the document has benefited from the consultations with various institutions, particularly with the Ministry of Finance, the Minister of State for Local Issues (up to the first part of 2017), and local government officials. The manual was designed and prepared by the staff of Co-PLAN and dldp, who benefited substantially from the international experience and technical expertise of Prof. Stefan Pfaeffli from the Lucerne University of Applied Sciences and Arts. The elaboration and publication of the training curriculum were made possible thanks to the financial support of SDC, the Swiss Agency for Development and Cooperation.

Aiming to provide a general theoretical framework and a practical guide on public financial management (PFM) in Albania, it is proposed the organization of five training modules based on five training manuals, specifically:

Training Module I	Manual “Strategic and Financial Medium – Long Term Planning”;
Training Module II	Manual “Strategic Development Planning and Performance Based Budgeting in the Medium Term”;
Training Module III	Manual “Annual Budget Preparation”;
Training Module IV	Manual “Annual Budget Execution and Monitoring”;
Training Module V	Manual “Financial Planning Tool”.

For each of the training modules, participants will be equipped with all the respective training materials which include: training manual, presentations and exercises planned to be carried out during the trainings.

This publication is part of an enduring support intervention, as the first report, prepared by Gjika, Kokona, & Mihali on the subject goes back to 2012. During the conceptual and the design phase, the authors conducted extensive research in the field of Public Finance Management (PFM) and consulted several renowned experts. The current version of the Manual on ABEM has been updated to the latest changes of the legal framework, strategic documents, and guidelines of the Ministry of Finance and Economy of Albania. The training

program also delineates and analyzes the changes of the legal framework on local self-governance and of the legal framework on local self-government finances.

From a methodological standpoint, the training modules are designed to be interactive, i.e. the trainees are supposed to participate actively. This implies that the training alternates between theoretical sessions held by lecturers and problem-solving sessions, which require group work, presentations, and discussions. At the end of the training, the participants demonstrate their new skills by solving the assigned case studies. The case studies reflect specific situations identified either by the authors of the training curriculum or by the local officials. It is expected that for each training day, the participants of the trainings dedicate at least two to three days of extra work to prepare and complete the given cases.

The trainings as per the manuals of: *“Strategic Development Planning and Performance Based Budgeting in the Medium Term”*, *“Annual Budget Preparation”* and *“Annual Budget Execution and Monitoring”* are prepared in particular for officials of local governments, who deal with taxation issues, fiscal policy design, budget drafting, and for the heads of various programs, for interested members of the local council (e.g. economic committee), and for all the other interested officials of the local governance units.

## 1. BUDGET EXECUTION

### *Objectives:*

Participants in the training:

- are enabled to carry out core processes of budget execution correctly;
- are familiar with good budget execution practices as required by the applicable legislation;
- are aware of the roles of each actor in the annual budget execution process.

Participants are encouraged to play an active role in the course especially during group work and in discussions on innovative budgeting practices.

### *Content:*

- 1.1 Introduction to budget execution
- 1.2 From preparation to execution
- 1.3 Legal framework for budget execution in Albania
- 1.4 Budget execution system
  - 1.4.1 Budget authorization and apportionment
  - 1.4.2 Liquidity commitment and management
  - 1.4.3 Revenues
  - 1.4.4 Expenditures
  - 1.4.5 Procurement plan
- 1.5 Accounting and financial reporting

Exercise 1: Budget execution practices

### **1.1 Introduction to annual budget execution**

The local budget is the most important tool to manage the local finances; it connects local policies and their priorities with the given financial possibilities. After the dissemination of the first two publications, “Strategic Development Planning and Performance Based Budgeting in the Medium Term” and “Annual Budget Preparation”, the training manual on “Annual Budget Execution and Monitoring” aims to identify and describe the final steps of the Public Finance Management cycle for all local government units. The annual budget is directly connected with the medium-term planning, as it represents the first year of the MTBP.

Budget execution refers to the phase when resources are used to implement the policies and priorities that are identified in the strategic documents. However, the meticulous preparation of the budget is the starting point for a successful execution of the annual budget. During the execution phase, four issues must be addressed: (i) we must ensure that the budget will be

executed in full accordance with the given guidelines in the approved budget and in accordance with the pertaining legislation; (ii) the budget execution must be flexible and respond to substantial macro and micro changes; (iii) there must be a problem-solving attitude during the execution; (iv) the resources must be used efficiently (Allen & Tommasi, 2001).

The PFM training program for the local officials is split into two parts: the first part is dedicated to “Annual Budget Preparation” (ABP); and the second part on “Annual Budget Execution and Monitoring” (ABEM). These documents aim to acquaint local government staff and authorities with the effective methods and applications of local financial management necessary to plan, spend, and monitor the local finances in the short term. Further details on the objectives of the training program are listed below.

1. Update and improve the public financial management practices in the municipal context;
2. Provide detailed indications with regard to main components of public financial management: preparation, execution and monitoring of budgets
3. Understand the roles and responsibilities of the local council and of other stakeholders during this process
4. Involve local actors in the budget preparation, execution and evaluation process  
Dissemination and sharing of good experience gained with other local government units.

The law no. 9936/2008, “*On management of budgetary system in the Republic of Albania,*” as amended<sup>1</sup>, is the basic law on the management of the budgetary system in the Republic of Albania. This law applies to all levels of government and determines the basic rules for the preparation, examination, and execution of the budget. It is the basis of the legal framework that regulates budget execution and revision, borrowing, controlling, accounting, reporting, inspection, and auditing. In addition, the law no. 10296/2010 “*On financial management and control,*” as amended, delineates the principles, rules, procedures, the administrative structures, and techniques for the public financial management including control, and the managerial responsibilities regarding budget’s planning, execution, controlling, and reporting, in order to satisfy the three main principles of public finance management:

- Maintaining fiscal discipline;
- Distributing resources in accordance with the government’s priorities;
- Ensuring efficient supply of public services.

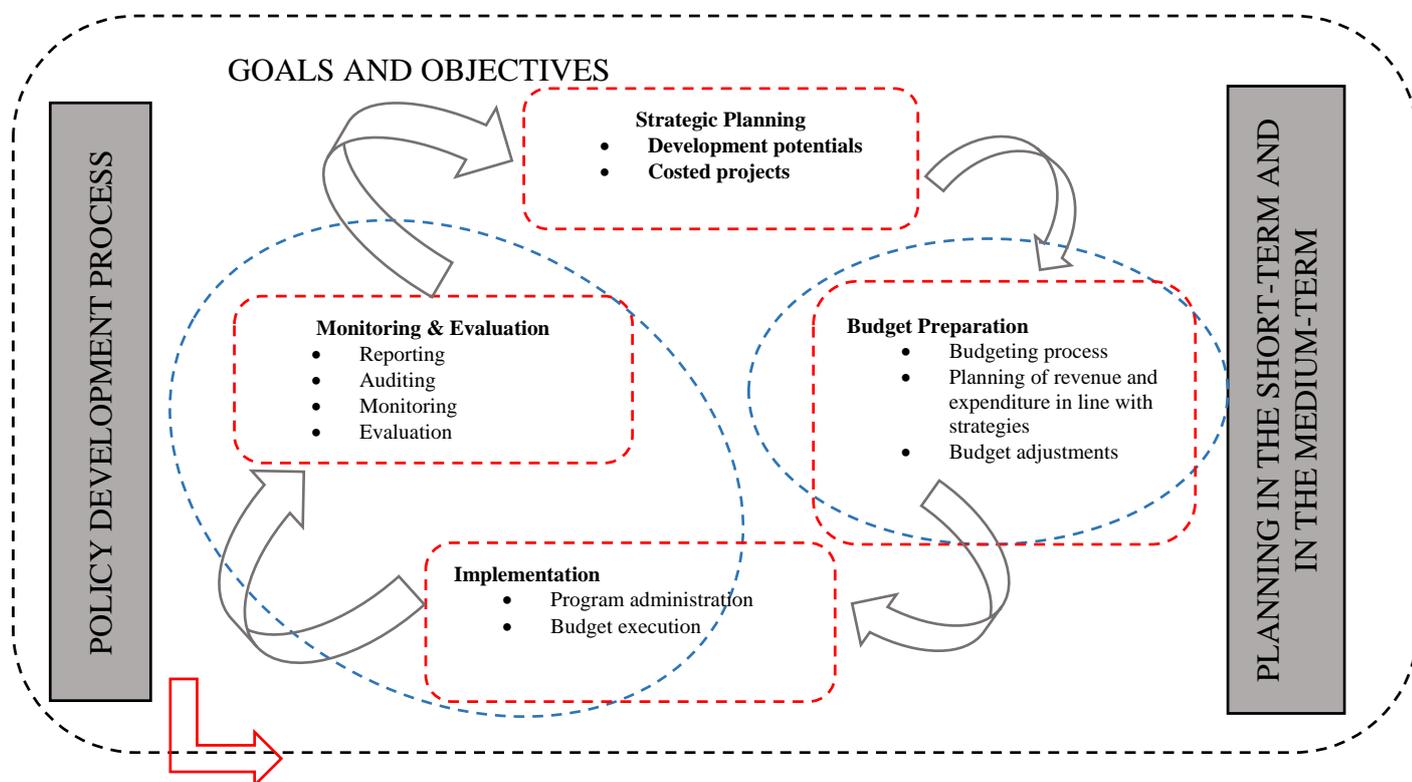
The three main PFM principles are fundamental also for the PFM training. We divided this training module into two main PFM components: (i) budget execution, and (ii) budget monitoring and evaluation. The process of budget execution and monitoring was summarized

---

<sup>1</sup>Amended by the law no. 114/2012, approved on 7.12.2012; and by the law no. 57/2016, approved on 2.6.2016.

in the manual of ABEM while, the budget preparation process is broadly treated in the ABP manual.

**Figure 1.** General framework of the budgeting process



The figure above illustrates the general framework of the budget process. It is designed as a cycle starting with strategic policy planning. In the next step, this strategy is translated into the budget, which must be prepared and executed. The last stage of the cycle is dedicated to monitoring and evaluation.

Preparatory work:

In this training, participants are asked to bring with them the following items:

- Legal framework references they use for budget execution in their local government unit;
- Practices and documents of their municipality related with the budget execution system such as:
  - Budget authorization and apportionment practices;
  - Procurement plans;
  - Personnel expenditures and their management;
  - Payment procedures;

- Examples of working practices with treasury systems, issues and problems;
- Planned and actual figures of the budget of the previous year(s).

## 1.2 From preparation to execution

After receiving the final opinion of the Ministry of Finance and Economy and after the final resolution of differences with the draft budget, the Chairman of the local self-government unit prepares **the final draft Medium Term Budget Program (MTBP)** and presents it for consideration and approval to the council, together with the annual draft budget **within November 30th of the budget year**. The opinions and recommendations of the Ministry of Finance and Economy together with their assessment are presented in a separate annex of the final MTBP. The final MTBP is approved by the council of the local self-government unit no later than December 25th. The Chairman of the local self-government takes measures to publish the full document of the MTBP, including accompanying documentation, no later than December 31st.

With the approval of the annual budget by the LGU's council, and with signing it by the Prefect and submitting it to the MFE, the budget becomes legally binding for all spending units of the municipality. From this point forward, the budget execution process starts. The annual budget execution phase is tightly connected to the effective use of financial resources in the pursue of policies and priorities as identified in the budget document.

A careful and accurate budget preparation process increases significantly the chances for success during budget execution. Under such favorable conditions, the preconditions for budget execution without over or underspending are met. However, the municipality's performance regarding general budget execution also depends on: (i) its ability to execute the budget in accordance with the legal authorizations, as well as with the financial and political circumstances, (ii) find the right solutions at the right time for unexpected events, and finally, (iii) good-management of purchases and the efficient and effective use of the financial resources is of crucial importance (OECD, 2001).

## 1.3 Legal framework for budget execution in Albania

The legal framework, which regulates the budget execution process, clearly prescribes how the local budgeting process must be organized including the implementation of budgets and the monitoring of budget execution. This framework is based on:

- Law no. 68/2017 *“On local self-government finance”*;
- Law no. 139/2015 *“On local self-government”*;
- Law no. 9632/2006 *“On the local tax system in the Republic of Albania,”* as amended;
- Law no. 9936/2008 *“On management of budgetary system in the Republic of Albania”*;
- Law no. 10296/2010 *“On the financial management and control”*;

- Law no. 9869/2008 “*On local government borrowing*”;
- Law no. 9920/2008 “*On tax procedures in the Republic of Albania,*” as amended;
- Instruction no. 2/2012 “*On standard procedures on implementation of budget,*” amended by the instruction no. 3, date 16.01.2015.
- Law no. 9643/2006 “*On public procurement,*” as amended;
- Other laws and sub-legal acts.

*Law no. 68/2017 “On local self-government finance”*

This law clearly defines the rules, principles and procedures of financing local self-government units, including own source revenues from local taxes and fees, shared taxes, intergovernmental transfers, and other revenues as prescribed by law; it sanctions for the first time the basic regulations for determining the size and allocation of intergovernmental transfers; it defines policies, instruments and procedures for the management of local public finances.

The purposes of this law are:

- To provide for the financing of local self-government units in accordance with the principles of local autonomy articulated in the Constitution of Albania, the European Charter of Local Self-Government and the Law on Local Self-Government.
- To guarantee the transparency and predictability of intergovernmental transfers to local self-government units.
- To ensure the adequacy of financial resources for local self-government units for the financing of their functions and competences.
- To guarantee the fiscal autonomy of local self-government units by regulating their powers to set and collect local taxes and fees.
- To contribute to the sustainable economic, social and territorial development by defining an effective mechanism for fiscal equalization.
- To set rules that ensure fiscal discipline and sustainable and transparent policies for the management of public funds, including regulations for realistic forecasting of revenues and expenditures.
- To set rules for the allocation of local financial resources in accordance with local strategic priorities and local community needs.
- To ensure gender equality in planning and spending of public financial resources of local self-government units.
- To define instruments and procedures for the management of local finances and regulate the relationships with the central government in this field.
- To enable the continuous consultation between central and local self-government units, through the prescribed instruments of consultation, analyzing the adequacy and stability of local financial resources for the achievement of the purposes prescribed in law.

*Law no. 139/2015 “On local self-government”*

Following the territorial administrative reform, the Parliament of the Republic of Albania passed the law no. 139/2015 *“On local self-government,”* which replaced the law no. 8652/2000 *“On organization and functioning of local government,”* as amended. This law regulates the organization and operation of the local self-government units in the Republic of Albania and defines the functions, powers, rights, and duties of such units and the bodies thereof. Among other novelties, we can mention the removal of the concept of shared functions, and allowing the exercise only of exclusive and delegated functions. Local self-government units exercise their functions and competencies *“ . . . in full effect and free from outside control, in accordance with the Constitution, the European Charter of Local Autonomy and the laws in force”* (Article 22/1); *“ . . . respecting the national and regional policies”* (Article 22/2); and *“in cases where local self-government units lack sufficient funds or resources to meet the national standards and norms, central government shall provide them with the necessary financial support.”* (Article 22/3). Regarding budget execution and evaluation, the article 40 of this law delineates the main principles on LGU spending. It determines the way that the funds are to be used and provides instruction regarding budget execution in case the council refuses to approve the budget. The articles 42-44 regulate the preservation and the management of financial records, internal and external audit, and reporting to the LGU’s council. The law no. 139/2015 *“On local self-government”* is guided by the subsidiarity principle,<sup>2</sup> and thus has transferred or delegated a number of functions, which have important and direct consequences for the quality of life in the community, to levels of government closer to the citizens. The delegated functions must be exercised, *“ . . . as per the legislation in force”* (Article 22/4) and *“ . . . central government shall provide it with sufficient financial means and resources to exercise such functions in the manner and at the level or standard defined by law.”* (Article 22/5). In addition, the local government units, on their initiative, can use extra financial resources *“ . . . with the aim of improving services in the interest of the community.”* (Article 30/7).

*Law no. 9632/2006 “On local tax system in the Republic of Albania “, as amended.*

The law no. 9632/2006 *“On local tax system,”* as amended, aims to define the rules regarding rights and duties of local governments to raise, collect and administer local taxes. The latest changes to this law were applied through the law no. 142/2015 *“On some changes and additions to law no. 9632/2006 “On local tax system in the Republic of Albania.”,* changed. Important amendments are the introduction of the tax on land plots, the changes of the tax rate applicable to small businesses’ profits, the substitution of the tax on occupation of public spaces with a fee, etc.

---

<sup>2</sup>“Subsidiarity “is the principle of performing the functions and exercising the powers at a level of governance closest to the citizens by taking into consideration the importance and the nature of the commitment and cost-effectiveness requirements.

*Law no. 9869/2008 “On local government borrowing”*

The law no. 9869, date 4.02.2008 “*On local government borrowing*” aims at expanding local autonomy through the regulation of local government borrowing and the creation of appropriate opportunities and rules to ensure a transparent borrowing process in compliance with the overall development policies ensuring at the same time macroeconomic stability and credibility of public institutions in financial markets. This law permits local governments to seek short or long-term loans to finance capital investments, refinance outstanding long-term debts, or bridge liquidity shortages. Local governments can obtain lines of credit at a fixed or variable interest rate, in local or foreign currency. The local government may incur long-term debt pursuant to a resolution duly adopted by the council of the local government and approved by a majority of the members of such council at a meeting of the council that is open to the public. The Ministry of Finance must be advised within 10 days from the approval of the resolution, and the LGU needs the confirmation of the Ministry whether the resolution is in accordance with the legal procedures and the debt ceilings established by the Ministry. A local government may incur short-term debt pursuant to the decision of the local council on the budget of the actual fiscal year. Within short-term debt limitations defined in this law, the council defines the actual limit, within which the Mayor of the local government is authorized to issue short-term debt case by case.

*Law no. 9936/2008 “On management of budgetary system in the Republic of Albania”*

Law no. 9936/2008 “*On management of budgetary system in the Republic of Albania,*” as amended, regulates the budget system in the Republic of Albania, the structure, principles and fundamentals of the budget process, intergovernmental financial relations and responsibilities for implementing the budget legislation in general. This law is applied by general government units at all stages of the budget process, which means: (i) the preparation, examination, and approval of the budget; (ii) implementation, monitoring, and review of the budget; (iii) borrowing rights and restrictions, guarantees, and other forms deriving from them; (iv) control, accounting, reporting, inspection and audit of the budget

The principles which are fundamental for the budgetary system in Albania, include: (i) transparency, intentionality, inclusiveness, unity, and uniformity in the management of the budgetary system and special funds; (ii) fiscal discipline, in line with macroeconomic stability and durable economic and social development; (iii) allocation of resources pursuant to the strategic objectives set by the Council of Ministers; (iv) effective and efficient use of the public resources; (v) clear responsibility sharing for the operational management; (vi) enforcement of the integrality of the process; (vii) gender equality, which refers to the situation where men and women enjoy equal access, rights, and benefits.

Ministry of Finance and Economy Instruction (draft 2018) *“Standard procedures for the preparation of the Medium-Term Budget Program for local self-governance units”*

Ministry of Finance and Economy Instruction (2018) *“Standard procedures for the preparation of the Medium-Term Budget Program”* serves as a permanent guideline for the preparation of the MTBP. Based on the law no. 9936/2008 *“On management of budgetary system in the Republic of Albania”* and on this instruction, the Minister of Finance issues annual instructions for drafting medium-term budgetary requests where are mainly defined the ceilings of approved expenditures by decision of the Council of Ministers for the respective medium-term budgetary requests and timelines for the preparation and presentation of these requests.

*Law no. 10296/2010 “On financial management and control”*

This law sets the rules, procedures, administrative structures and methods with regard to the financial management and control within the public units in the Republic of Albania, as well as managerial responsibilities for planning, implementation, budget control, accounting and reporting. The purpose of this law is to ensure an efficient, effective and economic use of the public financial resources, by upholding the principles of transparency and lawfulness and avoiding waste, misuse and embezzlement of assets. This law is applicable for the general government units, commercial companies, nonprofit organizations and joint authorities which are owned, controlled, funded, or given financial guarantee from a general government unit, and other units spending public funds based on an international agreement regarding these funds.

*Instruction no. 2/2012 ““On standard procedures on implementation of budget,” as amended and annual instruction of the Ministry of Finance regarding budget implementation.*

This instruction aims to establish the rules, procedures, and deadlines to be utilized by general government units (central, local, and special funds) in the process of budget implementation in the framework of improving the financial management and control system and increase of transparency in the use of public funds. This instruction serves as a permanent guideline together with the graphic presentations in the form of standard audit trails on documentation of the process of budget implementation. In pursuance of the law no. 9936, dated 26.6.2008, *“On management of budgetary system in the Republic of Albania”* and the permanent instruction, the Minister of Finance issues annual instructions on the enforcement of specific rules and temporary policies as adopted with the annual budget’s laws.

*Law no. 9643/2006 “On public procurement”*

The legal basis for public procurement in Albania consists of the law no. 9643/2006 *“On public procurement,”* the DCM no. 914, date 29.12.2014, *“On approval of the rules of public*

*procurement,”* and the DCM no. 918, date 29.12.2014, *“On execution of procedures of public procurement in the electronic way.”*

This purpose of the law is to set out the rules applying to the procurement of goods, works and services by contracting authorities. According to the DCM no. 918, *“On execution of procedures of public procurement in the electronic way,”* all public procurement procedures will be implemented electronically. The Public Procurement Agency (PPA) is the central body, the juridical and public person reporting to the Prime Minister, financed by the state budget, and responsible for the maintenance of the public procurement system, of concessions and public-private partnerships, and of public action. Its activity is based on the law no. 9643/2006 *“On public procurement,”* as amended, the law no. 125/2013 *“On concessions and public private partnerships”* and the law no. 9874/2008 *“On public auction,”* as amended. The duties and competencies of the PPA are the following: (i) preparation of project-proposals for public procurement regulations, public auctions and those in the field of concessions/public private partnerships, preparation of Standard Tender Documents and issuing the necessary instructions in order to assist the contracting authorities undertaking these procedures; (ii) verification of the implementation of public procurement, concessions and public auction procedures after the phase of contract signature and in case of infringements of the legal and sublegal provisions, proposing fines and other administrative provisions; (iii) monitoring the progress of the public procurement system, and the implementation of measures and activities in order to achieve and maintain a completely transparent and efficient system of concessions/public private partnerships; (iv) preparation and publication of Public Notices Bulletin; (v) exclusion of economic operators from participation in public procurement, concessions or public auctions for a period of 1 to 3 years; (vi) encouragement and the organization of trainings for central and local government officials, involved in public procurement activities.

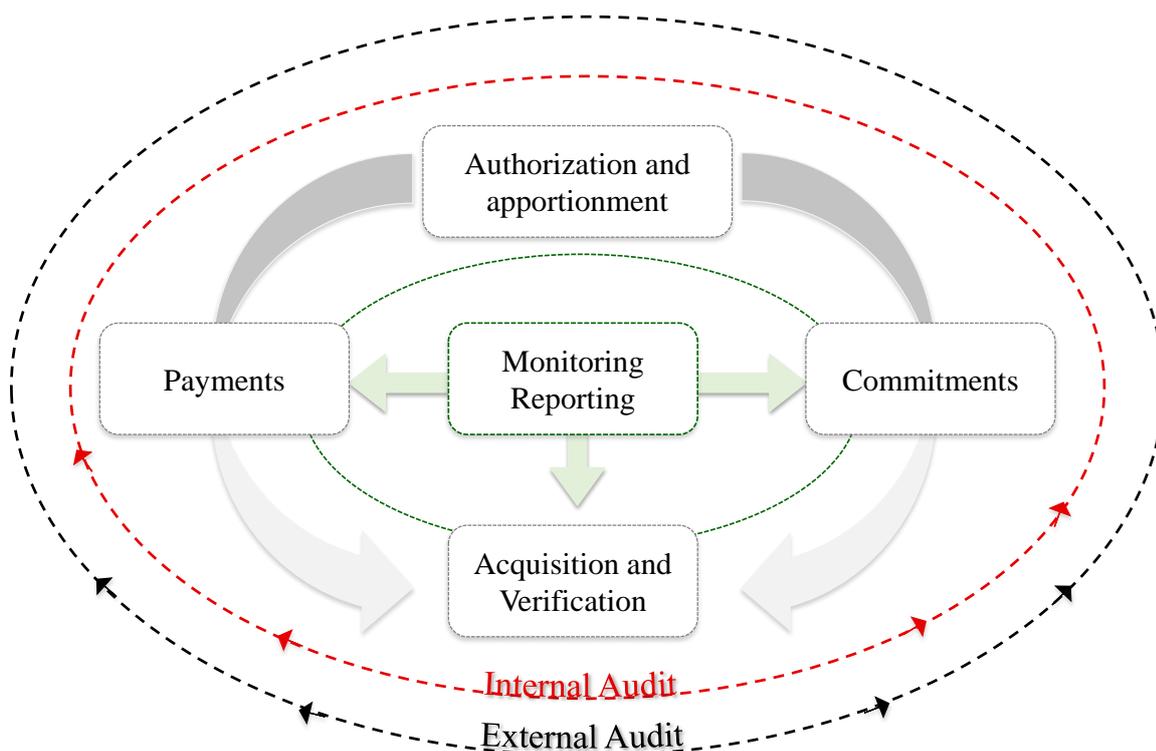
The Public Procurement Commission (PPC) is the highest body in the field of procurement, which examines complaints on public procurement procedures in compliance with the requirements established by this law. It is a public legal body subordinated to the Prime Minister and financed by the state budget. Upon completion of the complaints examination, the PPC takes decisions which are administratively final. The PPC submits an annual report to the Council of Ministers. The PPC exerts its function in accordance with the basic principles of the public procurement-transparency. In other words, its role is to promote efficient public procurements, to encourage more competition between suppliers, always in line with the principles of law, equality and non-discrimination, independence and impartiality in decision-making, examination of complaints within a reasonable time, transparency, and public information.

#### **1.4 Budget Execution System**

In the PFM cycle, budget execution follows the budget planning and preparation stages. The budget execution system includes: (1) the apportionment and release of funds to the spending

units; (2) the commitment and commitment control; (3) the acquisition/procurement, verification and payments. In addition, reporting, internal and external audit can be understood as safeguards for the budget execution process. Figure 2 illustrates the link between reporting and the other budget execution processes including the internal and external audit processes.

**Figure 2.** Overview of important stages of budget execution



Source: USAID, 2014, “Guide to Public Financial Management”

### 1.4.1 Budget authorization and apportionment

According to the existing legislative framework, every local government unit revises and prepares the final budget for the approval of the respective local council. The approved budget, its appendices, and the act of approval are sent, within seven days from the approval date, to the Prefecture. According to the competencies prescribed by the law no. 8927/2002 “*On prefect*,” the prefect verifies and approves (or disapproves) the decision of the LGU’s council. In case the Prefect does not approve the budget, the council has the right to “override” this decision and submit the respective financial statements of the annual budget (revenues according to sources and expenditures according to programs) to the pertaining structure of the Treasury (Ministry of Finance), according to the rules and the requested forms for the registration in the government’s financial information system.

After the approval of the local budget by the council, the respective Treasury office will authorize the local government unit to start budget implementation. The authorization is a legal act that permits the local government units and the respective spending units to spend money

for the activities where they have legal authority. No later than 5 days after the approval of the annual budget by the council, the authorizing officer of the local self-government unit must apportion budget funds to all spending units. Within the same deadline, the authorizing officer of the local self-government unit takes measures to reflect the apportionment of budgetary funds in the government's financial information system (GFIS).

In the absence of the budget approved by the council, the head of the LGU temporarily takes the council powers and authorizes the incurrence of monthly expenditures up to 1/12 of the actual local budget expenditures in the preceding budget year (factual expenditures funded by own source revenues and unconditional transfers). This prescription is intended to allow the continuation of the supply of public services and goods, including the implementation of the investments projects that have started during the previous budget year but continue in the present year.

To control expenditures, the law no. 68/2017 *“On local self-government finance”* and the law no. 9936/2008 *“On the budget system management in the Republic of Albania”* provide that the LGUs must establish the cash flow plan (monthly at the spending unit level), based on the approved funds for the budget year. The first draft of the cash flow plan (cash inflows and outflows) is filed in the Ministry of Finance, together with the approved annual budget. This plan must include:

- Cash inflows anticipated to be collected and other receivables;
- Procurement plan and other planned commitments;
- Anticipated payments arising from commitments (according to the economic classification: staff, operative, or capital expenditures).

In case the LGU needs to revise the plan to increase the quarterly limit of unconditional transfer, they submit an official request to the principal authorizing officer elaborating the need for increasing the fund. On the other hand, the structure responsible for the treasury checks whether the total the cash flow plan is equal to the deposited annual budget of the respective LGU, provides the initial approval, and after the approval, the principal authorizing officer registers and validates for the GFIS implementation. Following, the authorizing officer of the respective unit is notified for the approval and activation in the system. The approved cash flow plan constitutes the maximal monthly limit for expenditures for each spending unit but may be revised throughout the year. The number of revisions can serve as an indirect indicator of performance in the course of budget implementation.

The annual budget must include an initial cash flow plan (article 40, letter gj. of law no. 68/2017 *“On local self-government finance”*). It is the purpose of the cash flow plan to manage liquidity and to prevent from a liquidity crisis. In case of a pending cash flow deficit, the local self-

government units may take-up short-term loans, according to the legislation in force.<sup>3</sup> It is very important that the cash flow plan follows the same structure as the one used in revenues and expenditures presented in the annual budget (and in the MTBP), but with a higher frequency (monthly).

In emergency cases of deficient liquidity, when a daily liquidity forecast is needed, the order of payments by the general government units is determined in the following exhaustive order (point 139 of the Instruction no. 2/2012 “*On standard procedures on budget implementation*”, despite being primarily dedicated to the central government. Local government should follow the same logic):

- payments for debt service;
- payments for emergency hospital expenses of vital functions (purchase of oxygen, blood, food, etc.);
- payments of salaries and social and health insurance for the staff of general government units;
- transfers to the Social Insurance Institute for the payment of pensions;
- economic assistance/unemployment payments;
- payments for water and power supply;
- other payments from public funds in pursuance to the ‘first come-first served’ principle of chronological registration.

#### **1.4.2 Commitments and liquidity management**

The control and limitation of budgetary commitments constitutes an important step in the management of public expenditures and at the same time helps to avoid the creation of outstanding obligations. The authorizing officer of the LGU keeps records on financial commitments and does not allow the undertaking of new commitments beyond “*the predicted available liquidity resources and the approved budgetary apportionment*” (article 50, the law no. 68/2017 “*On local self-government finance*”).

To ensure the best management of the available liquidity, the treasury system provides local self-government units with information on their commitment limits on a monthly basis. On the other hand, the LGU executes commitments in the order as registered in the central government's financial information system. In case of multi-year budget commitments, these are recorded for each of the following three years, and if budget commitments have a longer time frame, the residual commitment shall be recorded in the GFIS in January of the fourth year.

---

<sup>3</sup> Based on the law no. 9869/2008, the LGU in Albania may issue short-term debt, but the latter need to be returned within November.

In case the expenses are covered by loans, the first authorizing officer, through the treasury system, does not allow the undertaking of commitments and payments until the borrowed funds are transferred to the treasury account from the lender (except cases where the failure or delay would bring serious consequences for the local unit).

Monetary funds, generated on the basis of current year commitments and not paid at the end of the budget year, are carried forward to the next budget year. On the other hand, monetary funds, related to previous years' commitments that are canceled during the budget year, are returned to the treasury single account for their inclusion in the following year's budget. Commitments canceled during the same budget year can be reactivated by the spending unit for the same purposes for which they were budgeted, in the upcoming year. The deadline for new budgetary commitments is 15 October of the budget year<sup>4</sup>. When the authorizing officer of the general government unit assumes commitments beyond funds provided in the budget, or contrary to the legislation in force, he is held responsible for settling the liability.

### 1.4.3 Revenues

The law no. 9936/2008, *“On management of budgetary system in the Republic of Albania”* defines revenues as *“the increase in net assets, which ends with capital or current receipts, with or without obligation of return.”* According to the same law, *“the amount of revenues approved with the decision of the council of local self-government unit on the annual budget constitute the minimum threshold to be collected/received during the budget year.”* In addition, *“the Chairman of the local self-government takes measures and is responsible for the timely collection of local revenues.”* All proceeds collected (according to categories) in the treasury system on behalf of local self-government unit are transferred on a daily basis in the single treasury account at the Bank of Albania. Local self-government units receive daily banking information from the treasury system and a monthly report on collected revenues. This information is crucial, given that at the end of each day, the LGU must assess its liquidity situation and compare it with the liquidity forecasts and spending needs.

If the LGU faces the need for long term borrowing<sup>5</sup> from the domestic or foreign market, it must respect certain conditionality's:

- (i) limit of public debt;
- (ii) performance of fiscal indicators of the local government
  - Ratio of operating result over the preceding fiscal year (calculated as the difference between operating revenues from own sources, shared taxes and unconditional transfers with unconditional operating expenditures) to debt service to be paid for the long term debt is not less than 1.4 : 1;

---

<sup>4</sup> Art. 51, Law no. 9936/2008 *“On management of budgetary system in the Republic of Albania”*, as amended;

<sup>5</sup> Long term borrowing is allowed for capital expenditures financing or re-financing of existing long term borrowing. In the second case, the duration of long term borrowing must be longer than the loan to be refinanced.

- Ratio of debt stock to operating revenues (from own sources, shared taxes and unconditional transfer) not bigger than 1.3 : 1;
  - Overall debt service to be paid every year for the long-term debt cannot be more than 20% of total budget of revenues from unconditional transfers, shared taxes, local taxes and fees over the last three preceding years of the LGU.
- (iii) Written evaluation of the Minister of Finance on each and every application on a case-by-case basis.

In case these conditions are fulfilled, the Minister of Finance orders the opening of transitory bank accounts in commercial banks upon a request of the local government unit. The request must have the loan agreement attached and must be submitted respectively to the structure responsible for the debt and to the structure responsible for the treasury. Commercial banks open the bank accounts in which the installments of the particular loan are disbursed under the name of each borrowing local government unit. The bank notifies the structure responsible for the treasury on the bank account number. Once the disbursement is made (monetary assets have been transferred), the commercial bank submits the bank account statement to the treasury district office where the LGU is located. The amount disbursed by the local government unit must be distributed and allocated in accordance with the requirements of the loan agreement (the treasury office agrees with the LGU and pursuant to the request for authorized increase). Repayment of this debt is carried out in compliance with procedures set forth in the instruction on budget execution (it has absolute priority in payment execution from all sources of revenues available, save those used as collateral for other loans).

In case external funds are used to finance investments projects, these funds must be registered as a separate item and reported periodically in accordance with the specific instruction of the Minister of Finance. If the ‘Financing Interception’<sup>6</sup> is used as a guaranty for the local loan, the LGU delivers a copy of the loan agreement and/or interception agreement with the relevant bank to the concerned treasury district office where the LGU under consideration conducts budgetary activities. In case of failure to meet contractual financial obligations established between the bank and the local self-government unit, upon a request of the creditor, the district treasury office enforces the order of payment for unpaid installment as foreseen in the contract by touching the unconditional revenues (revenues from taxes, fees, other non-tax revenues, and the unconditional grant) of the local government unit under consideration (point 111 of the instruction on standard procedures on implementation of budget).

Regarding intergovernmental transfers, they are transferred to the treasury accounts of the LGU on a regular basis (usually, on a quarterly basis). An important source of revenues for the local government units is the unconditional transfer which, since 2016, is allocated based on a new

---

<sup>6</sup> The LGU can offer additional guarantees for guaranteed loans (loans can be guaranteed by revenues which the LGU has full autonomy in spending), stipulating a new agreement which in case of noncompliance, allows payment of debt service directly from unconditional transfer or shared taxes (transferred from the state budget for the LGU). These funds are paid to the lending institution based on the agreed loan terms and conditions.

formula. The new formula identified municipalities' needs for expenditures based on relative population, population density (reflecting differences in service delivery costs among local self-government units), and number of pupils in the pre-university education system. Alongside cost equalization, which is addressed by the inclusion of the population density component, the new unconditional grant allocation formula provides for fiscal capacity equalization (measured by factual revenues from shared taxes between central and local government which are collected, and fully or partially transferred to municipalities). The fiscal equalization is based on realized revenues from the tax for small businesses incomes, annual tax on used vehicles, and tax real estate property rights transferring.

Unconditional transfers are submitted to the account of the LGU (or validated in the financial information system) on a quarterly basis. This partition serves to control the expenditures of the LGU, so the planned activities and activities are carried on time; in addition, this division inhibits extraordinary expenses at the beginning of the year. The available daily information on payments received, simplifies the identification of risks, which follow from their non-occurrence and restricts the opportunities for tax evasion. The level, duration, and structure of tax arrears, is recorded and reported as part of the periodic budget implementation monitoring by the LGU.

Each year, the MFE issues an additional instruction to the standard one to clarify specific issues/features for the execution of the budget. Following some main points regarding the instruction issued for 2017 budget execution.

*Additional Instruction no. 8/2017 “On the execution of the 2017 budget”*

Unconditional transfers	<p>This additional instruction specifies the allocation of unconditional transfers among the LGU on a quarterly basis: 30% of UT is allocated during the first quarter; 25% of UT during the second quarter; 23% during the third quarter; 22% of UT during the fourth quarter.</p> <p>In case the LGU needs to revise the plan to increase the quarterly limit of unconditional transfer, they submit an official request to the principal authorizing officer elaborating the need for increasing the fund. After the request from the local self-government unit, the principal authorizing officer assesses this request and decides for or against the increase.</p> <p>Unused funds from unconditional transfers during 2016, are inherited and registered as transfers in 2017. In addition, unused funds from unconditional in the year 2017 are inherited in the budget of 2018.</p>
Specific transfers (see example 1)	<p>Regarding specific transfers, the additional instruction also specifies their allocation on a quarterly basis: 30% is allocated during the first quarter; 25% during the second quarter; 23% during the third quarter; 22% during the fourth quarter.</p> <p>Unused funds from specific transfers during 2016 are added to the transfers of 2017.</p>

	<p>These funds are to be used to improve the quality of services in this sector. In addition, unused funds from specific transfers in the year 2017 are inherited in the budget of 2018.</p>
Delegated functions	<p>“Expenditures for social protection,” the Ministry of Social Welfare and Youth (MSWY), specifies, for the year 2017, the funds for social protection in a periodic way, for every local self-government unit, and the special funds for welfare aid and disability payments. The local self-government units have to adhere to the destination established by the MSWY. The funds for social protection are delegated in the form of conditional transfers to each local self-government unit. The Ministry of Social Welfare and Youth, in the allocation of funds for social protection, will evaluate the needs of the local self-government units, considering the poverty situations, which are assessed together, assigning clear, objective, and transparent weights to different factors.</p> <p>Welfare aid and disability payments that are distributed among local self-government units, and the criteria and principles behind this distribution, are made known to all the municipalities. The MSWY provides funds to the municipalities for the functioning and maintenance of the social care centers, which serve to the individuals, with the goal of ensuring certain standards. The financing is carried through projects presentation and municipality funding level.</p> <p>During budget execution, the local self-government units cannot change the destination for the use of specific transfers, or move them from one function to the other. These funds must be used according to the destination established by the table no. 3 of the budget law of 2017. The approved funds for specific transfers for each function might be reallocated among current expenses of the same program, following the approval of the Chairman of the local self-government unit. The inherited funds from specific transfers are used to increase the quality of services for the specific functions. If the local self-government unit wants to use these funds for the increase of the number of employees, it needs confirmation from the ministry, where the function is derived from, and it must also send notice to the Ministry of Finance. Municipalities can use own funds (unconditional transfers and own source revenues) to further improve the quality of functions, which are financed by the specific transfers.</p>
Shared taxes – mineral rent	<p>According to the law no. 157, date 27.11.2014, “On some additions and amendments to law no. 9975, date 28.07.2008, “On national taxes,” as amended,” 5% of revenues from the mineral rent belong to the local unit where the activity takes place.</p> <p>Revenues from the mineral rent are used for investments from the local self-government units. The mineral rent collected in December 2016, which is reported by the regional directories to the Ministry of Finance, in 2017, is calculated as a rent for 2017, while the rent that will be collected in December 2017, will be calculated as a rent for 2018. The detailed procedures on the mineral rent can be found in the Ministry of Finance, Instruction no. 27, date 16.12.2014, “On some additions and amendments to Instruction no. 26, date 4.9.2008, “On national taxes,” as amended.”</p>
Own revenues	<p>The calculation of revenues from local taxes and fees will be based Own on the law no. 142, date 17.12.2015, “On some additions and amendments</p>

	to the law no. 9632, date 30.01.2006, “On the system of local taxes,” as amended.”
Pre-school education	The municipalities have the responsibility to ensure the functioning and maintenance of all infrastructure of pre-university education, in their respective communities. The functioning and maintenance of the pre-university infrastructure are funded by local own sources. Each municipality decides the funding level that is allocated to this function. The Ministry of Education and Sports and the Ministry of Social Welfare and Youth, which are the responsible ministries for the pre-university education, prepare and publish national standards on health and security, applicable to the pre-university education infrastructure. These standards should not inhibit the decision-making of the municipalities in the fields of local interest.
Secondary education	The expenses related to the functioning and maintenance of the pre-university education infrastructure are approved as part of the municipal budget.
Notification of tax obligations	All local self-government units must take the necessary steps to implement the legal request, for the preliminary public notice of the tax obligations approved with the decision of the local council for all taxpayers (families and businesses) in their respective territories.
Irrigation and drainage & dam security	According to the table 3 of the law no. 130, date 15.12.2016, “On the budget of the year 2017,” a sum of 380.000 thousand ALL is earmarked for investments on the functioning of irrigation and drainage system and a sum of 20.000 thousand ALL will be used for investments on dams’ security. The funds will be given to the local self-government units in 2017 after the Decision of the Council of Ministers. The Minister of Agriculture, Rural Development, and Water Administration, in cooperation with the Minister of State for Local Government, prepare the draft decisions on funds allocation for the functioning of irrigation and drainage system. These draft decisions are sent for revision to the Council of Ministers.
Fire protection	According to the table 3 of the law no. 130, date 15.12.2016, “On the budget of the year 2017,” a sum of 20.000 thousand ALL is earmarked for investments on fire protection. The fund will be given to the local self-government units in 2017 after the Decision of the Council of Ministers. The Minister of Internal Affairs, in cooperation with the Minister of State for Local Government, prepare the draft decisions regarding funds allocation for the investments on firefighting system. These draft decisions are sent for revision to the Council of Ministers.
Reserve fund	The reserve fund is used in line with the criteria set in annex 2 of the law no. 130, date 15.12.2016, “On the budget of the year 2017.” According to these criteria, the local self-government units address their demands to the Ministry of Finance, which in turn evaluates these requests. If the reserve fund is not used within the year 2017, it is inherited, in the form of an unconditional transfer, in the budget of 2018.

At the beginning of the budgetary year, the Ministry of Finance and Economy delivers to the LGU information about the distribution of the specific transfers, detailed according transferred functions. Furthermore, funds are detailed for each of the functions and it is determined the number of employees per each function.

**Example 1.** Specific transfers and the number of employees of the local government units for the functions transferred from central government

No	Institution name	Pre-school education		Pre-university education		Firefighting service (PMNZSH)		Forests Management		Irrigation and Drainage	
		Tot. ALL	No. Employee	Tot. ALL	No. Employee	Tot. ALL	No. Employee	Tot. ALL	No. Employee	Tot. ALL	No. Employee
1	Municipality of Belsh	20,945	30	929	2	0	0	615	1	8,787	2
2	Municipality of Berat	117,645	194	6,499	14	27,233	31	2,998	5	13,096	5
3	Municipality of Bulqizë	48,370	75	0	0	12,234	14	4,078	7	11,864	3
4	Municipality of Cerrik	37,835	57	3,714	8	7,210	9	615	1	12,480	4
5	Municipality of Delvinë	20,937	33	1,392	3	11,316	14	1,155	2	8,787	2
6	Municipality of Devoll	47,279	69	1,857	4	7,393	9	2,384	4	10,019	4
7	Municipality of Dibër	118,696	188	5,107	11	19,078	21	3,538	6	12,480	4
8	Municipality of Divjake	39,888	57	929	2	10,660	14	615	1	26,427	13
9	Municipality of Dropull	2,119	3	929	2	0	0	1,695	3	5,307	2
10	Municipality of Durrës	161,327	263	14,856	32	43,495	48	1,769	3	39,920	20
11	Municipality of Elbasan	219,414	350	26,463	57	27,549	31	5,293	9	13,096	5
12	Municipality of Fier	174,536	275	8,357	18	29,781	30	2,458	4	52,260	26
13	Municipality of Finiq	6,769	10	0	0	10,660	14	1,155	2	13,712	6
14	Municipality of F-Arrëz	27,196	45	3,714	8	7,210	9	5,307	9	2,230	1
15	Municipality of Gjirokastrë	81,120	132	4,642	10	25,375	30	3,538	6	8,383	3
16	Municipality of Gramsh	65,089	98	2,786	6	12,079	14	4,678	8	8,787	2
17	Municipality of Has	25,385	38	2,321	5	12,925	14	4,153	7	8,787	2
18	Municipality of Himarë	11,058	16	464	1	10,768	14	2,849	5	8,787	2
19	Municipality of Kamëz	103,552	160	7,892	17	10,660	14	0	0	2,846	2
20	Municipality of Kavajë	72,745	114	5,229	10	12,495	17	615	1	17,405	8
21	Municipality of Këlcyrë	7,749	12	2,321	5	7,210	9	1,155	2	8,787	2
22	Municipality of Klos	25,035	39	1,392	3	0	0	3,538	6	2,230	1
23	Municipality of Kolonjë	29,824	46	3,250	7	11,460	14	5,233	9	9,403	3
24	Municipality of Konispol	7,629	11	0	0	0	0	615	1	9,403	3
25	Municipality of Korçë	153,421	248	14,856	32	25,799	31	5,833	10	39,762	25
26	Municipality of Krujë	70,673	109	2,786	6	13,219	14	3,613	6	14,328	7
27	Municipality of Kuçovë	61,770	100	4,642	10	12,407	14	615	1	11,864	3
28	Municipality of Kukës	88,927	147	3,714	8	41,189	42	4,693	8	5,307	2

29	Municipality of Kurbin	71,797	114	9,285	20	11,815	14	1,155	2	18,021	9
30	Municipality of Lezhë	95,447	154	8,357	18	25,778	30	4,153	7	19,870	12
31	Municipality of Libohovë	3,995	6	929	2	0	0	1,155	2	2,230	1
32	Municipality of Librazhd	63,752	97	2,321	5	12,079	14	4,153	7	11,864	3
33	Municipality of Lushnjë	137,282	215	8,821	19	12,782	14	1,229	2	40,994	27
34	Municipality of Malësi e Madhe	41,731	61	4,178	9	11,995	14	5,307	9	10,635	5
35	Municipality of Maliq	59,952	86	6,036	13	0	0	2,309	4	34,836	21
36	Municipality of Mallakastër	55,352	89	4,178	9	12,730	14	1,155	2	11,864	3
37	Municipality of Mat	59,395	97	4,642	10	12,234	14	3,538	6	8,787	2
38	Municipality of Memaliaj	30,066	46	6,036	13	0	0	1,155	2	2,230	1
39	Municipality of Mirditë	51,579	84	6,036	13	13,906	14	4,693	8	11,864	3
40	Municipality of Patos	45,260	72	2,786	6	12,730	14	0	0	9,403	3
41	Municipality of Peqin	33,236	50	3,202	5	7,668	9	615	1	8,787	2
42	Municipality of Përmet	22,348	34	2,321	5	11,695	14	2,998	5	8,787	2
43	Municipality of Pogradec	106,834	155	7,428	16	11,902	14	3,538	6	9,403	3
44	Municipality of Poliçan	26,051	41	3,250	7	7,548	9	1,769	3	2,230	1
45	Municipality of Prrenjas	30,652	46	2,321	5	7,210	9	2,998	5	8,787	2
46	Municipality of Pukë	34,462	57	5,571	12	12,676	14	5,307	9	2,230	1
47	Municipality of Pustec	4,943	7	0	0	0	0	615	1	2,230	1
48	Municipality of Roskovec	20,373	30	1,857	4	0	0	0	0	5,923	3
49	Municipality of Rrogozhinë	25,587	40	1,857	4	10,660	14	615	1	8,787	2
50	Municipality of Sarandë	45,467	73	2,321	5	13,681	17	1,844	3	5,307	2
51	Municipality of Selenicë	23,090	35	4,178	9	0	0	1,695	3	11,864	3
52	Municipality of Shijak	32,461	51	2,321	5	10,660	14	615	1	5,307	2
53	Municipality of Shkodër	143,889	239	19,963	43	30,745	35	5,307	9	24,582	14
54	Municipality of Skrapar	38,683	63	3,714	8	11,810	14	1,769	3	8,787	2
55	Municipality of Tepelenë	33,557	53	2,786	6	11,695	14	1,695	3	2,230	1
56	Municipality of Tiranë	582,975	1003	70,103	151	90,184	116	4,767	8	19,037	5
57	Municipality of Tropojë	42,458	68	2,786	6	12,924	14	5,293	9	2,230	1
58	Municipality of Ura Vajgurore	28,299	39	464	1	7,900	10	615	1	16,577	5
59	Municipality of V.Dejës	31,742	44	1,857	4	10,660	14	2,924	5	10,635	5
60	Municipality of Vlorë	223,271	355	20,427	44	30,673	35	3,613	6	35,011	17
61	Municipality of Vorë	31,519	46	3,372	6	10,660	14	615	1	8,787	2
	<b>Sum</b>	<b>4,124,438</b>	<b>6,569</b>	<b>356,745</b>	<b>764</b>	<b>846,406</b>	<b>993</b>	<b>154,008</b>	<b>261</b>	<b>776,660</b>	<b>328</b>

Source: Ministry of Finance and Economy

In order to verify the occurrence of payments of local dues from citizens and businesses, the “invoice document” is used. The invoice is a mandatory financial document. Upon the presentation of the client that has received the service from the unit, the executing officer of the LGU completes the title for receipt in all its fields and references, according to the form approved by the Ministry of Finance, in three copies. The executing officer keeps one copy for him/herself and gives the other two to the client to submit them to the bank. For receipts over 1,000 ALL, the general government units must operate through the banking system or postal service.

The title for receipt must contain the name and code of spending unit, name and code of structure responsible for the pertaining treasury branch, description of revenues expected to be received, the seven-digits code of the economic account of revenues expected to be received, the amount of revenues to be received, and it must be signed from the representative of the LGU. As a rule, the bank accepts receipts of non-tax revenues only when the client presents the title for receipt. By the end of each day, the banking system reports electronically on and transfers the monetary assets to the account of the government at the Bank of Albania in reliance of an agreement signed between the Ministry of Finance and the commercial banks and Bank of Albania. In the next days, at the defined hour, the banking system sends electronically to the central structure responsible for the treasury at the Ministry of Finance the ‘Daily Revenues Account Statement’, broken down to each beneficiary and according to the accounting classification of revenues (mandatory information of the title of revenues). The Bank of Albania consolidates the receipts in the single treasury account and sends electronically the account statement for all the receipts to the central structure responsible for the treasury, which registers them in the GFIS. The next step consists in checking the compatibility between the monthly revenues reported by the authorizing officer and the structure responsible for the treasury. In case of discrepancies, the responsible structure verifies the situation and undertakes the pertaining adjustments.

**Example 2. Format of invoice**

**INVOICE**

**Number:** \_\_\_\_\_

**Date:** \_\_\_\_\_

Through this invoice, we ask that the second-level bank accepts from clients (persons/ natural persons/ legal entities) deposits in the account of our institution, which responds to the following name, code, and identification number:

Name of the receiving institution \_\_\_\_\_  
 Code of the receiving institution \_\_\_\_\_  
 Code of the respective treasury branch \_\_\_\_\_  
 Depositor name (Person/ Natural person/ Legal entity) \_\_\_\_\_  
 Depositor identification number \_\_\_\_\_

Obligation ID	Revenues	description	Deposited Amount (ALL)
1	Name	Account Code	
2			
3			
4			
5			
x			

Institution Representative

Client

*(Individual/Juridical Person/Physical Person)*

\_\_\_\_\_  
*(First Name, Last Name, Signature)*

\_\_\_\_\_  
*(First Name, Last Name, Signature)*

Address:

Contact:

Local budget revenues, collected in treasury accounts from local taxes, national taxes, and unconditional transfers from the state budget, unused during the budget year, are inherited in the next budget year under the name of “inherited revenues.” On the other hand, revenues from conditional transfers and specific funds can be used only for the earmarked functions and are not inheritable. The standard instruction on local budget implementation provides that conditional funds given for functions that are not yet transferred or delegated to the LGU cannot be considered as local revenue. On the other hand, funds that might be granted by the Regional Development Fund (RDF), albeit unclear, given that their distribution is based on competition and conditionality, must be part of the budget, thus approved by the LGU council.

#### 1.4.4 Expenditures

The article 3 of the law no. 9936/2008, *“On the management of budgetary system in the Republic of Albania”* defines as “expenditures”, *“reduction of net assets, which concludes with capital or current payments, irrevocable, with or obligation of return.”*

According to the existing legal and sub-legal acts, the LGU must spend in accordance with the principles of *“fiscal discipline, financial management, and audit, by making an efficient, effective, and economical use of their financial sources.”*

It is not permissible to incur expenditures beyond the maximum amount of expenditures specified in the corresponding entry in the annual budgets. The right to make expenditures, within the limit of funds approved, expires on the last day of the budget year, regardless whether the annual or multi-annual contracts could continue in the next budget year. In addition, if the bank account of the LGU does not have enough funds, the pertaining expenditures are not allowed.

The chairman of the LGU can authorize or ask the council for authorization to reallocate funds from one expenditure item to another, within or between different budgetary programs, according to the legal framework that regulates the management of the budget system and local finance. In the case of an approved budget at the program level, in the instruction on standard procedures on budget implementation, the reallocation of funds:

- among programs is approved by the council of the local government unit;
- among investment projects within the same program is approved by the chairman of the LGU;
- among line of items of current expenses within the same program is approved by the chairman of the LGU;
- within the same program and line items of current expenses, among different spending units, is approved by the authorizing officer of the respective LGU to which the spending unit reports.

The right to reallocate approved funds for the budget year can be exercised until 15 November.

The budget reallocations must follow the same procedures as those during the initial budget approval. Depending on revenues generation and priorities’ changes throughout the year, the LGUs can amend their budgets. The article 46 of the law no. 68/2017 *“On local self-government finance”* provides that in the middle of the budget year, the Chairman of the LGU analyses budget execution against the forecasts and if deemed necessary proposes amendments, subject to the same rules as those of the initial budget approval. The responsible treasury structure authorizes only those local expenditures that are included in the LGU budget, approved by the respective council.

The standard instruction on budget implementation states that upon approval of the funds by programs and items of expenditures, the first to be paid should be the outstanding liabilities of the previous year and then the activities of the current year. The LGU must also meet financial liabilities stemming from court decisions. In reality, the amounts of outstanding obligations of the actual local self-government units demonstrate that the last two rules are not followed to the letter.

The expenditure categories, approved in the LGU budget, include: (i) expenditures based on economic classification for own functions (exclusive) and competencies prescribed by the law; (ii) expenditures for delegated functions (funded through conditional transfers); (iii) expenditures for newly transferred functions (funded temporarily by specific transfers).

According to the article 2 of the law no. 10340/2010, "*On obligations payments to third parties from entities and Anonymous Companies, owned by local governments,*" states that if a public entity and/or an Anonymous Company (A.C.), owned by a local government, does not pay on time its obligations to a third party, the LGU is responsible for such payments. Furthermore, according to the article 3 of this law, when entities and/or A.C. are subsidized by central and/or local government and have not paid obligations toward third parties, the Ministry of Finance, through the responsible structure for treasury, verifies the reasons behind such non-payments, for issues that are related to the community's vital interests. In case the respective LGU is considered responsible for such action, the Ministry of Finance stops the financial transactions toward this unit, until the latter liquidates the obligation.

The budget of a LGU comprises a reserve and a contingency fund. The first is used to finance unexpected expenditures in the budget and the second to cope with the effects of unrealized income and to respond to the needs for new and additional funds. Both these funds together are approved up to 3% of the total value of the approved funds, save conditional transfers.

Every financial transaction must pass through three levels of supervision (signatures): (i) the one who demands the expenditure, (ii) executing officer, and (iii) authorizing officer. Based on the provision of the standard instruction on budget implementation, "*the procedures of implementation of budgetary funds are evidenced in the GFIS administered by the Ministry of Finance according to a double check (signatory) system for each financial transaction. Payments from public funds are made on the basis of a chronological registration of orders for expenditures by the general government units in the government's financial information system, in accordance with the 'first come, first served' principle.*"

The functional leader of activity at each level of budgetary unit, subprogram or program, responsible for the accomplishment of determined objectives, prepares and sends a request for expenditure to the authorizing and executing officer. The request for expenditures cannot surpass the value of the funds requested by him and approved in the budget process. The executive officer compares the application with the planned expenses for the respective

budgetary activity/program, checks its legal compliance, and provides an opinion to the authorizing officer. The opinion may be provided in a written form separated from the application for expenses or the executive officer may directly sign the application if it complies with the rules. In cases of undertaking commitments that are accompanied with the establishment of contracts for goods and services, the executive officer provides his opinion after having checked the final official notice on the announcement of the winner and its publication in the public procurement bulletin. The authorizing officer of the unit undertakes the commitment for all types of expenditures and signs the contract and/or order of procurement for goods and services of little monetary value. Following, the executive officer of the respective unit registers the contract or order of procurement for small purchases, in the management accounting system, prepares the document on the payments schedule, and presents the above documents in the Albanian language with the official notice on announcement of the winner to the structure responsible for the treasury within three business days from the signing day. Failure to respect this deadline may lead to delays in the liquidation of payments from the treasury system. Contractual penalties imposed out of this delay are charged to the respective unit. All the transactions related to purchases, services and public works are carried out in the Albanian currency, including contracts of foreign-funded projects (except those cases, where the loan agreement provides otherwise).

**Example 3.** Example of expenditure order format

<b>Institution</b>								
<b>NIPT</b>								
<b>Institution Code</b>								
<b>Government Entity</b>								
<b>District (TDO)</b>							<b>Coupon number</b>	
<b>EXPENDITURE - ORDER</b>								
				<b>No.</b>		<b>Date</b>		
<b>Employees no.</b>								

No.	Accounting Structure						Sum	Expenditure object
	Gr.	Cap.	Code Program	Economic statement	Sub-statement	Code Project	In ALL	
1								
2								
3								
4								
5								
6								
7								
8								
9								
10								
<b>TOTAL IN NUMBERS</b>							<b>0.00</b>	<b>X</b>

<b>TOTAL IN WORDS</b>			
<b>Information on the receiving creditor:</b>		<b>Documents attached to the Expenditure-Order:</b>	
<b>Name</b>		<b>Name</b>	<b>Document no.</b>
		<b>Cheque</b>	<b>Document Date</b>
<b>NIPT</b>		<b>Flux</b>	
<b>Bank account no.</b>		<b>Other</b> (Names, number, date)	
<b>Bank's name</b>			
<b>Bank's address</b>			
<b>FOR THE INSTITUTION</b>		<b>FOR THE TREASURY BRANCH</b>	
<b>ORDERED BY</b>		<b>ACCOUNTANT</b>	<b>TREASURY EMPLOYEE</b>
			<b>Approved date</b>
<b>Seal</b>		<b>Seal</b>	

**Note:** The cells "Coupon number" and "Approved date," are filled by the Treasury Branch employee

This form of Expenditure-Order has been approved by the Ministry of Finance through the document no. 6153, date 27.05.2009

Expenditure execution is realized upon completion of the expenditure order abovementioned as approved by the MFE. In this document the issuer must complete all identification data related to the municipality (NUIS, Codes), expenditure details by categories, currency etc. In the lower section of the payment order the issuer must fill in the data of the beneficiary.

In the case of multi-annual contracts, they are registered in the management accounting system, reflecting the total value of the contract; the remaining value is revised at the beginning of the next budget year, depending on the actual amount of expenditure already made. It is prohibited to freeze resources in client accounts for all contracts (investments, services), while advance payments are allowed only for specific cases and are limited to 10% of the total amount and not more than the guaranty limit of the contract.

The structure responsible for the treasury identifies the total value of each contract/procurement order and the schedule of contract repayments against the availability of annual budgetary fund in the GFIS for the contract's part of the current year, as approved in the annual budget law of the relevant budgetary structure. The remaining amount of the multi-year contract is registered for the subsequent years. Upon registration of the above documents in the GFIS, the budgetary funds are blocked (as registered commitment). If the registered contract is to be blocked entirely or partly, the responsible unit must submit an official request to the structure responsible for the treasury for the cancellation of the entire or partial amount of that contract as confirmed by the third party (economic operator) as well.

The executive officer asks from each economic operator the bank form with the relevant references when filling in the documents he/she submits to the treasury district office for payments from public funds. Said this, if all documents are complete and accurate and there is available liquidity in the cash plan, the subordinating staff of the executive officer prepares three copies of the expenditure order with all relevant references, which are approved in advance by the executive officer. The authorizing officer approves the final expenditure order with its relevant references, which serves as a certification for the realized expenditure to the treasury system. This implies that once the transaction of the expenditure is identified in the accounting system by the executive officer and delivery and receipt of the goods, the expenditure order is delivered immediately to the structure responsible for the treasury together with:

- the invoice of the economic operator in case of purchase of goods or services or for partial or final payments related with the investments;
- the payment lists for other types of expenditures;
- the legal document for specific payments, such as payments of court decisions, expropriations, etc.

The structure responsible for the treasury registers the expenditure order in the GFIS once it is submitted by the spending unit, where the given sequential number is also the respective unit's protocol number. The controls carried out during the registration process are the following:

- Formal control, which consists of checking whether the expenditure order is completed correctly and clearly in all sections and fields. It also verifies the authenticity of signatures deposited in the system and the accuracy of the seal of the LGU;
- Document control, which consists in checking whether sufficient original documents are attached to the expenditure orders to prove realization of expenses;
- Control of destination and amount of available funds, which consists of checking whether the expenditures made according to documents attached to the expenditure order are expenditure of the same nature as the funds approved for this purpose and whether they can be covered by the available funds for each category of expenses.
- Control of existence of monthly allowable limit for expenditure (monthly cash flow).

If the controls confirm that the presented documents satisfy the legal requirements, then the structure responsible for the treasury approves the expenditure. Otherwise, the expenditure is not approved, and the documentation is returned for corrections or cancellation. The approval is submitted through the signing of three copies of expenditure order and the attached documents. Before making the payment, the structure responsible for the treasury checks whether the economic operator is registered or not. If not, the structure responsible for the treasury, after a thorough control in the taxpayers' information system, will register the economic operator in the system. If the operator is registered, but there are discrepancies between the economic operator's bank data with and the tax information system data, the responsible structure for taxes must communicate with the banking system to unify the data. In case the taxpayers' information system reveals a name of an economic operator tax ID other than the one written on the LGU's documents in the treasury system, the LGU must contact the economic operator and ask it to update the data in the national registration center and in the district and central tax structure.



**PAYMENTS LIST OF THE MUNICIPALITY STAFF FOR THE MONTH OF \_\_\_\_\_**

Municipality apparatus

No.	AC_DE SC	First Name Last Name	Function	Group	Class	Seniority	Year. ALL	Mon. salary	Diff.	Monthly Salary	Other additions		Sum  Gross	Subtract ions					Sum	Sum			
									K- M	For fact. years	Dif. Sal arie s	Paaf t. e perk .		Soc. Insurance	Soc. Insura nce End.	Tax · Sal arie s	Task for conclusio n	Sec.S up.	Tax	Net			

Source: Ministry of Finance and Economy

**Example 6.** Report of the wages fund and number of local government employees

<b>Unit name</b>				
	<b>Year 2009 (fact)</b>		<b>Year 2010</b>	
	<b>Employees number</b>	<b>Wages fund (ALL)</b>	<b>Employees number</b>	<b>Wages fund (ALL)</b>
Administration	0.0	0.0	0.0	0.0
Employees under contract (Administration)	0.0	0.0	0.0	0.0
Subordinated institutions	0.0	0.0	0.0	0.0
Employees under contract (Subordinated institutions)	0.0	0.0	0.0	0.0
<b>Total</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

Source: Ministry of Finance and Economy

Budgetary expenditures are registered with 7-digit figures according to economic classification of expenditures which at the same time is an account of the public accounting plan.

Payments are executed by the Bank of Albania. Upon electronic authorization, the Bank of Albania makes the payments of public funds by transferring liquidity from the single treasury account to the beneficiaries' bank accounts in commercial banks. By the end of the day, the Bank of Albania reconciles its data with those of the Treasury and the structure responsible for the treasury sends a confirmation on the realization of payments to the spending unit, which will then register the closure of the financial transaction to its accounting system and completes the final record of the transactions.

In addition to the standard instruction, the MFE publishes annually an additional instruction on budget implementation. The Additional Instruction no. 8/2017 "*On the implementation of the 2017 budget*" defines or specifies particular aspects of budget implementation.

*Additional Instruction no. 8/2017 "On the implementation of the 2017 budget"*

For liquidity management, an expenditure order must be presented, "*clearly specifying the date of invoice payment according to the contract.*" In the GFIS are recorded the supplier's invoice date, the date of the expenditure order prepared and presented to the treasury by the general government unit, the date of registration of the expenditure order in the GFIS, and the date on which the payment for the respective bill, which should be in accordance with the terms of the contract. This rule is also applied by budget institutions that have direct access to the GFIS.

*Situation of arrears of the local self-government units*

Arrears are considered financial obligation determined by law/contract/agreement/court decision that remain unpaid 60 days after the date specified in the contract or by law, including the contractual term of payment deferment, which have incurred in the local self-government units (contracts funded by central government).

The outstanding obligations, incurred by the local self-government units, include only the obligations for completed but unpaid work, financed by the Regional Development Fund, as well as transfers for disability benefits. All other financial liabilities of the local self-government units that are not included above should be foreseen in the budgets of the units of local self-government.

The budget of 2017 must also include the payments of accumulated outstanding obligations. The payment plan for these obligations should not be less than the amount reported by the local self-government units in the official note to the Ministry of Finance in October 2016, "*On the payment plan for outstanding obligations in 2017 and the two following years (2018-2019).*"

The management process of the payment of outstanding obligations is carried out in a transparent way and only after the verification of each obligation.

Local self-government units are obliged that no later than the 5th of April for the first quarter, 5th of July for the second quarter, 5th of October for the third quarter, and 5th of January (2018) for the fourth quarter, to submit to the Ministry of Finance, both in writing and electronically, information on outstanding obligations according to the appendix 5 "Periodic reporting on outstanding obligations" attached to this instruction. Within 30 January 2017, local self-government units should submit updated information on financial obligations, according to the appendix 5, for the period September-December 2016.

Local government units should publish on their official websites information on their outstanding obligations.

The financial information for outstanding obligations will be updated every three months and will be published on the website of the Ministry of Finance. This report will include the initial verified status according to the category, sector and the time of liability creation, payments made during this period by each unit of local self-government and type of financial liability.

#### *Social and health insurance contributions*

The structure responsible for the treasury branch does not authorize the payment of the salary in the upcoming month unless the social security contributions and personal income tax are paid in the previous month by the central and the local government spending units.

**Example 7. Periodic reporting of arrears**

Categories						
Obligations of the LGU (ALL)	Investments	Investments from the RDF	VAT and local costs	Goods and Services	Court Decisions	Other
<b>Total Value</b>						

**Note: The total value in table 1 should be equal to the total of last column in the table 2. So, this table reflects the outstanding obligations according to the respective categories.**

Table no. 2: The detailing of the sum of the outstanding obligations in the quarter xxx

Obligations of the LGU (ALL)	(1) At the beginning of the year (Outstanding obligation until 31.12.2015)	(2) New outstanding obligations (until the quarter xxx)	(3=1+2) Total obligations	(4) Payed outstanding obligations (until the quarter xxx)	(5) Payed obligation in %	(6=3-4) Remaining obligations
<b>Total Value</b>						
Investments						
Investments from the RDF						
VAT and local costs						
Goods and services						
Court decisions						
Other						

**Note: The table must reflect the progressive values until the given quarter. Example: if the report is prepared in the second quarter, the second column is filled with new outstanding obligations created from the beginning of the year until the end of the second quarter.**

Table no. 3: Concluding report for new outstanding obligations for quarter xxx

Categories						
LGU obligations (ALL)	Investments	Investments from the RDF	VAT and local costs	Goods and services	Court decisions	Other
<b>Total Value</b>						

Note: The table must be filled with the value for new outstanding obligations only for the given quarter for each category

Source: Ministry of Finances and Economy

### 1.4.5 Procurement plan

Alongside the cash flow plan, the local self-government units have to prepare the annual procurement plan for all new and continuing projects. This plan is submitted to the responsible structure for treasury, at the beginning of the budget year, which verifies whether the procurement plan is compatible with the approved budget. The procurement plan, approved by the treasury system, is sent to the Public Procurement Agency. This step is important to avoid the non-realization of the budget. This is especially true for multi-year investment projects, new or outstanding. To control the engagements, article 47/3 of the law no. 68/2017 *“On local self-government finance”* provides that *“local self-government units shall execute commitments in the order as registered in the central government's financial information system. If local government units engage in multi-year budget commitments, they shall record such commitments for each of the following three years. If budget commitments have a longer timeframe, the residual commitment shall be recorded in the government's financial information system in January of the fourth year.”*

*“To perform payments, local self-government units shall submit expenditure orders to the treasury system within 30 days from the date of submission of the original bill of the economic operator, along with supporting documents justifying the expenditure as per the treasury procedures.”* (Article 44/3, the law no. 68/2017 *“On local self-government finance”*). Procurement requests are signed by the head of the contracting authority of the local self-government unit. The Treasury authorizes payment via the government's financial information system.

The legal basis for public procurement in Albania is the law no. 9643/2006 *“On public procurement,”* the DCM no. 914, date 29.12.2014, *“On the approval of the rules of public procurement,”* and the DCM no. 918, date 29.12.2014, *“On executing the procedures of public procurement electronically.”* Each procurement of the procurement plan is carried out by the contracting authority (LGU) in full accordance with the legislative framework. The LGU must have a specialized unit within the organizational structure, whose duties and responsibilities are defined by the public procurement rules.

The electronic procurement system guarantees the system's versatility, efficiency, and transparency, the management of all documents related to tendering, prevents from unnecessary paperwork, and allows for safe data transcription. Although the procurement system may be considered as overly “centralized,” the LGU may carry out directly small purchases, outside this system.

Before the beginning of the procurement procedures, the chairman of the LGU establishes, with a temporary order, two commissions:

1. The commission for the preparation of technical specifications, which prepares the technical details for the goods, services, and works that will be procured;
2. The commission for offers' evaluation.

Technical specifications should set forth the characteristics of the goods, works or services to be procured in a complete and correct way. These specifications should be understandable by all the potential candidates and tenderers in order to create conditions for a fair and inclusive competition. Whenever possible these technical specifications should be defined to take into account accessibility criteria for people with disabilities. For these reasons, the technical specifications must refer to:

- national or international standards that must be observed;
- requirements in functional terms, when this requires making a reference to national or international standards as means of presuming conformity with functional requirements;
- both the afore mentioned methods, included in the same contract. Each reference should be accompanied by the words “or its equivalent”.

All the standard documents of the tender are made available by the PPA. The contracting authority, when drafting the tender documents, uses standard documents, as defined in the procurement rules, and makes them electronically available for free or for a fee in cases when the contracting authority evaluates appropriate. In any case, the number and names of economic operators interested to purchase tender documents or to check them cannot be disclosed.

The standard procurement procedures, applied in the Republic of Albania as provided by the article 29 of the law no. 9643/2006 “*On public procurement,*” are:

- **open procedure** is the procedure, according to which all interested economic operators can submit an offer.
- **restricted procedure** is the procedure, according to which all the economic operators can demand to be part of the tendering, but only the economic operators assigned by the contracting authority can submit an offer.
- **negotiated procedures, with or without prior publication of a contract notice** is the procedure, according to which the contracting authority chooses the economic operators and negotiates the contract’s conditions with one or some of them.
- **request for proposals** is the procedure, according to which the contracting authority asks for offers from a limited number of preselected economic operators, but also accepts offers presented by other interested economic operators.
- **design contest** is the procedure, according to which the contracting authority chooses, with the help of a jury, a study or project, based only on its aesthetic merits.

The open procurement procedure (competitive offer) can be used for almost every contract. Restricted procedure can be used, when it is necessary to distinguish between the selection phase – dealing only with the candidates’ qualifications – and the award phase – dealing with the offer. Distinction in the use between open and restricted procedures is provided in the procurement rules.

The contracting authority uses the open and restricted procedure for contracts above the low value threshold. Negotiated procedures may be used only in specific circumstances set forth in the rules of public procurement. For contracts of a value lower than the low value thresholds, contracting authorities may use negotiated procedures with or without prior publication and requests for proposals in accordance with the conditions provided in the law on public procurement.

The contracting authority may use the request for proposals procedure for contracts of a value below the low threshold. Pursuant to this procedure, the contract authority seeks offers from a limited number of economic operators of their choice, or uses the electronic communication. For this choice, there must be present at least 5 contractors, unless this proves impossible for technical reasons or for lack of sufficient competition. This procedure is not to be used in order to circumvent competitive awarding procedures. For goods, services, or works that have a value below the low threshold, the contracting authority can use simplified procedures, as prescribed by the public procurement rules.

*The additional instruction on the execution of the 2017 budget* demands that all “procurement orders for goods, services, and investments must be presented to the treasury branch alongside the procurement notice,” which should: (i) be compatible with the procurement list submitted to the treasury, (ii) be compatible with the procurement register and sealed by the treasury branch, according to the public procurement rules. The treasury branch informs the responsible budgetary institution at the Ministry of Finance once a month, within the first ten days of the following month, regarding procurement orders approved by the former, according to the budget structure. If the treasury branch receives a procurement order that is not backed by sufficient budgetary funds, then it rejects, through a written statement, the presented document and notifies the Public Procurement Agency. In any case, the Public Procurement Agency does not initiate the official procurement procedure without having the approval of the respective treasury branch. Contracts with the general government units must be presented to and advanced by the respective treasury branch according to the requirements of the standard instruction on budget implementation. In case of delays, the treasury branch continues the registration to the GFIS and notifies the principal authorizing officer, who undertakes either administrative measures or a financial inspection according to the existing legal framework. The same procedure applies in cases of delay of documents that prove the expenditure. The procurement unit within the LGU is responsible for managing the tendering process since its outset until the delivery of goods, services, or works that are the object of procurement. These goods, services or works have to be registered in the pertaining register and recorded.

## 1.5 Accounting and financial reporting

The accounting system serves to register and classify municipalities' revenue and expenditure, in order to enable the preparation of reliable and timely financial statements and reports. Based on the law no. 9928/2004 "*On accounting and financial statements*" the applied accounting standards for the preparation and publication of financial statements are the national ones. Financial statements must include the following documents:

- balance sheet;
- income statement;
- statement of changes in equity;
- cash flow statement;
- appendices of financial statements, containing a summary of the accounting methods, as well as other explanatory material.

The law no. 10296/2010 "*On the financial management and control*" sets the principles, the rules, procedures, administrative structures and methods on the financial management functioning and control in the public units in the Republic of Albania, as well as the managerial responsibilities for planning, implementation, budget control, accounting and reporting. The purpose of this law is to ensure an efficient, effective and economic use of the public financial resources, by upholding the principles of transparency and lawfulness and avoiding waste, misuse and embezzlement.

The accounting system can be based on cash, based on the accrual, or a combination of both. In the case of local self-government units, the used accounting system is based on cash. Specifically, the article 61 of the law no. 9936/2006, "*On the budget system management in the Republic of Albania,*" as amended, states that the income and expenses method, for the purpose of this law, has to do with: a) recognition of expenditures at the time of their occurrence, regardless of the date of payment; b) recognition of revenues at the time of their collection.

The authorizing officer of the local self-government unit is responsible for the functioning and implementation of the accounting system, in accordance with the legislation in force. The procedures and rules for asset management are approved by the council of the LGU and the information about the transfer and disposal of tangible assets becomes part of the budget document and the annual report. Furthermore, the Chairman of the LGU prepares the consolidated annual financial statements as specified by the instructions of the MoF. The financial statements of institutions or spending units subordinated to or owned by the local self-government unit are consolidated or their financial position is reflected in the annex of the consolidated annual report on local budget execution.

Each local self-government unit publishes a list of financial indicators as a separate annex of the annual budget proposal and budget execution monitoring reports. Some of these indicators include:

- ratio of total expenditures to total revenues;
- ratio of local tax and fee revenues to total revenues;
- ratio of own source revenues to total revenues;
- ratio of revenue out-turn against the period's plan and the annual plan of revenues from the two main categories of taxpayers, natural persons or legal entities;
- ratio of capital expenditures to total expenditures;
- ratio of personnel expenses to total expenses;
- ratio of long-term borrowing to total revenues;
- ratio of long-term borrowing to own revenues;
- ratio of overdue payment liabilities to total revenues;
- ratio of tax arrears to tax revenues;
- ratio of public private partnership expenses to total expenses;
- ratio of social care expenditures to total expenses;
- ratio of expenses for policies that support gender equality to total expenses.

Following, an example of the balance sheet concerning assets is presented. It contains data for all items as by national accounting principles require, both for the closed exercise and the next one.

Example 8. Balance sheet – assets 2014 Municipality Bora

No.	Account Number	Account Name	Closed exercise	Next exercise
<b>1</b>	<b>12</b>	<b>Carried Results</b>	-	-
<b>2</b>	<b>A</b>	<b>Stable Activities</b>	<b>1,665,706,641</b>	<b>1,430,258,026</b>
<b>3</b>	<b>20, 230</b>	<b>I. Intangible</b>	<b>13,947,580</b>	<b>11,470,000</b>
4	201	Amounts to be remitted and loan reimbursements	-	-
5	202	Studies and researches	14,845,000	12,055,000
6	203	Concessions, license, other similar licenses	-	-
7	209	Amortization of current intangible assets (-)	(897,420)	(585,000)
8	230	Expenses for increase of current intangible assets	-	-
<b>9</b>	<b>21,23,24,28</b>	<b>II. Tangible Assets</b>	<b>1,651,759,061</b>	<b>1,418,788,026</b>
10	210	Lands	351,104	351,104
11	211	Forests, Pastures, Plantations	-	-
12	212	Building and Constructions	330,778,024	309,084,467
13	213	Roads, networks, water facilities	1,272,326,114	829,628,379
14	214	Technical instalments, machinery, equipment, working tools	8,852,862	12,130,668
15	215	Transport vehicles	19,639,928	19,639,928
16	216	State reserves	-	-
17	217	Working animals	-	-
18	218	Economic inventory	49,567,974	53,762,968
19	219	Active depreciation of tangible assets (-)	(179,467,730)	(170,510,835)
20	231	Expenses in process for increase of current tangible assets	149,710,785	364,701,347
21	232	Expenses in process for capital transfers	-	-
22	24	Damaged current tangible assets	-	-
23	28	Assignments	-	-
<b>24</b>	<b>25</b>	<b>III. Financial activities</b>	<b>-</b>	<b>-</b>
25	25	Rent	-	-
26	26	Participation with own capital	-	-
<b>27</b>	<b>B</b>	<b>Floating Assets</b>	<b>202,181,426</b>	<b>250,310,711</b>
<b>28</b>	<b>Class 3</b>	<b>I. Inventory Status</b>	<b>11,752,912</b>	<b>14,733,460</b>

29	31	Materials	129,396	613,919
30	32	Inventory objects	11,623,516	14,119,541
31	33	Production, work and services in process	-	-
32	34	Products	-	-
33	35	Goods	-	-
34	36	Animals fattening	-	-
35	37	Undelivered items or close to third party	-	-
36	38	Differences from warehouse prices	-	-
37	39	Forecasted amount for inventory depreciation (-)	-	-
<b>38</b>	<b>Class 4</b>	<b>II. Request for receivables</b>	<b>132,276,842</b>	<b>119,339,787</b>
39	409	Suppliers, prepayments or partial payment	-	-
40	411-418	Similar clients or accounts	-	-
41	423	Employers, prepayment, deficits and fees	1,791,690	1,687,890
42	431	Rights and taxes to deposit to government	-	-
43	432	Taxes collected from central government for the local government	-	-
44	433	Expenses for natural disaster covered from the government	-	-
45	4,342	Other operations with the government (debtor)	34,923,798	38,906,555
46	435	Social insurance	-	-
47	436	Health insurance	-	-
48	437	Other social organizations	-	-
49	44	Other public institutions	-	-
50	45	Relationships with institutions in and outside the system	-	-
51	465	Receivables from selling of bonds	-	-
52	468	Different debtors	95,561,354	78,745,342
53	49	Forecasted amount for depreciation (-)	-	-
<b>54</b>	<b>51</b>	<b>III. Financial Accounts</b>	<b>58,151,672</b>	<b>116,237,464</b>
55	50	Securities	-	-
56	511	Amounts to receive	-	-
57	512	Bank	-	-
58	520	Treasury funds	58,151,672	116,237,464
59	531	Petty-cash	-	-
60	532	Other amounts	-	-
61	54	Recognized and prepayments	-	-
62	56	Accounts in lending institutions	-	-
63	59	Devaluation provisions on securities(-)	-	-
<b>64</b>	<b>C</b>	<b>Other Accounts</b>	<b>-</b>	<b>-</b>
65	477	Active conversion difference	-	-
66	481	Expenses to distribute in several exercises	-	-
67	486	Expenses in the future	-	-
68	<b>85</b>	<b>Exercise Results</b>	<b>-</b>	<b>-</b>
<b>69</b>	<b>X</b>	<b>Assets Total</b>	<b>1,867,888,067</b>	<b>1,680,568,737</b>
70	81	<b>Off balance sheet</b>	<b>-</b>	<b>-</b>
71	80,81	Assets evidences	-	-

**Example 9.** Balance sheet – liabilities 2014 Municipality Bora

No.	Account number	Account name	Closed Exercise	Current Exercise
<b>1</b>	<b>A</b>	<b>Own Funds</b>	<b>1,677,459,553</b>	<b>1,418,757,882</b>
<b>2</b>	<b>10</b>	<b>I. Own Funds</b>	<b>1,527,722,568</b>	<b>1,416,072,782</b>
3	101	Base funds	1,527,722,568	1,269,867,793
4	105	Capital internal grants	-	146,204,989
5	106	Capital foreigner grants	-	-
6	107	Current assets in use	-	-
7	109	Reserves from revaluation of current assets	-	-
<b>8</b>	<b>11</b>	<b>II. Other own funds</b>	<b>149,736,985</b>	<b>2,685,100</b>
9	111	Reserve funds	-	-
10	115	Assignments from the year results for investments	149,710,785	2,685,100
11	116	Revenues from selling of current assets	26,200	-
12	12	<b>III. Carried result</b>	-	-
13	13	<b>IV. Exceptional subsidiaries (-)</b>	-	-
14	14	<b>V. Participation of the institution in investing for third parties</b>	-	-
15	15	<b>VI. Forecasted amounts for disasters and expenses</b>	-	-
<b>16</b>	<b>B</b>	<b>Liabilities</b>	<b>63,385,156</b>	<b>123,909,550</b>
<b>17</b>	<b>16,17,18</b>	<b>I. Long-term debts</b>	-	-
18	16	Internal borrowing and similar	-	-
19	17	Borrowing out of the country	-	-
<b>20</b>	<b>Class 4</b>	<b>II. Short-term debts</b>	<b>63,385,156</b>	<b>123,909,550</b>
21	419	Clients (Creditors), partial prepayment	-	-
22	401-408	Suppliers and related accounts	15,997,202	29,332,721
23	42	Employees and related accounts	5,300,442	4,847,684
24	431	Liabilities to government for taxes	518,660	220,525
25	432	Taxes collected from government for the local government	-	-
26	433	Government natural disaster	-	-
27	4,341	Other operations with the state (creditor)	552,838	552,838
28	435	Social insurance	1,616,966	1,371,926
29	436	Health insurance	261,624	190,020
30	437	Other social organizations	-	-
31	44	Other public institutions	-	-
32	45	Relationships with institutions in and outside the system	-	-
33	460	Borrower	-	-
34	464	Liabilities for bond purchasing	-	-
<b>35</b>	<b>466</b>	<b>Creditors for assets under guard</b>	<b>26,669,668</b>	<b>23,494,592</b>
36	467	Other creditors	12,467,756	63,899,244
<b>37</b>	<b>C</b>	<b>Other Accounts</b>	<b>95,561,354</b>	<b>(21,742,910)</b>
38	475	Incomes to register in the coming years	86,518,428	-
39	478	Passive converting differences	(3,265,937)	(29,358,642)
40	480	Incomes to classify or adjust	12,308,863	7,615,732
41	487	Incomes received before title exposure	-	-
<b>42</b>	<b>85</b>	<b>Result</b>	<b>31,482,004</b>	<b>159,644,215</b>
<b>43</b>	<b>X</b>	<b>Total Liabilities</b>	<b>1,867,888,067</b>	<b>1,680,568,737</b>

**Example 10.** Financial statement – expenditures 2014, Municipality Bora

No.	Account no.	Expenses Description	Current Year	Previous Year
<i>a</i>	<i>B</i>	<i>C</i>	<i>1</i>	<i>2</i>
<b>1</b>	<b>Class 6</b>	<b>A. Exploitation Expenses (I - III)</b>	<b>459,545,533</b>	<b>463,081,401</b>
<b>2</b>	<b>60</b>	<b>I. Current expenses</b>	<b>456,564,985</b>	<b>463,879,579</b>
<b>3</b>	<b>600</b>	<b>Salaries and other staff's benefits</b>	<b>71,276,681</b>	<b>65,664,039</b>
4	6,001	Salaries for permanent employees	68,271,165	60,555,128
5	6,002	Salaries for temporary employees	3,005,516	5,108,911
6	6,003	Bonuses	-	-
7	6,009	Other staff's expenses	-	-
<b>8</b>	<b>601</b>	<b>Health and social insurance contributions</b>	<b>11,714,151</b>	<b>10,999,578</b>
9	6,010	Social insurance contributions	10,536,556	9,860,860
10	6,011	Health insurance contributions	1,177,595	1,138,718
<b>11</b>	<b>602</b>	<b>Other goods and services</b>	<b>64,035,095</b>	<b>73,897,625</b>
12	6,020	Office equipment	1,457,257	1,942,180
13	6,021	Special goods and services	135,996	979,006
14	6,022	Services from third party	38,998,679	41,246,000
15	6,023	Transport expenses	4,008,265	5,907,371
16	6,024	Travel expense	564,435	868,840
17	6,025	Ordinary maintenance expenses	1,118,783	4,505,245
18	6,026	Rent expenses	25,000	94,000
19	6,027	Expenses for legal liability for compensation	4,249,569	2,829,983
20	6,028	Borrowing costs related to loans	-	150,000
21	6,029	Other operating expenses	13,477,111	15,375,000
<b>22</b>	<b>603</b>	<b>Subsidies</b>	<b>-</b>	<b>1,499,640</b>
23	6,030	Subsidies for price differences	-	1,499,640
24	6,031	Subsidies to promote employment	-	-
25	6,032	Subsidies to cover losses	-	-
26	6,033	Subsidies for entrepreneurship	-	-
27	6,039	Other subsidies	-	-
<b>28</b>	<b>604</b>	<b>Current internal transfers</b>	<b>90,073,200</b>	<b>87,394,388</b>
29	6,040	Current transfers to other government levels	86,796,626	53,952
30	6,041	Current transfers to various government institutions	3,276,574	87,340,436
31	6,042	Current transfers for social and health insurance	-	-
32	6,044	Current transfers to non-profit organizations	-	-
<b>33</b>	<b>605</b>	<b>Current external transfers</b>	<b>-</b>	<b>-</b>
34	6,051	Transfers to international organizations	-	-
35	6,052	Transfers to foreign governments	-	-
36	6,053	Transfers to foreign NGO	-	-
37	6,059	Other current transfers with foreign governments	-	-
<b>38</b>	<b>606</b>	<b>Transfers for family budgets and other individuals</b>	<b>219,465,858</b>	<b>224,424,309</b>
39	6,060	Transfers paid from ISS and HII	-	-
40	6,061	Transfers paid from other institutions and Local government	219,465,858	224,424,309
41	63	<b>II. Change in inventory balances (+ - )</b>	<b>2,980,548</b>	<b>(798,178)</b>
<b>42</b>	<b>68</b>	<b>III. Amortization rates and expected balances</b>	<b>-</b>	<b>-</b>
43	681	Amortization rates on exploitation	-	-
44	682	Residual value on fixed assets, damaged or disposed	-	-
45	683	Amounts provided for exploitations	-	-
46	686	Amounts provided for financial assets	-	-
<b>47</b>	<b>65, 66</b>	<b>B. Finance Expenses (I+II)</b>	<b>-</b>	<b>-</b>
<b>48</b>	<b>65</b>	<b>I. I. Internal finance expenses</b>	<b>-</b>	<b>-</b>
49	650	Bond interest rates and direct loans	-	-
50	651	Borrowing costs related to loans	-	-
51	652	Other interest on government securities	-	-

52	656	Foreign exchange expenses	-	-
<b>53</b>	<b>66</b>	<b>II. External finance expenses</b>	-	-
54	660	Interest on loans from Foreign Governments	-	-
55	661	Interest on financing from international organizations	-	-
56	662	Interest on other foreign loans	-	-
<b>57</b>	<b>67</b>	<b>C. Extraordinary Expenses</b>	-	-
58	677	Losses from allowed errors from previous years	-	-
59	678	Other Extraordinary expenses	-	-
<b>60</b>	<b>Class 6</b>	<b>Total Expenses</b>	<b>459,545,533</b>	<b>463,081,401</b>
<b>61</b>	<b>82,83,84</b>	<b>D. Result Correction Activities</b>	<b>248,282,275</b>	<b>237,544,646</b>
62	828	Names of cancelled revenues	-	-
63	831	Determination of revenues for investments	200,877,164	196,530,004
64	8,420	Revenues deposited in the budget	223,049	553,836
65	8,421	Deposit in the budget of unused revenues	9,085,907	2,638,483
66	8,422	Transfers of revenues within the system	-	-
67	8,423	Transfers for changes in situation	-	798,179
68	8,424	Transfers for identified debtors and similar items	38,096,155	37,024,144
<b>69</b>	<b>Class 6 e 8</b>	<b>Total from Operations</b>	<b>707,827,808</b>	<b>700,626,047</b>
<b>70</b>	<b>85</b>	<b>Results from Functioning</b>	<b>31,482,004</b>	<b>159,644,215</b>
<b>71</b>	<b>X</b>	<b>T O T A L</b>	<b>739,309,812</b>	<b>860,270,262</b>

**Example 10.** Financial statement – revenues 2014, Municipality Bora

No.	Account no.	Income Description	Current	Previous
			Year	year
A	B	C	1	2
<b>1</b>	<b>Class 7</b>	<b>A. REVENUES FROM EXPLOITATION (I - VI)</b>	<b>693,792,104</b>	<b>765,029,621</b>
<b>2</b>	<b>70</b>	<b>I. TAX INCOMES (a+b+c+d+e+f+g)</b>	<b>71,732,717</b>	<b>70,516,634</b>
<b>3</b>	<b>700</b>	<b>a) On revenues, profit, and equity revenue</b>	<b>21,423,770</b>	<b>18,999,188</b>
4	7,000	Personal income tax	-	-
5	7,001	Profit tax	-	-
6	7,002	Small business tax	16,545,711	18,999,188
7	7,009	Other taxes	4,878,059	-
<b>8</b>	<b>702</b>	<b>b) Property tax</b>	<b>30,524,194</b>	<b>31,947,906</b>
9	7,020	On immovable property	30,294,835	31,805,716
10	7,021	On sale of immovable property	-	-
11	7,029	Other properties	229,359	142,190
<b>12</b>	<b>703</b>	<b>c) Taxes upon goods and services in the country</b>	<b>19,784,753</b>	<b>19,569,540</b>
13	7,030	VAT	-	-
14	7,031	Special taxes	-	-
15	7,032	Tax upon specific services	-	-
16	7,033	Tax upon goods usage and activity permission	6,819,086	6,267,665
17	7,035	Local tax on goods usage and activity permission	12,965,667	13,301,875
<b>18</b>	<b>704</b>	<b>d) Tax upon commercial and international transactions</b>	<b>-</b>	<b>-</b>
19	7,040	Duties on import goods	-	-
20	7,041	Duties on export goods	-	-
21	7,042	Custom tariff and post service	-	-
22	7,049	Other taxes upon international commercial transport	-	-
<b>23</b>	<b>705</b>	<b>e) Road tax</b>	<b>-</b>	<b>-</b>
<b>24</b>	<b>708</b>	<b>f) Other national taxes</b>	<b>-</b>	<b>-</b>
<b>25</b>	<b>709</b>	<b>g) Interest on late payments</b>	<b>-</b>	<b>-</b>
<b>26</b>	<b>75</b>	<b>II. SOCIAL AND HEALTH INSURANCE</b>	<b>-</b>	<b>-</b>
27	750	From employees	-	-
28	751	From employers	-	-
29	752	From self-employees	-	-
30	753	From farmers	-	-
31	754	From volunteer insurance	-	-
32	755	Budget contribution for social insurance	-	-
33	756	Budget contribution for health insurance	-	-
<b>34</b>	<b>71</b>	<b>III. NON TAX REVENUES (a+b+c)</b>	<b>51,607,520</b>	<b>44,697,425</b>
<b>35</b>	<b>710</b>	<b>a) from enterprise and ownership</b>	<b>3,325,465</b>	<b>4,578,587</b>
36	7,100	from public non-financial enterprise	-	-
37	7,101	from public financial enterprise	-	-
38	7,109	others from enterprise and ownership	3,325,465	4,578,587
<b>39</b>	<b>711</b>	<b>b) Administrative service and secondary revenues</b>	<b>43,960,665</b>	<b>40,118,838</b>
40	7,110	Administrative tariffs and regulations	36,457,363	34,728,624
41	7,111	Secondary revenues and payments of services	5,676,179	4,607,890
42	7,112	Tax for legal actions and notary	-	-
43	7,113	From goods and services sales	214,200	50,875
44	7,114	Revenues from tickets	-	-
45	7,115	Fines and late-fees, sequestration and compensation	1,612,923	731,449
46	7,116	Revenues from ownership transfer, legalization of buildings without permits	-	-
<b>47</b>	<b>719</b>	<b>c) Other non-tax revenues</b>	<b>4,321,390</b>	<b>-</b>

<b>48</b>	<b>72</b>	<b>IV. ACTUAL GRANTS (a+b)</b>	<b>535,951,359</b>	<b>638,543,802</b>
<b>49</b>	<b>720</b>	<b>a) Internal actual grant</b>	<b>535,951,359</b>	<b>638,543,802</b>
50	7,200	From same government level	283,835,915	145,075,154
51	7,201	From other government levels	218,074,359	416,569,968
52	7,202	From budget for special payments to Social Institute	27,490,800	47,444,500
53	7,203	From budget to cover the deficit of Social Institute and Healthcare Institute	-	-
54	7,204	Participation of institution in national taxes	-	-
55	7,205	Additional finances created within the system	-	-
56	7,206	Expected financing from budget	6,550,285	29,054,180
57	7,207	Third party sponsorship	-	400,000
58	7,209	Other internal grants	-	-
<b>59</b>	<b>721</b>	<b>b) External actual grants</b>	<b>-</b>	<b>-</b>
60	7,210	From foreign governments	-	-
61	7,211	From international organizations	-	-
62	73	V. CHANGES IN PRODUCTS BALANCE	-	-
<b>63</b>	<b>78</b>	<b>VI. WORK, INVESTMENTS, AND RETAKINGS</b>	<b>34,500,508</b>	<b>11,271,760</b>
64	781	Works, investments in economy	-	-
65	782	Forecasted re-takings for liquid assets	-	-
66	783	Forecasted re-takings for fixed assets	-	-
67	784	Prepayment of expenses in the years to come	-	-
68	785	Use of funds for the year to come	-	-
69	787	Withdraw from investments	34,500,508	11,271,760
<b>70</b>	<b>76</b>	<b>B. FINANCIAL INCOMES</b>	<b>-</b>	<b>-</b>
71	760	From internal borrowing interests	-	-
72	761	From external borrowing interests	-	-
73	765	Incomes from deposits interests	-	-
74	766	Revenues from exchange rates	-	-
<b>75</b>	<b>77</b>	<b>C. EXTRAORDINARY REVENUES</b>	<b>42,537,160</b>	<b>(8,476)</b>
76	773	From closed activities and changes in strategy	-	-
77	777	From mistakes allowed in previous exercise	-	-
78	778	Corrections from previous year	-	(8,476)
79	779	Other revenues	42,537,160	-
<b>80</b>	<b>Class 7</b>	<b>TOTAL INCOMES</b>	<b>736,329,264</b>	<b>765,021,145</b>
<b>81</b>	<b>83</b>	<b>D. RESULT CORRECTIONS ACTIVITIES</b>	<b>2,980,548</b>	<b>-</b>
82	829	Cancelled or under written expense order	-	-
83	841	Status change transfer	2,980,548	-
<b>84</b>	<b>Class 7 e 8</b>	<b>TOTAL OPERATIONS</b>	<b>739,309,812</b>	<b>765,021,145</b>
<b>85</b>	<b>85</b>	<b>RESULT OF ACTIVITIES</b>	<b>-</b>	<b>95,249,117</b>
<b>86</b>	<b>X</b>	<b>T O T A L</b>	<b>739,309,812</b>	<b>860,270,262</b>

**Example 11. Financial statement – revenues and investments 2014, Bora Municipality**

No.	Acc. No	Name	Opening	Year transactions		closing
			balance	Debit	Credit	balance
<i>a</i>		<i>B</i>	<i>c</i>	<i>d</i>	<i>e</i>	<i>f</i>
<b>1</b>	<b>I</b>	<b>INVESTMENTS SOURCES</b>	<b>312,870,562</b>	<b>482,720,613</b>	<b>232,547,171</b>	<b>62,697,120</b>
<b>2</b>	<b>105</b>	<b>Domestic Capital Grants</b>	<b>248,733,510</b>	<b>362,234,492</b>	<b>174,914,102</b>	<b>61,413,120</b>
3	1,050	From the same level of government	-	13,147,093	13,147,093	-
4	1,051	From different levels of governments	248,733,510	349,087,399	161,767,009	61,413,120
5	1,052	Third party contributions for investments	-	-	-	-
6	1,059	Internal grants in nature	-	-	-	-
<b>7</b>	<b>106</b>	<b>Foreign Capital Grants</b>	<b>61,451,952</b>	<b>114,456,980</b>	<b>53,005,028</b>	<b>-</b>
8	1,060	From foreign governments	14,451,038	14,451,038	-	-
9	1,061	From international institutions	47,000,914	100,005,942	53,005,028	-
10	1,069	Foreign grants in nature	-	-	-	-
<b>11</b>	<b>14</b>	<b>Capital Grants for Investments with Third Party Participation</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
12	145	Internal capital grants with the participation of a third party	-	-	-	-
13	146	Foreign capital grants with the participation of a third party	-	-	-	-
<b>14</b>	<b>11</b>	<b>Other own funds</b>	<b>2,685,100</b>	<b>6,029,141</b>	<b>4,628,041</b>	<b>1,284,000</b>
15	111	Reserve funds	-	-	-	-
16	115	Assigned investment fund from the annual result	2,685,100	6,029,141	4,628,041	1,284,000
17	116	Revenues from the sale of stable assets	-	-	-	-
<b>18</b>	<b>12</b>	<b>Previous result</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>19</b>	<b>16</b>	<b>Domestic borrowing and similar</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
20	160	Treasury bonds and direct credit (Inflow)	-	-	-	-
21	161	Other internal borrowing (Inflow)	-	-	-	-
22	162	Bonds (Inflow)	-	-	-	-
23	165	Treasury bonds and direct credit (Outflow)	-	-	-	-
24	166	Other internal borrowing (Outflow)	-	-	-	-
25	167	Bonds (Outflow)	-	-	-	-
<b>262</b>	<b>17</b>	<b>Foreign borrowing</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
27	170	Borrowing from foreign governments (Inflow)	-	-	-	-
28	171	Borrowing from international organizations (Inflow)	-	-	-	-
29	172	Other types of borrowing (Inflow)	-	-	-	-
30	175	Borrowing from foreign governments (Outflow)	-	-	-	-
31	176	Borrowing from international organizations (Outflow)	-	-	-	-
32	177	Other types of borrowing (Outflow)	-	-	-	-
<b>33</b>	<b>II</b>	<b>Investments expenditures</b>	<b>364,701,347</b>	<b>255,344,090</b>	<b>470,334,652</b>	<b>149,710,785</b>

<b>34</b>	<b>230</b>	<b>Expenditures for the increase of intangible assets</b>	-	2,790,000	2,790,000	-
<b>35</b>	<b>231</b>	<b>Expenditures for the increase of tangible assets</b>	<b>364,701,347</b>	<b>252,554,090</b>	<b>467,544,652</b>	<b>149,710,785</b>
36	2,310	Lands	-	-	-	-
37	2,311	Forests, pastures, and plantations	-	-	-	-
38	2,312	Buildings and constructions	9,964,805	12,525,092	22,489,897	-
39	2,313	Roads, networks, and water supply	354,456,542	239,586,198	444,331,955	149,710,785
40	2,314	Technical installations, equipment, and work tools	280,000	412,800	692,800	-
41	2,315	Transport vehicles	-	-	-	-
42	2,316	State reserves	-	-	-	-
43	2,317	Work animals	-	-	-	-
44	2,318	Economic inventory	-	30,000	30,000	-
<b>45</b>	<b>232</b>	<b>Capital transfers</b>	-	-	-	-
<b>46</b>	<b>25</b>	<b>Lending and sub-lending</b>	-	-	-	-
47	255	Domestic lending and sub-lending (Outflow)	-	-	-	-
48	256	Foreign lending (Outflow)	-	-	-	-
49	250	Domestic lending principal (Inflow)	-	-	-	-
50	251	Foreign lending principal (Inflow)	-	-	-	-
<b>51</b>	<b>26</b>	<b>Participation in its own capital</b>	-	-	-	-
52	265	Outflows for its own capital in non-profit public entities	-	-	-	-
53	266	Outflows for its own capital in financial institutions	-	-	-	-
54	267	Outflows for its own capital in joint ventures	-	-	-	-
55	269	Other outflows for its own capital	-	-	-	-
<b>56</b>		<b>TOTAL (I + II)</b>	<b>677,571,909</b>	<b>738,064,703</b>	<b>702,881,823</b>	<b>212,407,905</b>

**Example 12.** Financial statement: cash situation 2014, Municipality Bora

No.	Name	Treasury Balance		Bank liquidity	
		Debit	Credit	Debit	Credit
<i>a</i>	<i>B</i>	<i>c</i>	<i>d</i>	<i>e</i>	<i>f</i>
<b>1</b>	<b>I. Residuals at the Beginning of Exercise</b>	116,237,464	-	-	-
<b>2</b>	<b>II. Annual Cash Entrances</b>	<b>648,634,540</b>	-	-	-
<b>3</b>	<b>1. Budget funds</b>	<b>526,267,864</b>	-	-	-
4	Current budget funds	339,652,320	-	-	-
5	Capital budget funds	186,615,544	-	-	-
<b>6</b>	<b>2. Annual entrances in cash</b>	<b>122,366,676</b>	-	-	-
7	Taxes revenues in cash	65,800,024	-	-	-
8	Social and health insurances contributions in cash	-	-	-	-
9	Non-tax revenues in cash	45,624,639	-	-	-
10	Revenues from interest fees in cash	-	-	-	-
11	Sponsorships, grants and other revenues in cash	232,868	-	-	-
12	Credit and other borrowing	-	-	-	-
13	Entrances from saved means in cash	10,709,145	-	-	-
<b>14</b>	<b>III. Annual Expenses in Cash</b>	-	<b>606,421,264</b>	-	-
15	1, Budget payments for current expenses	-	281,425,433	-	-
16	2, Budget payments for capital expenses	-	244,883,325	-	-
17	3, Payments from income for current expenses	-	60,405,187	-	-
18	4, Payments from income for capital expenses	-	9,959,485	-	-
19	5, Payments from saved means	-	9,487,059	-	-
20	6, Other payments	-	260,775	-	-
<b>21</b>	<b>IV. Transfers</b>	-	<b>100,299,068</b>	-	-
22	1, Allocation of revenues in the budget	-	289,049	-	-
23	2, Unused budgetary authorizations	-	13,227,202	-	-
24	3, Internal movements and other transfers	-	86,782,817	-	-
<b>25</b>	<b>V. TOTAL MOVEMENTS ( I to IV )</b>	<b>764,872,004</b>	<b>706,720,332</b>	-	-
<b>26</b>	<b>VI. SURPLUS AT THE END OF EXERCISE</b>	<b>58,151,672</b>			

### Example 13. Financial statement – assets and inventory changes 2014, Municipality Bora

Nr.	Account number	Account	Opening balance	Additions during the year					Decrease during the year				Balance end of year
				Purchasing created with payment	Additions without payment		Movement within the asset	Total	Sales	Write off	Other decrease	Total	
					Out of system	in the system							
a	b	c	1	2	3	4	5	6	7	8	9	10	11
1		I. TE PA TRUPEZUARA	12,055,000	2,790,000	-	-	-	2,790,000	-	-	-	-	14,845,000
2	201	Prime te emisionit dhe rimbursimit te huave	-	-	-	-	-	-	-	-	-	-	-
3	202	Studime dhe kerkime	12,055,000	2,790,000	-	-	-	2,790,000	-	-	-	-	14,845,000
4	203	Koncesione, patenta,licenca e tjera ngjashme	-	-	-	-	-	-	-	-	-	-	-
4/1	230	Shpenz.per rrijen e aktiv.qendr.patrupezuara	-	-	-	-	-	-	-	-	-	-	-
5		II. TE TRUPEZUARA	1,224,597,514	390,066,150	-	45,617	77,485,777	467,597,544	-	7,408,792	3,270,260	10,679,052	1,681,516,006
6	210	Toka,troje, Terene	351,104	-	-	-	-	-	-	-	-	-	351,104
7	211	Pyje,Kullota Plantacione	-	-	-	-	-	-	-	-	-	-	-
8	212	Ndertime e Konstruksione	309,084,467	24,158,857	-	-	-	24,158,857	-	-	2,465,300	2,465,300	330,778,024
9	213	Rruget,rrjete,vepra ujore	829,628,379	365,184,493	-	-	77,513,242	442,697,735	-	-	-	-	1,272,326,114
10	214	Instalime teknike,makineri,pajsje,vegla pune	12,130,668	692,800	-	-	(34,740)	658,060	-	3,930,041	5,825	3,935,866	8,852,862
11	215	Mjete transporti	19,639,928	-	-	-	-	-	-	-	-	-	19,639,928
12	216	Rezerva shtetore	-	-	-	-	-	-	-	-	-	-	-
13	217	Kafshe pune e prodhimi	-	-	-	-	-	-	-	-	-	-	-
14	218	Inventar ekonomik	53,762,968	30,000	-	45,617	7,275	82,892	-	3,478,751	799,135	4,277,886	49,567,974
17	24	Aktive te Qend.te trupezuara te demtuara	-	-	-	-	-	-	-	-	-	-	-
18	28	Caktime	-	-	-	-	-	-	-	-	-	-	-
19		TOTALI (I+II)	1,236,652,514	392,856,150	-	45,617	77,485,777	470,387,544	-	7,408,792	3,270,260	10,679,052	1,696,361,006

### Example 14. Financial statement – depreciation plan 2014, Municipality Bora

Nr.	Acc.nr	ACCOUNT	opening accumulated depreciation	Additions during the year				Decrease during the financial year				Accumulated amount end of year	
				Annual ammortization		Other additions	Total	Sales	Write off.	Other decrease	Total		
a	b	c	1	2		3	4	5	6	7	8	9	
1	209	I. PATRUPEZUARA	585,000	263,099	-	-	49,321	312,420	-	-	-	-	897,420
2	219	II. TRUPEZUARA	170,510,836	9,044,041	-	-	5,385,332	14,429,373	-	4,006,390	1,466,089	5,472,479	179,467,730
		TOTALI (I+II)	171,095,836	9,307,140	-	-	5,434,653	14,741,793	-	4,006,390	1,466,089	5,472,479	180,365,150

### Example 15. Financial statement – fund movement 2014, Municipality Bora

Nr.	Nr.llog.	EMERTIMI	Opening balance	Period movements		Closing balance
			Credit	Debit	Credit	Credit
a	b	c	1	2	3	4=1+3-2
<b>1</b>	<b>101</b>	<b>FONDE BAZE</b>	<b>1,269,867,793</b>	<b>20,894,458</b>	<b>278,749,233</b>	<b>1,527,722,568</b>
2	1,010	Fondi baze gjendje	1,269,867,793	-	-	1,269,867,793
3	1,011	Shtesa fondi baze	-	-	278,749,233	278,749,233
4	1012	Pakesime te fondit baze	-	4,183,544	-	(4,183,544)
5	1013	Pekesim nga konsumi i aktiveve qendrushme	-	9,302,122	-	(9,302,122)
6	1014	Pakesim nga shitja e aktiveve te qendrushme	-	-	-	-
7	1015	Pakesim nga nxjerrja jasht perdorimit e AQ	-	7,408,792	-	(7,408,792)
8	1016	Pekesim nga transfertat e AQ	-	-	-	-
<b>9</b>	<b>109</b>	<b>DIFERENCA RIVLERSIMI AQ</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>10</b>	<b>105,107,11,1</b>	<b>FONDI I BRENDESTEM</b>	<b>313,164,436</b>	<b>360,920,965</b>	<b>228,975,518</b>	<b>181,218,989</b>
11	105	Grante brendeshme kapitale	146,204,989	210,515,633	64,310,644	-
12	107	Vlera te caktuara ne perdorim	-	-	-	-
13	11	Fonde te tjera veta	2,685,100	6,029,141	153,054,826	149,710,785
14	12	Rezultat I mbartur	4,630,132	7,548,375	2,944,443	26,200
15	13	Subvecione jashtzakoneshme	-	-	-	-
16	145	Grante brendsh.kapitale per investime per trete	-	-	-	-
17	15	Shuma te parashikuara rreziqe e shpenzime	-	-	-	-
18	85	Rezultati I ushtrimit	159,644,215	136,827,816	8,665,605	31,482,004
<b>19</b>	<b>106</b>	<b>FONDI I JASHEM</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
20	106	Grante te Huaja Kapitale	-	-	-	-
21	146	Grante huaja.kapitale per investime per trete	-	-	-	-
<b>22</b>		<b>FONDI I KONSOLIDUAR (1 deri 4)</b>	<b>1,583,032,229</b>	<b>381,815,423</b>	<b>507,724,751</b>	<b>1,708,941,557</b>

**Example 16. Financial statement – number of employees and personnel costs 2014, Municipality Bora**

Nr.	CATEGORITE	average number of employees number of employees total	number of employees changed during the year		End of year employees count	SALARIES AND CONTRIBUTION FUND					
			(new employees)	leavers		Total fund for salaries	Additional rewards	immediate social help	social and health insurance	other rewards	Tax on revenues
a	b	1	2	3	4	5	6	7	8	9	10
Total number of employees (1+2+3+4+5)		65	110	22	153	71,276,681	#VALUE!	-	15,386,639	-	2,373,171
1	Drejtues	12	4	-	16	11,818,890	-	-	3,290,277	-	723,569
2	Spec.arsim te larte	29	36	8	57	32,842,457	-	-	5,794,678	-	1,182,606
3	T e k n i k e	2	-	-	2	1,150,800	-	-	321,073	-	9,204
4	Nepunes te thjeshte	10	25	7	28	12,487,136	-	-	2,638,916	-	421,432
5	Punetore	12	43	6	49	9,926,522	-	-	2,490,500	-	31,764
6	Punonjes te perkohshem	-	2	1	1	3,050,876	#VALUE!	-	851,194	-	4,596

## **Exercise 1: Budget execution practices**

### *Budget execution practices– Authorization and Apportionment*

Based on what was discussed above, prepare your respective multi-annual expenditure plan for one of the main programs defined in the MTBP document. Participants should use a real-life example for their municipality. Break down the multi-annual expenditure plan into the annual budget expenditure activities for the same program.

## 2. BUDGET EXECUTION MONITORING AND AUDIT

### *Objectives*

Participants of training:

- are able to monitor budget execution steps and procedures to be followed for monitoring and audit of budget execution;
- are familiar with good budget execution monitoring and audit practices;
- are aware of roles of each actor in the process of budget execution monitoring and auditing.

Participants are encouraged to play an active role in the course especially in group works and discussions on innovative budgeting practices

### *Content:*

- 2.1 Introduction
- 2.2 Legal framework for budget execution monitoring and auditing
- 2.3 Monitoring the annual budget execution
- 2.4 Audit
  - 2.4.1 Internal audit
  - 2.4.2 External audit
- 2.5 Inclusiveness in budget execution monitoring
  - 2.5.1 Useful indicators for budget execution monitoring

Exercise 1: Budget execution monitoring

### **2.1 Introduction**

Following the presentations on budget preparation and execution, this section offers the basic concepts for budget execution monitoring. This process is essential, given that through it one can evaluate the execution of strategic development plans (SDP and TDS). The monitoring process is carried out by internal and external actors. In both cases, the relevant reports should be accessible to the community, since they might, in an indirect way, influence the public finance management cycle. The principles of monitoring and evaluation, at the local level, include:

- Monitoring must be an ongoing and transparent process;
- Monitoring indicators and respective evaluations must be projected in accordance with the budget preparation cycle;
- Monitoring and evaluation must be evidence-based; all interested parties must be included in the process;
- Responsibilities must be clear and adherence to procedures are pre-conditions for monitoring and evaluating the budget execution.

## 2.2 Legal framework for budget execution monitoring

The legal framework that regulates the budget monitoring process includes:

- Law no. 68/2017 “*On local self-government finance*”;
- Law no. 139/2015 “*On local self-government*”;
- Law no. 9936/2008 “*On the budget system management in the Republic of Albania*”;
- Law no. 10296/2010 “*On the financial management and control*, “as amended”;
- Law no. 114/2015 “*On internal auditing in the public sector*”;
- Law no. 119/2014 “*On the right to information*”;
- Law no. 154/2014 “*On organization and functioning of State Supreme Audit Institution*”;
- Other laws and sub-legal acts.

*Law no. 68/2017 “On local self-government finances”*

Chapter IX of this law is dedicated to the monitoring, supervision, and external audit of the budget. The law sets certain rules and procedures regarding internal and external monitoring, its frequency and actors.

*Law no. 139/2015 “On local self-government”*

The articles 42-44 of this law regulate the preservation and the management of financial records, internal and external audit, and reporting to the LGU’s council. Another important provision of this law is the obligation imposed on the LGU to make internal and external audit reports available to the public.

*Law no. 9936/2008 “On management of budgetary system in the Republic of Albania”*

Budget system audit, monitoring, and inspection are covered in the articles 65-70, where most of the provisions were added as part of the amendments of the law 57/2016.

*Law no. 10296/2010 “On financial management and control”*

This law sets the rules, procedures, administrative structures and methods with regard to the financial management and control within the public units in the Republic of Albania, as well as managerial responsibilities for planning, implementation, budget control, accounting and reporting. The purpose of this law is to ensure an efficient, effective and economic use of the public financial resources, by upholding the principles of transparency and lawfulness and avoiding waste, misuse and embezzlement of assets. This law is applicable for the general government units, commercial companies, nonprofit organizations and joint authorities which are owned, controlled, funded, or given financial guarantee from a general government unit, and other units spending public funds based on an international agreement regarding these funds.

*Law no. 114/2015 “On internal auditing in the public sector”*

This law regulates the activity of internal auditing in the public sector and sets out the scope of its activity, mission, principles, organization, functioning and responsibilities. This law applies to the public entities, including: (i) general government units and any other institution assuming public functions; (ii) commercial companies, profit-making organizations and joint authorities, which are owned, controlled, financed or financially guaranteed by the general government units; (iii) other units spending public funds under an international agreement. The goal of the internal audit is to provide independent and objective guarantees to the head of the public unit and to offer advice regarding the improvement and efficient use of the internal control in the public entity.

*Law 119/2014 “On the right to information”*

The law no. 119/2014 “*On the right to information*” replaced the law no. 8503/1999, “*On the right to information for public documents*,” applied since 1999. This law regulates the right of access to information being produced or held by public authorities. The rules provided by this law are designated to ensure public access to the relevant information, and consequently to guarantee the rights and freedoms of the individual in practice. This law aims also at encouraging integrity, transparency and accountability of the public entities.

*Law no. 154/2014 “On organization and functioning of State Supreme Audit Institution”*

This law establishes the rules relating to the organization, functioning, duties and powers of the State Supreme Audit Institution in the Republic of Albania. The State Supreme Audit Institution, through its audits, aims to encourage the effective, efficient and economic use of public funds, public and state property, the development of an appropriate system of financial management, the establishment of proper administrative activities, and provision of information to public authorities and community, through the publication of its reports.

### **2.3 Monitoring the annual budget execution**

Budget execution monitoring is an important element in the cycle of financial management. In fact, it is the only way to provide timely information and to undertake correcting actions in case of substantial discrepancies between the factual situation and the planned one, or in case of liquidity crisis situations. The full and timely information on transactions, accounts financial statements, activities and investments’ as well as on lawfulness of budget implementation, requires goodwill from the chairman of the respective LGU. The existing pieces of evidence demonstrate a low level of transparency regarding the dissemination of the annual budget execution monitoring reports or the SSAI’s reports (see PEFA reports for Albanian municipalities which also identified mixed results on the transparency)<sup>7</sup>. However, a virtuous

---

<sup>7</sup> Available at: [www.pefa.org](http://www.pefa.org)

example in this regard is presented by the Municipality of Korça, which publishes on its website all the documents required by the law, such as budgets, execution reports, SSAI's reports, etc.

The presence of these documents on the official website increases the level of transparency, accountability, and encourages the public debate on the LGU management. This is also a viable way for the interest groups to monitor the execution of the general local plans (GLP) or the compatibility of general policies with the strategic objectives of the LGU.

The authorizing officer of the LGU submits to the council, whenever required, the budget execution monitoring reports. The minimum annual number of execution monitoring reports is three (once in four months), according to the instructions of the MoF for the local budget execution monitoring. On the other hand, the authorizing officer must publish them on the official website of the respective unit within 30 days after the end of the reporting period, and send a copy to the Ministry of Finance.

For interim reports, if the Ministry of Finance notices serious problems in the execution of the LGU's budget, it prepares a report with comments and recommendations that is submitted to the chairman and council of the local self-government unit. Furthermore, on council request, the authorizing officer must also report throughout the year on other issues related to budget execution and public internal financial control.

Within 30 days after the submission of the annual budget execution monitoring report of the LGU, the Ministry of Finance and Economy prepares a report with comments and recommendations.

Alongside the specifications on budget execution monitoring provided by the legislative framework, specific provisions on the matter are found in the additional instructions on budget execution published by the MoF.

The article 44 of the law no. 139/2015 "*On local self-government*" assigns to the chairman of the LGU the responsibility for submitting an annual written report about the financial activity and the implementation of the budget in the LGU and the subordinate institutions thereof. This report has to be submitted to the council of the LGU no later than March 31 of the succeeding year. On the other hand, the law no 68/2017 "*On local self-government finance*" provides that the chairman of the LGU must present to the council a report on the financial activities and the execution of the preceding year budget, for every spending unit, no later than May 31<sup>st</sup> of the coming budget year. It is essential for the consolidated annual report on budget execution to follow and be comparable with the annual budget plan.

The consolidated annual report on the local budget execution includes but is not limited to:

- the annual performance report of the LGU which is based on the budget execution monitoring report;

- the annual financial statements of the LGU, including basic and accompanying documentation;
- the external audit report.

The consolidated annual report on local budget execution is approved by the council of the LGU within June of the coming budget year and the chairman is responsible for its publication. A copy of the approved report by the local council is submitted to the Ministry of Finance, no later than 15 days after its approval.

## 2.4 Audit

Audit is a relatively new concept in the local context of Albania, both in the private and public sector. There are two audit forms, internal and external. In the public sector, the law no. 114/2015 “*On internal auditing in the public sector*” regulates the activity of the internal auditing in the public sector and sets out the scope of activity, mission, principles, organization, functioning and responsibilities. This law applies to the public entities, whereby, according to this law, this includes: a) general government units and any other institution assuming public functions; b) commercial companies, profit-making organizations and joint authorities, which are owned, controlled, financed or financially guaranteed by the general government units; c) other units spending public funds under an international agreement. In addition, certain provisions on internal and external audit are also found in the law no. 68/2017 “*On local self-government finance*,” the law no. 139/2015 “*On local self-government*,” the law no. 9936/2008 “*On the budget system management in the Republic of Albania*,” as amended; the law no. 10296/2010 “*On the financial management and control*,” as amended; and other legal acts or instructions published by the Ministry of Finance.

In general, the MoF is responsible for the harmonization and evaluation of the internal public financial control for all units of general government, which include:

- a financial management and control system regulated by the relevant law;
- the internal audit as decentralized function and as a functionally independent activity, which reports directly to the head of the public entity;
- the responsible structure for harmonization in the Ministry of Finance, for the harmonization and coordination of the implementation and operation of the public internal financial control systems;

All general government units (central, local, or special funds) are responsible for the installations of a stable financial management and control system and of an independent internal audit system.

### 2.4.1 Internal audit

The internal audit is regulated through the provisions set forth by the law no. 114/2015 “*On internal auditing in the public sector*” and other laws and instructions. According to the legislative framework in force, every LGU must create its own internal audit unit. This unit reports to the authorizing officer and is independent, to carry out its auditing function, both functionally and operationally. The audit unit is not part of the operating structures.

Thus, internal auditing is an institution that tries to offer reasonable guarantees to the authorizing officer, in an independent and objective way, that public resources at the disposal of the general government unit:

- have been spent, documented and reported, based on reliable and fast information;
- have contributed maximally to achieve the policy goals and objectives;
- have been used efficiently, economically and effectively;
- have not been embezzled, misused or abused.

In addition, the article 49/2 of the new law on local self-government finance provides that the audit unit exercises its function based on the strategic development plan (SDP/TDS) and annual audit plan. The auditing reports are submitted to the audited entity, to the Chairman of the LGU, and to the MoF.

According to the law no. 114/2015 “*On internal auditing in the public sector*,” the role of the internal auditing is to provide support to the head of the public unit to attain the objectives of the unit:

- i. through the preparation of strategic and annual plans for the internal auditing, based on an objective risk assessment, as well as on an auditing process in compliance with an approved plan;
- ii. through the evaluation of the appropriateness and effectiveness of the control systems, focusing mainly on:
  - identification, evaluation and risk management by the head of the public unit;
  - compatibility between the activity of the unit with the regulatory framework in force;
  - assets protection;
  - reliability and inclusiveness of the financial and operational information;
  - economic, effective and efficient carrying out of the activities of the public unit;
  - completion of the tasks and attainment of the relevant objectives.
- iii. through the provision of recommendations for the improvement of the activity and effectiveness of the internal control system of the public unit;
- iv. through adherence to the given recommendations.

The internal auditing functioning should rely on the principles of:

- legality, according to the national legislative framework and international agreements, wherein the Republic of Albania is a party;
- impartiality, which is supported by the objective, transparent and authentic reflection of all the facts and circumstances pertaining to the activity of the audited public unit, thus being free of the personal interest or views of third parties;
- integrity, which implies honesty, objectivity, capability, and avoidance of conflicts of interests;
- independence and objectiveness regarding judgments and recommendations;
- professionalism and continuous professional development;
- competency to exercise its functions;
- confidentiality, which implies the upkeep of secrecy on the data and documents administered in the course of auditing and classified as confidential.

Types of services of internal auditing should be the security services and advisory services as follows:

- An auditing commitment for the safety services comprises an independent evaluation of the governance, risk management and controlling processes of a public unit, through the auditing of compliance, performance, finance, information technology and other types of internal auditing;
- An advisory commitment includes the provision of advices and opinions in order to improve the governance of the public sector unit, to improve the controlling processes and risk management, on which the internal auditing has no managerial responsibilities. An advisory commitment is initiated by the head of the public unit.

#### **2.4.2 External audit**

The local government units are subject to the external auditing by the State Supreme Audit Institution and other external auditors (the law no. 68/2017 “*On local self-government finance*”). Auditing by other legal auditors is authorized by a joint instruction of the MoF and the head of the SSAI. This instruction defines the procedures, terms, and standards applied by these auditors. The external auditing report becomes part of the consolidated annual report on the local budget execution and is submitted to the council of the LGU. Copies of the report are also submitted to the MoF and the SSAI. Regardless of the institution who undertakes the external auditing, following the report, the Chairman of the unit must prepare an action plan for the implementation of the given recommendations and must report regularly to the council on the latter activity.

In Albania, the external auditing is carried out by the State Supreme Audit Institution, on the basis of the law no. 154/2014, “*On organization and functioning of State Supreme Audit Institution.*” The State Supreme Audit Institution is an independent public institution, which

aims to encourage financial transparency and accountability of public institutions in accordance with the standard auditing instructions of the SSAI. The subjects of the external auditing, regarding the LGU, are the financial activity and annual budget execution.

According to Allen & Tommasi (2001), an effective auditing system can assist the improvement of public finance management, by ensuring objective information on the use of public funds. This institution must be given sufficient functional, organizational, operational, and financial independence to carry out its tasks in an objective and autonomous way. The SSAI, in accordance with its function, has the authority to:

- audit the budget implementation of the general government units, including annual budget accounts;
- audit the collection of public revenues;
- audit the use, management and protection of public funds and public or state property of the general government units;
- audit the annual financial statements of the general government units and provide an assessment on them;
- audit internal audit systems of the public sector;
- audit the use and management of funds and property owned by the state, and the protection of economic and financial interests of the state, in the form of legal entities in which the state has more than half of the shares or the loans, or the loans and obligations are guaranteed by the state;
- audit to protect public interests, activities or sectors regulated by concessionary contracts.

## **2.5 Inclusiveness in budget execution monitoring**

The law on local self-government, approved in 2015, introduced, among other novelties, certain articles regarding transparency, inclusiveness, and public consultation. All the local government units are obliged to guarantee to the public full transparency on their activities. This is accomplished through the publication of all acts on the official website and specific physical places selected by the unit for public notifications. Furthermore, every LGU must appoint a transparency coordinator and approve a transparency program, ensuring access to information for all people, especially the poor ones. However, in reality, some of the LGU do not satisfy these legal requirements.

The inclusion of civil society organizations and other interest groups, during the process of budget execution monitoring and evaluation, would allow holding local elected officials accountable so that they could guide the unit's development in accordance with long-term objectives, undertake important investments, and use the public funds efficiently. The publication of the budget execution monitoring reports and of the external and internal auditing reports of the LGU would allow all the interested actors to know and judge their elected officials and ask them for explanations.

## 2.6 Useful indicators of budget execution monitoring

The literature on budget execution and monitoring, Decentralization Strategy, Public Finance Management Strategy and a number of technical documents, prepared to assist the annual local budget execution in Albania, recommend that certain indicators are used as benchmarks to monitor annual budget execution. These indicators are to be used on an annual basis. The indicators can provide useful information to be included in the budget presentation to the council of the LGU, civil society organizations, interest groups, and citizens.

### *Suggested revenues indicators:*

- The ratio of current revenues (CR) to total revenues (TR) [ $>65\%$ ];
- The ratio of own sources revenues (OSR) [Grants and shared taxes are excluded] to current revenues (CR) [ $>33\%$ ];
- The ratio of current grants (CG) to current revenues (CR) [ $<33\%$ ];
- The ratio of operative result (RO) to current revenues (CR) [ $>30\%$ ];
- Revenues per capita:
  - Total revenues (TR) per capita;
  - Current revenues (CR) per capita;
  - Own revenues (OR) per capita;
  - Other indicators on specific taxes, fees, grants (such as: property tax, waste management fee, conditional and unconditional grants, regional development fund per capita).

### *Expenditures indicators:*

- The ratio of current expenditures (CE) to total expenditures (TE);
- The ratio of capital expenditures (KE) to total expenditures (TE);
- The ratio of operative and maintenance expenditures (OME) to current expenditures (CE);
- The ratio of expenditures on salaries and insurances to current expenditures (CE);
- The ratio of actual expenditures to estimated expenditures (% of discrepancy);
- Expenditures per capita:
  - Total expenditures (TE) per capita
  - Capital investment expenditures per capita

### *Indicators on net results: See previous comment.*

- The ratio of total expenditures (TE) to total revenues (TR) [ $>95\%$  and  $< 100\%$ ];
- The ratio of current expenditures (CE) to current revenues (CR) [ $>95\%$  and  $< 100\%$ ].

### *General indicators*

Some general indicators<sup>8</sup> that can be used in presenting the budget to the local council and community are the following:

- general information on the LGU;
- structure of the programs and functions;
- data on the ceilings for each program/function;
- macroeconomic assumptions;
- expenditures per program/function/activity (graphs);
- information on strategic priorities (number of planned and implemented projects in the SDP under the annual budget (or Medium-Term Budget Program));
- overview of major projects (new and ongoing);
- two main functions with the highest growth rates (growth rate);
- two functions with the lowest growth rates (growth rate).

### **Exercise 2: Budget execution monitoring**

Referring to the aforementioned indicators, assess the performance of your municipality against the benchmark level. The actual budgetary data can be found on [www.financatvendore.al](http://www.financatvendore.al). Place all the participating municipalities in a single graph to compare their relative performances.

---

<sup>8</sup>Pfaeffli, S., 2013, “MTBP Analysis – Example”

## Bibliography

Allen, R., & Tommasi, D. (2001). *Managing Public Expenditure – A reference book for transition countries*.

Gjika, A., Kokona, D., & Mihali, A. (2012). *Planifikimi Strategjik dhe Financiar Afatgjatë dhe Afatmesëm*. Shqipëri: dldp.

Gjika, A., Kokona, D., & Mihali, A. (2012). *Përgatitja e Buxhetit Vjetor*. dldp.

Pfaffli, S. (2013). *Planifikimi i Zhvillimit Strategjik dhe Buxhetimi i Bazuar në Performancë në një Periudhë Afatmesme*. Shqipëri: dldp.

Wiggins J., Stafa E., Toska M., (2017). "Public Expenditure and Financial Accountability - Assessment in the Municipality of Fier", Shqipëri

Wiggins J., Stafa E., Toska M., (2017). "Public Expenditure and Financial Accountability - Assessment in the Municipality of Kuçovë", Shqipëri







Published by Decentralization and Local Development Program (dl dp),  
financed by the Swiss Government through the Swiss Agency for Development  
and Cooperation (SDC), implemented by Helvetas Swiss Intercooperation



Schweizerische Eidgenossenschaft  
Confédération suisse  
Confederazione Svizzera  
Confederaziun svizra

Swiss Agency for Development  
and Cooperation SDC



**HELVETAS**  
ALBANIA